

**SECTORAL**

**UPDATES**

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**JAN 2023**





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## ESMA Under Pressure on ESG Fund Labelling Rules

*Regulation Asia, 27th January 2023*

ESMA has been tasked with developing rules for the labelling of ESG funds that are consistent and comparable across the European Union (EU), with an aim to ensure that investors can identify and compare ESG funds. The call for action is being driven by industry stakeholders and policymakers who believe that a standardized labelling system is necessary to help investors understand the ESG credentials of investment products. The impact of the labelling rules is considered to be significant since it affects around 14% EU's investment funds.

At the same time, critics and investors are concerned that this would add confusion to the current state of the market. The market participants are apprehensive of the possible overlap and conflict between SFDR (Sustainable Finance Disclosure Regulation) and the potential labelling rules.

While there are objections to ESMA's role in regulating ESG labelling, there is growing recognition of the need for clear and transparent labelling in ESG investments. If introduced in a systematic manner along with a consideration of SFDR, the labels could help transform the market.

<https://www.regulationasia.com/esma-under-pressure-on-esg-fund-labelling-rules/>

## Korea Issues Guidelines to Improve Transparency of ESG Bond Ratings

*Regulation Asia, 16th January 2023*

The South Korean government has issued guidelines to improve the transparency of ESG bond ratings. The guidelines aim to enhance the quality, reliability, and transparency of ESG bond ratings and cover a range of issues related to ESG bond ratings, including the selection of ESG factors for assessment, the use of data and information sources, and the assessment of ESG risks and opportunities. It requires ESG bond rating agencies to disclose their methodology, criteria, and data sources, and to provide regular updates on their ESG ratings.

The South Korean Government's issuance of guidelines is a positive step towards the growth and development of the ESG bond market. The guidelines will help to promote greater transparency and consistency in ESG bond ratings. The Government's commitment to sustainable finance and growth of the ESG bond market is expected to have a positive impact on the country's economy and financial system.

<https://www.mondaq.com/securities/1276474/south-koreas-fss-introduces-new-esg-rating-guidelines-to-enhance-transparency>



## SEC new rules and regulations

*Forbes, 26th January 2023*

The U.S. Securities and Exchange Commission (SEC) has proposed new rules to increase transparency and accountability in the financial industry. One of the proposals requires companies to report on their Environmental, Social, and Governance (ESG) practices and risks, including information on their sustainability goals, initiatives, and performance. The SEC also proposes asset managers provide more information about their investment strategies, including ESG factors and their impact on investment performance. The proposals are expected to be widely supported and promote trust and confidence in the financial industry.

The proposals reflect the SEC's commitment to promoting greater transparency and accountability in the financial industry and its recognition of the growing importance of ESG issues. The proposals aim to create a more sustainable financial system and promote long-term value creation for investors.

<https://www.forbes.com/sites/betsyatkins/2023/01/26/sec-new-rules-and-regulations/?sh=729ac700655d>



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## Asia ESG Funds Global Market Share Doubles, Barclays Says

*Bloomberg, 30th January 2023*

According to a report by Barclays, the market share of ESG funds in Asia has doubled in the past two years, reaching 4% at the end of 2022. The report also states that ESG funds in Asia recorded a net inflow of 15% in 2022, which is higher compared to the global average of 4%. The analysts believe that the increase in ESG fund market share and net inflows in Asia is due to the growing awareness of environmental and social issues, as well as regulations that promote sustainable investment practices. Asia is considered to have a large growth potential in the ESG investment market, with countries making net-zero commitments and regulators introducing new ESG rules, along with improvements in company disclosures.

In conclusion, the report highlights the growing importance of ESG investing in Asia, despite the challenges faced by the industry in other regions. This highlights the increased awareness of environmental issues, social issues and regulations promoting sustainable investment practices that will continue to drive the growth of ESG investment in a fast-paced market like Asia.

<https://www.bloomberg.com/news/articles/2023-01-30/asia-esg-funds-global-market-share-doubles-barclays-says#xj4y7vzkg>

## ECB publishes new climate-related statistical indicators to narrow climate data gap

*ECB Press release, 24th January 2023*

The European Central Bank published a set of climate-related statistical indicators that will help improve the assessment of climate risk impact. The indicators predominantly cover three areas- experimental indicators on sustainable finance, analytical indicators on carbon emission financed by financial institutions, and analytical indicators on climate-related physical risks. The indicators will also aid the monitoring and development of sustainable and green finance. According to ECB officials, the indicators are a work in progress. Once complete, the indicators will be used by banks and will be customised for application in synchrony with the ECB.

The development is intended to drive a deeper conversation within the statistical and research community for better inclusion of climate-related risks and transition. Going forward, implementation of the indicator-based climate risk assessment would certainly bolster risk management and preparedness.

<https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.pr230124~c83dbef220.en.html>

3



## SUSTAINABLE FINANCE

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# NBK becomes the first financial institution in Kuwait to align with the State's pledge to become carbon neutral by 2060

*Zawya, 25th January 2023*

The National Bank of Kuwait (NBK) has pledged to support Kuwait's effort to achieve carbon neutrality by 2060, making it the nation's first financial institution to do so. This statement is an important milestone in Kuwait's banking sector's promotion of sustainability and environmental responsibility.

As a part of its commitments, the NBK has set an interim goal to reduce its gross operational emissions by 25% by 2025 and improve its CDP score to confirm its commitment to the net zero transition. Additionally, the bank is also encouraging the use of renewable energy sources and lowering energy usage in its operations and branch locations.

The initiatives taken by NBK to achieve carbon neutrality are consistent with the larger global trend toward sustainability and mark an important milestone in mainstreaming climate risks and net-zero transition strategies in the GCC.

<https://www.zawya.com/en/press-release/companies-news/nbk-becomes-the-first-financial-institution-in-kuwait-to-align-with-the-states-pledge-to-become-carbon-neutral-by-2060-pjuvcv4o>

## India set to test green bond market with debut \$2 billion sale

*Mint, 12th January 2023*

The Indian government seeks to explore the slow green bond market with its debut sale by raising \$2 billion. To encourage sustainable development and lower the nation's carbon footprint, the Indian government intends to generate \$15 billion in total through the issue of green bonds by 2024.

With issuances reaching \$250 billion globally in 2020, up from \$155 billion in 2019, the green bond market has experienced rapid expansion in recent years. The auction will be India's first of its sort and may be followed by a standard for subsequent issuances. This is likely to build significant momentum for India's net-zero transition, building on the back of India's climate targets and conducive regulatory policies.

<https://www.livemint.com/market/stock-market-news/india-set-to-test-green-bond-market-with-debut-2-billion-sale-11673481704340.html>





## Budget 2023 May Help India Take Lead In Fighting Climate Crisis

*NDTV, 30th January 2023*

India's Union Budget for 2023 promises to expedite India's efforts towards mitigating climate change impacts. India's G20 presidency is also expected to propel the Union Budget to place a strong emphasis on environmental preservation, sustainable development, and financing, to lower the country's carbon footprint. The budget is likely to focus on promoting renewable energy sources and lowering greenhouse gas emissions. The growth of wind and solar energy, electrification of the transportation industry, creation of sustainable water management, and preservation of forests may also get major outlay support. Namita Vikas, the founder of auctusESG, explained the significance of establishing an institutional framework to draw in private sector funding by offering green risk capital and hedging tools.

Public climate finance, through the Budget is an important step in India's attempts to address the climate catastrophe and take the lead in encouraging sustainable development. The nation's economy would certainly benefit from the Government's dedication to environmental preservation and sustainable development, as well as from its efforts to lessen its carbon footprint to promote a more sustainable future.

<https://www.ndtv.com/business/budget-2023-may-help-india-take-lead-in-fighting-climate-crisis-3737384>



## Hong Kong Companies Will Have to Disclose Climate Risk

*Bloomberg, 11th January 2023*

A new rule is imposed by the Hong Kong Stock Exchange that requires listed companies to disclose their climate-related risks. Set to take effect in 2024, the rule is a part of a broader effort to make the city a leader in sustainable finance. The rule will apply to all companies listed in Hong Kong, regardless of their industry or location. Companies will be required to publish annual reports detailing their greenhouse gas emissions, as well as the steps they are taking to mitigate their impact on the environment. The reports will also need to detail the risks associated with their operations, such as exposure to natural disasters, supply chain disruptions, and regulatory changes.

The regulation would help investors make informed decisions about the companies they invest in, and encourage companies to transition to more sustainable business models. It is likely to initiate better disclosure standards in other Asian markets as well.

<https://www.bloomberg.com/news/articles/2023-01-11/hong-kong-s-listed-companies-will-have-to-disclose-climate-risks>



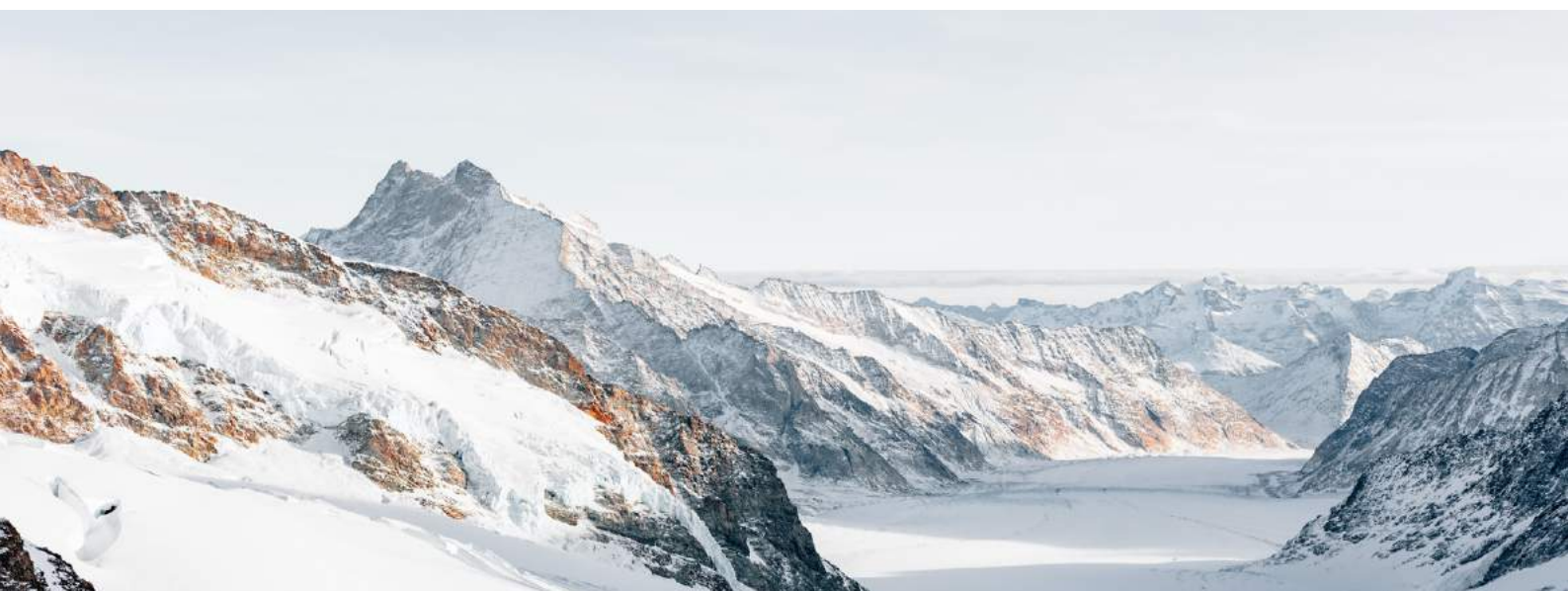
## International trade and world economies exposed to multi-billion-dollar climate risk to ports - Oxford study

*Oxford university, 12th January 2023*

A study by the University of Oxford shows that international trade and the world economy are exposed to multi-billion dollar climate risks. The study analyzed the potential losses to global trade from extreme weather events, such as hurricanes, droughts, and heat waves.

The findings reveal that global trade could be reduced by as much as 25% in the coming decades, with some regions, such as Southeast Asia and sub-Saharan Africa, being hit particularly hard. The study also indicates that developed countries, such as the United States and Europe, will not be immune to these losses and could face significant disruptions to their supply chains. The study scopes out facts that the governments and the private sector could work together to reduce the exposure of international trade to climate risks and to adapt to the impacts of a changing climate.

<https://www.ox.ac.uk/news/2023-01-12-international-trade-and-world-economies-exposed-multi-billion-dollar-climate-risk>



## Mandatory climate risk disclosures are coming to Australia

*Insurance Business Mag, 25th January 2023*

Australian authorities are introducing mandatory climate risk disclosures for companies. The measure, which has been implemented by the Australian Securities Exchange (ASX), is part of a global trend towards greater transparency in the financial sector on the issue of climate change. Companies listed on the ASX will be required to provide information on their exposure to climate risks, as well as the steps they are taking to manage these risks.

The disclosure requirements are designed to help investors make informed decisions about the companies they invest in, as well as to encourage companies to transition to more sustainable business models. The move has been welcomed by environmental groups, who view it as an important step towards creating a more sustainable financial sector in Australia. The ASX has also encouraged companies to adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), which provides a framework for companies to disclose their climate risks and opportunities in a consistent and comparable manner.

The inclusion of climate risk disclosures for publicly listed companies in Australia will promote the agenda of transparency and integration of climate change issues into financial decisions.

<https://www.ox.ac.uk/news/2023-01-12-international-trade-and-world-economies-exposed-multi-billion-dollar-climate-risk>

## Central banks report scant progress on climate risk capabilities

*Central banking, 10th January 2023*

A study by the Network for Greening the Financial System (NGFS) found that central banks have made little progress in building the capabilities required to manage climate risks. The study, which analyzed the practices of 33 central banks, revealed that only a small number of institutions have dedicated resources to climate risk management, and many lack the expertise and data needed to effectively assess and manage these risks.

The NGFS called for central banks to take a more proactive approach to address the challenges posed by climate change, including investing in research and data collection and building the necessary skills and expertise within their organizations. The report also highlights the importance of collaboration between central banks, governments, and the private sector, in order to address the systemic risks posed by climate change.

The report highlights the call for action to central banks and supervisors to establish and enhance international cooperation on climate change and promote the transition to a more sustainable financial system.

<https://www.centralbanking.com/benchmarking/risk-management/7954108/central-banks-report-scant-progress-on-climate-risk-capabilities>

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