SECTORAL UPDATES

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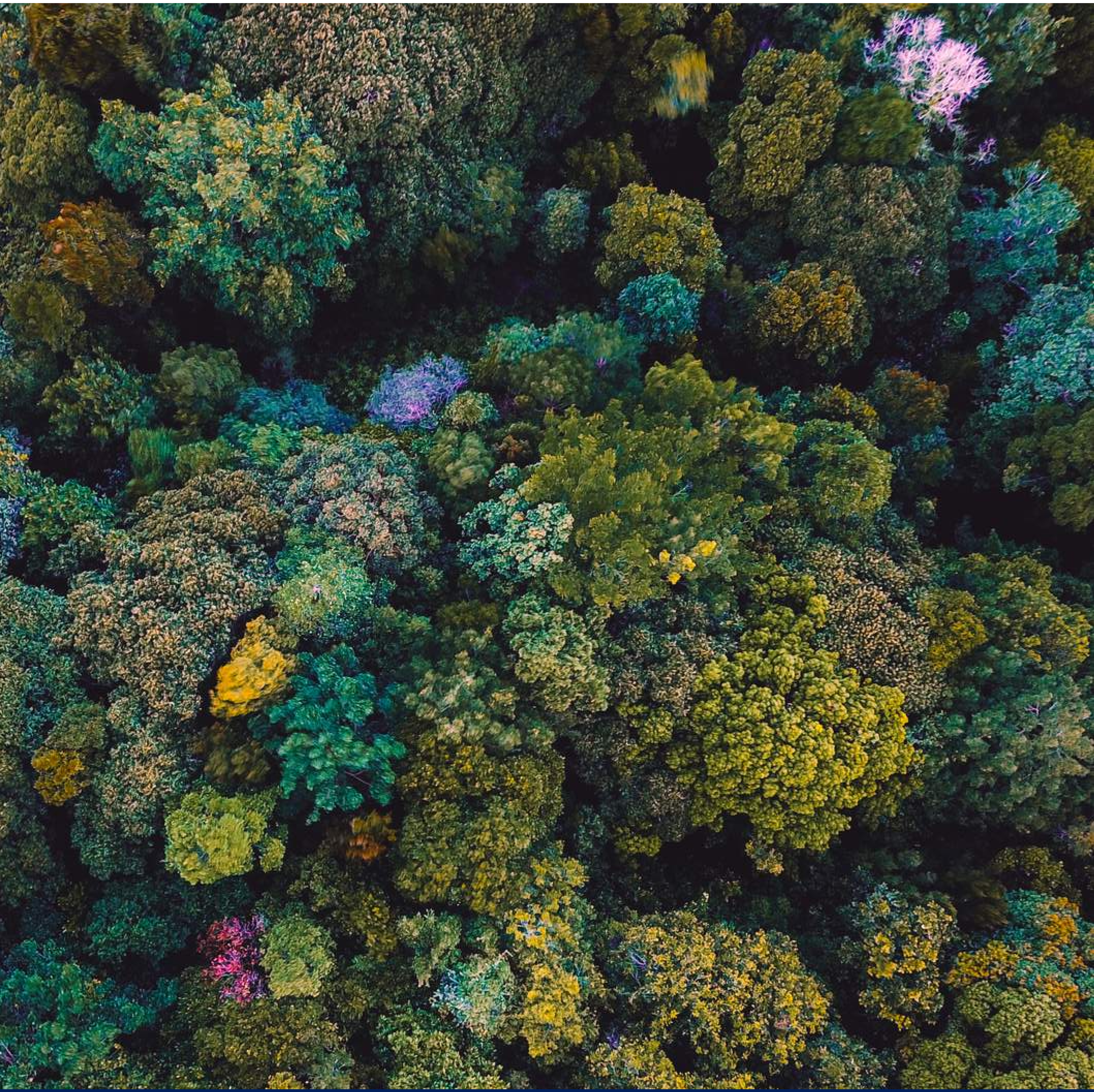
OCT 2022



ESG

FCA forces funds to drop 'ESG' labels in greenwashing crackdown

Financial News, 25th October 2022

The Financial Conduct Authority (FCA) has outlined new green criteria according to which ESG strategies will be categorized as "impact," "aligned" and "transitioning," based on the companies' net-zero targets. These will be matched to three labels for consumers: Sustainable Focus, Sustainable Improvers, and Sustainable Impact.

At least 70% of a sustainable focus product's assets meet a credible standard of environmental and/or social sustainability. Sustainable improvers are invested in assets that are selected for their potential to become more sustainable. Sustainable impact are products with an explicit objective to achieve a positive, measurable contribution to sustainable outcomes.

With this clear demarcation, FCA wants to eliminate exaggerated, misleading, or unsubstantiated claims about ESG credentials that have been damaging consumer confidence.

https://www.fnlondon.com/articles/fca-forces-funds-to-drop-esg-labels-in-greenwashing-crackdown-20221025

The world’s top companies are improving on climate reporting, but more progress is needed in key areas of sustainability & ESG

Business Review, 27th October 2022

KPMG published its Survey of Sustainability Reporting which highlighted several important statistics about the current disclosure landscape. The latest findings reveal the following:

- 96% of the top 250 companies globally report on ESG matters
- 79% of the N100 group of companies provide sustainability reports
- The number of companies reporting against TCDF guidance has doubled
- Biodiversity loss is still not considered a business risk
- Less than 50% of companies globally report on social components
- Less than 50% of companies globally report on governance components
- Asia Pacific region leads in sustainability reporting followed by Europe, America and the Middle East, and Africa

The target audience is becoming better and better equipped to critically assess the reports and thus it is increasingly important for the information which is communicated to be relevantly connected with the sustainability context both globally and at the local level and to be comparable.

https://business-review.eu/sustainability/the-worlds-top-companies-are-improving-on-climate-reporting-but-more-progress-is-needed-in-key-areas-of-sustainability-esg-237058

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ESG In the Banking and Insurance Sectors – New Draft RTS On the Disclosure of Fossil Gas and Nuclear Energy Investments

Bloomberg, 6th October 2022

On 9 March 2022, the European Commission adopted Regulation (EU) 2022/1214, which places nuclear and gas energy activities on the list of economic activities covered by the EU taxonomy. New amendments are proposed where concerned institutions are required to identify any products that intend to invest in taxonomy-aligned fossil gas and nuclear energy economic activities in the financial product templates of the SFDR Delegated Regulation (via "yes"/"no" answers), and to disclose a graphical representation of the proportion of such investments.

The cumulative investment in fossil fuel supply is on a rise and expected to reach US $15.5 trillion by 2050. Measures such as this amendment, which can be replicated in other countries, can help control future fossil fuel investments.

https://www.bloomberg.com/professional/blog/trillions-in-fossil-fuel-investments-for-1-5c-scenarios/

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French ESG label to add double materiality and climate to framework

Responsible Investor, 27th October 2022

The committee overseeing France's Socially Responsible Investment label has published its recommendations for updating the initiative. These include reaffirming the label's "general" status, demanding double materiality disclosures from funds, and integrating climate into fund strategies. In response to investor demand for more effort to tackle climate change, the committee will also require funds to factor climate into their strategies. The committee added that the emphasis still lies on maintaining the balance between E, S, and G, followed by climate. Those that fail to align with the new recommendations will risk losing their SRI status.

This will encourage more ambitious ESG targets. This also explains why the proportion of sustainable investments is reducing compared to the total AUM in Europe. As the regulations are getting stricter, lesser funds qualify as ESG funds.

https://www.responsible-investor.com/french-esg-label-to-add-double-materiality-and-climate-to-framework/

Dubai Islamic Bank publishes its sustainable finance framework

Zawya - Refinitiv, 21st October 2022

The Dubai Islamic Bank (DIB) become the first bank in the UAE to publish a Sustainable Finance Framework to facilitate the financing of green and social projects. Under the framework, DIB will finance projects in renewable energy, energy efficiency, clean transportation, green buildings, pollution prevention and control, and sustainable water and wastewater management sectors, as well as social initiatives that promote employment generation, affordable housing, and access to essential services.

Such a framework will allow DIB to accelerate existing efforts, such as green auto finance offerings and affordable housing finance solutions, by permitting the Bank to raise sustainable financing across multiple formats in the future. Other banks in UAE can follow suit to support the region's efforts towards net zero.

https://www.zawya.com/en/press-release/companies-news/dubai-islamic-bank-publishes-its-sustainable-finance-framework-bm3l3rj2

SUSTAINABLE FINANCE

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Sustainable finance panel moots promoting regulatory sandbox for green fintech

Mint, 5th October 2022

A committee of experts on sustainable finance constituted the International Financial Services Centres Authority (IFSCA) at the GIFT city, has recommended developing a voluntary carbon market, a framework for transition bonds, enabling de-risking mechanisms, promoting regulatory sandbox for green fintech and facilitating the creation of a global climate alliance. Considering the significance of the MSME sector in the economic development of the country, the committee also proposed setting up a dedicated MSME platform for sustainable lending. It also recommended facilitating the use of innovative instruments such as catastrophe bonds, municipal bonds, green securitization, and blended finance among others.

Through these recommendations, IFSCA can play a vital role in the capacity building which lays the foundation for greening the financial system and aligning the Indian sustainable finance framework with the international best practices.

https://www.livemint.com/news/india/sustainable-finance-panel-moots-promoting-regulatory-sandbox-for-green-fintech-11664953030595.html

Sustainability in global transaction banking: A market imperative

McKinsey and Co., 7th October 2022

Most banks globally have not yet taken substantive steps toward integrating sustainability features into GTB products. Globally, only 10% of GTB demand is met. Paper-intensive processes involving multiple partners and a lack of reliable data about companies' sustainability-related activities and industry standards for evaluating these activities contribute to this complexity. Despite these challenges, McKinsey estimates GTB will generate global revenues of US $16 - 20 billion in trade finance and US $12-15 billion in cash management by 2025, both growing by approximately 15-20% annually.

Banks have unique access to transaction data (through products like cash pooling and supply chain finance), which can be used to help companies manage the carbon impact of their operations and achieve their target contributions to sustainability goals. This can be facilitated by GTB products.

https://www.mckinsey.com/industries/financial-services/our-insights/sustainability-in-global-transaction-banking-a-market-imperative

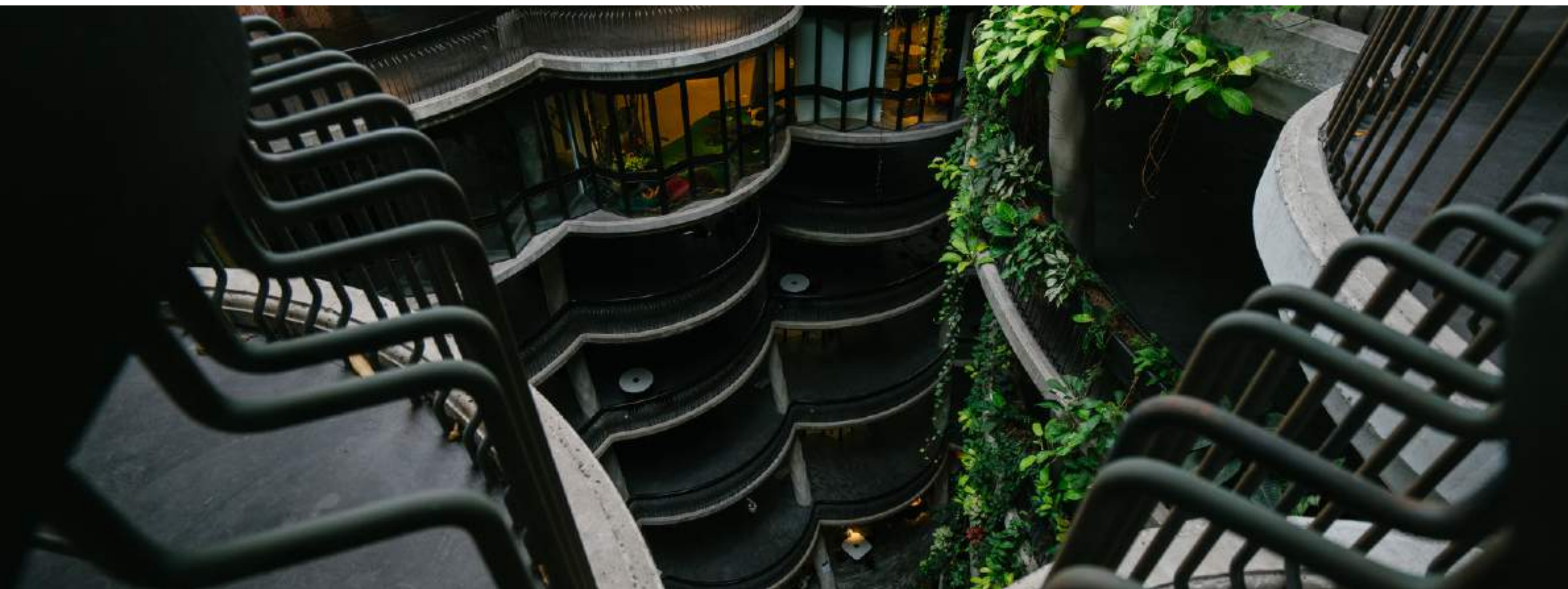
The EU Platform on Sustainable Finance's Final Report on Minimum Safeguards

Mondaq, 24th October 2022

The European Commission's Platform on Sustainable Finance published its Final Report on Minimum Safeguards under the EU Taxonomy Regulation which sets out the checks for firms to determine whether their investee companies have in place "minimum safeguards" concerning human rights, employment rights, anti-bribery, taxation, and fair competition. The Report's standards are general criteria for due diligence on human rights and best business practices, and there is a significant overlap between the concept of "Minimum Safeguards" in the Report and the concept of "good governance" in the definition of sustainable investment classified under Article 8 and 9 of the EU SFDR.

The report sets a high bar for international standards to be met and companies will be subject to strict reporting standards making it easier to track compliance.

https://www.mondaq.com/uk/financial-services/1242970/the-eu-platform-on-sustainable-finance39s-final-report-on-minimum-safeguards



CLIMATE RISKS

Sweden's exposure to climate risks via global trade requires a strong climate adaptation agenda

Stockholm Environment Institute, 24th October 2022

The analysis in "New risk horizons: Sweden's exposure to climate risk via international trade" reveals the extent of the Sweden's dependence on more vulnerable countries – particularly emerging economies in Asia and Africa – that play an increasingly critical role in Swedish supply chains. Some recommendations in the report are:

- Prioritize cross-border climate risks as a risk area in the new climate adaptation strategy
- Establish a new working group that spans several sectors to improve and clarify the management of cross-border climate risks, especially those related to trade
- Establish a department responsible for coordinating adaptation efforts across governments and other actors in Sweden to cross-border climate risks

Incorporation of these recommendations can facilitate several collaborative adaptation and mitigation projects between Sweden and its several trade partners across continents.

https://www.sei.org/about-sei/press-room/swedens-exposure-to-climate-risks-via-global-trade/

Climate risk index shows threats to 90% of the world’s marine species

Down To Earth, 6th October 2022

In the high emissions scenario, the global average ocean temperature will increase by 3-5oC by 2100. Under this scenario, almost 90% of the 25,000 species we assessed were at a “high” or “critical” climate risk. The average species was at risk across 85% of its geographic range. Risks for fished species such as cod and lobsters were consistently greater within the territories of low-income nations, where people depend more on fisheries to meet their nutritional needs.

This points to the need for finance for marine conservation. A notable move toward this is Gabon which is in talks with the Nature Conservancy to reorganize as much as US $700 million of its Eurobond debt to fund marine conservation in what may be the biggest transaction of its kind.

https://www.downtoearth.org.in/news/climate-change/climate-risk-index-shows-threats-to-90-of-the-world-s-marine-species-85304

Big emitters not acknowledging climate risks: Carbon Tracker Initiative

Business Standard, 6th October 2022

The Still Flying Blind – The Absence of Climate Risk in Financial Reporting by the Carbon Tracker initiative surveyed companies from the fossil fuel, mining, manufacturing, automotive, and technology sectors. The findings indicated that of the 134 multinational companies responsible for up to 80% of the corporate industrial greenhouse gas emissions, 98% did not provide sufficient evidence about the impacts of climate-related matters and the audit committees often do not mention climate risks.

This leaves these companies exposed to both physical and transition risks of climate change and exposes them to changes in regulations, or declining demand for company products, overstated assets, understated liabilities, and overstated profits.

https://www.business-standard.com/article/international/big-emitters-not-acknowledging-climate-risks-carbon-tracker-initiative-122100600116_1.html

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AXA Future Risks Report 2022: Climate change becomes the number one emerging risk around the world

Ipsos, 25th October 2022

AXA released the ninth edition of its Future Risks Report. This global survey measures and ranks the evolution of perceptions of emerging risks. The findings are as follows:

- Climate change becomes the number one risk in all geographical areas
- Geopolitical risks come second, overtaking cyber and pandemic
- Sense of vulnerability to certain risks increases and confidence wanes

It confirms underlying trends such as fear of climate change, heightened sense of vulnerability among populations, and the decline in trust in major institutions to find sustainable solutions. This can also lead to an increased client and investor demand for sustainability and ESG considerations in company operations boosting disclosures and sustainability-specific KPIs.

https://www.ipsos.com/en/axa-future-risks-report-2022

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