

SECTORAL

UPDATES

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270 companies, major pension funds join pro-ESG 'Freedom to Invest' campaign

S&P Global, 23rd March 2023

Together, 270 companies, banks, advocacy organisations, and public retirement funds have launched the "Freedom to Invest" initiative, urging federal and state legislators to uphold their fiduciary obligations and their right to make long-term investment decisions that are in the best interests of their shareholders and beneficiaries. This occurs at a time when Republican-led states and related organisations have been attempting to restrict fund managers' capacity to take ESG concerns into account when making investments.

Among the organisations that signed on to the project were the \$242 billion New York State Common Retirement Fund and the \$306 billion California State Teachers Retirement System. Several businesses are reluctant to speak out in response to the anti-ESG backlash, and some have had to modify their message and sales pitches to take into account the divergent priorities in red and blue states.

Yet, corporate science-based climate objectives continue to exist, and private sector transition plans are growing, demonstrating that the ESG drive is still present.

<https://www.spglobal.com/marketintelligence/en/news-insights/blog/insight-weekly-march-21-2023>

83% Asian SMEs say ESG is high priority but only 37% have roadmap

The Print, 27th March 2023

While small and medium-sized enterprises (SMEs) in India, China, Taiwan, Hong Kong, Indonesia, and Singapore prioritise environmental, social, and corporate governance (ESG) issues, only 37% have a clear roadmap for achieving their objectives, according to a recent report by Bloomberg Media Studios in collaboration with DBS, the largest bank in Southeast Asia.

According to the report, businesses that place a high priority on ESG allocate an average of 18% of their budgets to ESG projects and anticipate allocating 19.8% of their budgets to ESG projects over the next three years, with environmental projects accounting for the largest share of this allocation. Unclear reporting standards and financial worries, according to study respondents, are the main obstacles to the adoption of ESG. While long-term ESG planning may be challenging for SMEs, practical steps, such as identifying important ESG components and examining market trends and best practises, can be taken.

<https://theprint.in/world/83-pc-asian-smes-say-esg-is-high-priority-but-only-37-pc-have-roadmap/1474934/>



FCA outlines where improvements are needed in ESG benchmarks

Financial Conduct Authority, 20th March 2023

The UK Financial Conduct Authority (FCA) has completed a preliminary review on ESG benchmarks and found that the quality of ESG-related disclosures made by benchmark administrators was poor.

The FCA has sent a letter to administrators outlining the issues identified, including inadequate ESG factor details, insufficient explanation of ESG data and ratings methodologies, failure to implement ESG disclosure requirements, and incorrect application of ESG benchmarks' methodologies. The FCA expects all administrators to have strategies to address these issues and will use its tools where necessary.

The Authority supporting the regulation of ESG ratings and encouraging the development of a voluntary Code of Conduct for ESG data and ratings providers is bound to bring a step change in this evolving space.

<https://www.fca.org.uk/news/news-stories/fca-outlines-improvements-needed-esg-benchmarks>

BlackRock fast-tracks eviction of ESG violators from MSCI-linked ETFs

Reuters, 10th March 2023

BlackRock has reduced the time it takes to exclude businesses from its iShares exchange-traded funds when they violate specific ESG rules. 35 of its European-listed ESG ETFs that track MSCI indices are now covered under the "fast-exit" regulation, which has been cut in half from 90 days to 45 days.

Under the new rule, if a business' MSCI ESG Controversies score falls to zero or if MSCI determines that a company is not abiding by the United Nations Global Compact, the new rules will be activated. US \$55.5 billion worth of "custom" funds are impacted by the shift, that resulted from the conversations with German wealth managers. BlackRock will evaluate companies for exclusion on a monthly basis.

BlackRock spearheading this market transformation would bring greater clarity and market transformation for ESG, potentially curbing greenwashing instances.

<https://www.reuters.com/business/finance/blackrock-fast-tracks-eviction-esg-violators-msci-linked-etfs-2023-03-09/>

SBI seals \$1-b syndicated ESG loan from Japan, Taiwan

Economic Times, 1st March 2023

In collaboration with lenders from Japan and Taiwan, State Bank of India (SBI) has announced the completion of a US \$1 billion syndicated social lending facility. The facility is the second-biggest loan taken by a commercial bank worldwide and the largest credit connected to an ESG framework in the Asia-Pacific region.

The loan is SBI's first social loan as well as the bank's first syndicated loan in five years. The facility was organised by Taiwan's Taipei Fubon Commercial Bank and Japan's MUFG Bank. Joint coordinators for the transaction were Taipei Fubon Commercial Bank and MUFG, with the latter serving as the primary loan coordinator.

The commitment to ESG embodied by the largest lender in India, in the issuance of its first social loan is bound to create a cascading effect for sustainable finance for the environment, society, and stakeholders.

<https://economictimes.indiatimes.com/markets/stocks/news/sbi-seals-1-b-syndicated-esg-loan-from-japan-taiwan/articleshow/98320376.cms?from=mdr>



Deutsche Bank ESG revenues set to surpass €1bn per year

Fintech Global, 6th March 2023

According to a statement from Deutsche Bank, its ESG business revenue is expected to increase from €800 billion in 2022 to around €1.4 billion annually. The forecast was made public by the bank during its "Sustainability Deep Dive 2023" event. The bank has also outlined a variety of new sustainable finance objectives, such as facilitating investments and funding totaling €500 billion in sustainable projects between 2020 and 2025.

In addition to this, there are revisions in its policy regarding the financing of emissions-intensive sectors as well as additional financed emissions pledges. The €500 billion sustainable finance target set by Deutsche Bank for 2025 improves on the previous target of €200 billion in sustainable financing and investments by the end of 2022. To meet the new 2025 target, the bank intends to pursue measures including tying supply chain funding to environmental and social standards. The corporate bank sector is anticipated to experience the highest sustainable finance volume growth rate.

Banks supporting their customers as reliable partners, in this way would be a strong force for the transition to a more environmentally friendly economy.

<https://fintech.global/2023/03/06/deutsche-bank-esg-revenues-set-to-surpass-e1bn-per-year/>

BSI launches new standard to combat financial greenwashing

Edie, 1st March 2023

The British Standards Institution (BSI) has released a new standard, the Sustainable Finance Standard (BS ISO 32210:2022), designed to help financial organisations avoid greenwashing by providing credible ESG plans. The guideline, which is applicable to direct lenders and investors, asset managers, and service providers, intends to "demystify" sustainability concepts for financial sector organisations.

The standard attempts to overcome the challenges surrounding the global sustainable finance industry while emphasising the need to enhance collaboration, to advance accepted methods of green financing. The standard tackles all significant ESG concerns, such as injustice, poverty, prosperity, environmental degradation, and climate change. For the purpose of eradicating impact-washing and raising the calibre of ESG data and reporting, large corporations like EY have urged for a "whole-system approach." The announcement comes the same month that HSBC updated its list of potential risks affecting its future access to capital markets to include "greenwashing."

Standardising niche areas like sustainable finance are key to their growth and development in a cohesive manner, positive outcomes from which are inevitable in the years to come.

<https://www.edie.net/bsi-launches-new-standard-to-combat-financial-greenwashing/>



Mashreq Bank provides \$15.5bln of sustainable finance and adaptation-related investments

Zawya, 14th March 2023

Mashreq has supported US \$15.5 billion in investments connected to sustainable financing and climate adaptation since January 2021. According to Joel Van Dusen, Group Head of Corporate & Investment Banking at Mashreq, there are five key ways that ESG affects cash flow: it minimises governmental and legal interference, boosts worker productivity, optimises investment and capital expenditures, supports top-line growth, and lowers expenses by reducing energy use.

The Bank observes that ESG principles have evolved from being a "nice to have" to an essential component of operations and supply chains. With a growing number of jurisdictions enacting rules mandating corporations to adopt and report on ESG indicators, enterprises ignoring their environmental effect run the danger of losing market share and their image.

This has led the financial industry players like Mashreq to make significant commitments to encouraging the implementation of ESG throughout the supply chain.

<https://www.zawya.com/en/business/banking-and-insurance/mashreq-bank-provides-155bln-of-sustainable-finance-and-adaptation-related-investments-a2bgw12u>



IASB unveils project on climate-related risk disclosure requirements

FinTech Global, 28th March 2023

The International Accounting Standards Board (IASB) has launched a new project to investigate potential changes to disclosure requirements for climate-related risks in financial statements. The action was taken in response to suggestions made during the public consultation the IASB held on its activities and work plan, which included recommendations for improved disclosure of climate-related risks in financial statements. Although present regulations do not specifically address climate-related risks, businesses must take them into account if they are important to investors.

Stakeholder feedback indicates that climate-related hazards are frequently viewed as remote and are not properly taken into account in financial statements. The IASB study will look into stakeholder concerns and work to improve how risks associated to climate change are reported. The initiative won't provide an IASB standard on risks associated to climate change, but it could produce modest revisions to existing standards or new application guidelines.

<https://fintech.global/2023/03/28/iasb-unveils-project-on-climate-related-risk-disclosure-requirements/>



New Zealand central bank unveils draft guidance on managing climate risks

Reuters, 29th March 2023

The Reserve Bank of New Zealand has released a draft guidance on managing climate-related risks within an entity's risk management framework. Entities are advised to consider a range of plausible climate scenarios, such as frequent floods and droughts, in developing strategies that will make their business model more resilient.

The central bank suggests that entities should develop their capabilities in climate-related scenario analysis and stress testing. While managing climate-related risks should be incorporated into an entity's broader risk management framework, it is important to give specific analytical consideration to the features of climate-related risks. Insurance claims have exceeded NZ\$1 billion due to significant climate-related events, and the guidance emphasizes that measures should be proportionate as climate-related risks will not affect all entities equally.

<https://www.reuters.com/markets/new-zealand-cenbank-unveils-draft-guidance-managing-climate-risks-2023-03-28/>



Canada issues final guidelines for banks to manage climate-change risks

Reuters, 7th March 2023

A Canadian banking regulator has released guidelines that will take effect at the end of the 2024 fiscal year for domestic banks and internationally active insurance groups with Canadian headquarters and at the end of the 2025 fiscal year for other federally regulated financial institutions. The guidelines are intended to increase transparency in the disclosures of financial institutions regarding climate risks. Disclosures regarding administration, strategy, risk management, and measures pertaining to financial institutions' greenhouse gas emissions are required, according to the Office of the Superintendent of Financial Institutions (OSFI).

In addition to other regulations, banks will need to be ready for catastrophes caused by climate change and take that into account when assessing their liquidity risk profile. The International Sustainability Standard Board will release its final standards by the end of June, and OSFI intends to update some disclosure requirements after getting over 4,300 submissions.

<https://www.reuters.com/business/finance/canada-issues-final-guidelines-banks-manage-climate-change-risks-2023-03-07/>



Brazil makes strides on climate-related financial risks

OmfiF, 3rd March 2023

The Brazilian central bank, Banco Central do Brasil, has taken steps to assess and control the financial system's exposure to climate-related threats. The bank carried out a climate stress test to determine how vulnerable the loan portfolio was to actual climate threats, particularly severe drought. The findings revealed that the southeastern region of the nation is the most impacted and that 16% of system loans are vulnerable to drought risk. Through mapping of sector-based emissions, it also looked at how vulnerable the credit portfolio of the banking sector was to transition risks. Although the risk had a minor effect, the bank emphasised the need to keep researching various physical risks like storms and shifts in weather patterns.

In order to guarantee that banks share information about environmental and societal risks as part of their overall risk assessments, the bank has set guidelines. They comply with the guidelines established by the Task Force for Climate-related Financial reports. A critical move towards promoting financial stability in the face of climate change is the bank's climate risk management steps.

<https://www.omfiF.org/2023/03/brazil-makes-strides-on-climate-related-financial-risks/>





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