FAB ESG WEEKLY UPDATE

03 June 2022

This week, we identified the following events of significance within sustainability and their respective business implications.

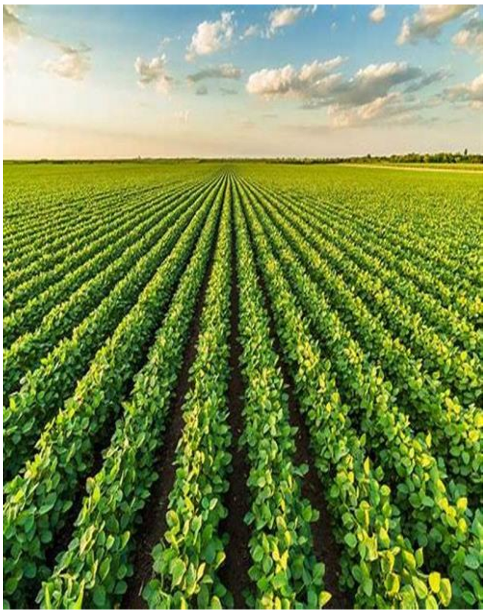
REGULATORY

1. The **Basel Committee on Banking Supervision** approved the **finalised proposal of principles for effective management and supervision of climate-related financial risks**. The principles' publication is part of the Committee's broader assessment of potential measures to address climate-related financial risks to the global banking system.

- The principles for effective management and supervision of climate-related financial risks which will be published in the coming weeks, seeking to promote a principles-based approach which improves risk management, supervisory practices and mitigates climate-related financial risks. The principles are designed to be adapted to a diverse range of banking systems in a proportional manner.
- The Basel Committee also advanced work on specifying crypto asset prudential treatment and the publication of a second consultation paper. The Committee concluded the review of the treatment of cross-border exposures within the European Banking Union on the Global Systemically Important Banks (G-SIB) methodology. In addition, the Committee will continue to assess risks and vulnerabilities of the global banking system, including those stemming from the conflict in Ukraine.

2. The **European Court of Auditors (ECA)** found the amount of the **European Commission's climate spending overstated by €72 billion**. A value substantially lower than officially reported during the 2014-2020 period. ECA concluded that the European Union (EU)'s reporting on climate spending was unreliable and did not evaluate the spend contribution to the EU climate goals.

- Between 2014-2020, the EU had committed to spend at least 20% of its budget on climate-relevant measures. The European Commission announced in 2021 that it had met its target, with climate spend reaching 20.1% of the budget, or €216 billion. The ECA found, however, that reported spending was not always relevant to climate action, and that the Commission overstated the climate contributions in some areas.
- Agriculture was the area contributing most significantly to the overstatement, which accounted for half of the EU's reported climate spending. Nevertheless, the ECA found that the European Commission likely overestimated contributions from agricultural policy by almost €60 billion. Despite the significant amount of reported spend, however, greenhouse gas emissions from farming have not decreased over the past decade. The auditors also found that the Commission overestimated the climate contributions of infrastructure and cohesion funding in areas including such as rail transport, electricity and biomass.



3. The **European Securities and Markets Authority (ESMA)** provided **guidance for supervision of investment funds with sustainability features**. The briefing includes a series of proposed requirements for national competent authorities to implement relating to the marketing and naming of sustainable investment funds, as well as the integration of sustainability risks by fund managers into their portfolio and risk management practices.

- The guidance comes as regulators in the European Union (EU) are moving to implement rules aligned with the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy, key elements of the EU Action Plan on financing sustainable growth. The directions provided will help combat greenwashing by establishing common supervisory criteria for the national competent authorities to supervise funds with sustainability features.

- The proposed practices for the marketing of sustainable investment products include ensuring that information provided to investors is accurate, fair, clear, not misleading, simple, and concise, and that disclosure of environmental or social criteria used in the selection of assets only include those that are actual binding on the fund manager. The guidance includes proposals for the supervision of fund names, with uses of terms including ESG, green, sustainable, social, ethical, and impact, in a fund's name only to be used when supported by evidence of sustainability characteristics in the fund's objectives and investment strategy

RESEARCH

1. The **International Energy Agency's (IEA)** issued the 2022 edition of the **Tracking SDG 7: The Energy Progress Report** which assesses the global achievements for universal access to affordable, reliable, sustainable, and modern energy by 2030. The report flagged that at today's rate of progress, **the world is still not on track to achieve the SDG 7 goals by 2030**.

- The impacts of the COVID-19 pandemic, including lockdowns, disruptions to global supply chains, and diversion of fiscal resources to keep food and fuel prices affordable, have affected the pace of progress toward the Sustainable Development Goal (SDG 7) of ensuring access to affordable, reliable, sustainable and modern energy by 2030. Advances have been impeded particularly in the most vulnerable countries and those already lagging in energy access. Nearly 90 million people in Asia and Africa who had previously gained access to electricity, can no longer afford to pay for their basic energy needs.
- The report found that despite continued disruptions in economic activity and supply chains, renewable energy was the only energy source to grow through the pandemic. However, these positive global and regional trends in renewable energy have left behind many countries most in need of electricity. SDG7 targets also cover energy efficiency. From 2010 to 2019, global annual improvements in energy intensity averaged around 1.%. This is well below the levels needed to meet SDG 7's targets and to make up for lost ground, the average rate of improvement would have to jump to 3.2%.

2. The **Centre for Research on Energy and Clean Air** and the think-thank **Ember** published a **report** which found that the **Ukraine conflict and the COVID pandemic accelerated the shift from fossil fuels towards renewables** in most of European countries.

- Among the European Union's 27 member countries, 17 have increased their plans to boost renewable energy since 2020. If achieved, the countries' latest plans would see 63% of the EU's electricity produced from renewables by 2030, up from 55% under their 2019 policies. That implies a drop in EU fossil fuel-based power generation to 595 terawatt hours in 2030, down from 1,069 terawatts per hour in 2021.
- Germany and the Netherlands both hiked their renewable energy goals this year, while countries including Austria, Greece and Ireland have raised theirs since 2020. Bulgaria, Croatia, Slovenia, and others set coal exit dates, and France offered renewable home heating subsidies.

3. The **Network for Greening the Financial System (NGFS)** released a progress **report** reviewing the case for **overhauling central banks' capital requirements and buffers based on climate considerations**. According to it, central banks could choose to adjust institutions' capital requirements and buffers based on forward-looking tools such as climate scenario analysis and scrutiny of transition plans.

- The report analyses the attempts to study and quantify potential credit risk differentials between green and non-green assets or activities. Stocktakes conducted on this front revealed that there is still limited empirical evidence of ex-post risk differentials. Given persistent methodological and data-related challenges, conducting risk differential analysis is not a straightforward exercise. The surveyed financial institutions are particularly turning to methodologies like forward-looking methodologies to identify and assess climate-related risks.

● The study also examines methodologies from credit ratings agencies attempting to quantify the impact of climate-related credit factors. It outlines a series of difficulties they face, such as the fact that climate risk at the activity or asset level does not directly translate to a similar level of risk for the firm itself.

COMMERCIAL

1. Dubai's **dnata** announced a **$100 million investment in green operations** in the next two years to further enhance environmental efficiency across its global network. The air and travel services provider's investment will support the commitment to reduce its carbon footprint by 20% by 2024, and by 50% by 2030.

- In recent years, dnata has significantly invested in advanced technologies to optimise resources and improve operational efficiency across its facilities. It installed renewable energy features such as solar panels, heat recovery units and electric vehicle charging at its existing facilities in the UK, Singapore and Ireland. The company will also incorporate carbon reduction initiatives in the construction and operation of its recently announced new cargo centres in The Netherlands and Iraq.
- dnata has implemented initiatives across its business units to conserve water consumption and recycle materials such as paper, plastic, cardboard, wood, glass, metal, used cooking and mineral oils. Earlier this year, the company committed to reducing its waste to landfill by 20% by 2024.

2. Circa Biotech inaugurated the **UAE's first ever project that recycles food waste** and turns it into animal feed, organic fertiliser, and oil. Mariam Al Mheiri, UAE's Minister of Climate Change and Environment signed an agreement to support the pioneering project by Circa Biotech. The company farms black soldier fly larvae by feeding them leftover food waste. The larvae consume the waste and grow before being turned into high-protein feed for livestock, among other things.

- The agreement is part of the UAE's ongoing drive to enhance food security and sustainability based on innovation, green development, and climate change mitigation. The project leverages nature-based solutions to address challenges resulting from the accumulation of organic waste.
- Circa Biotech's project will initially produce 1.5 tonnes of organic fertiliser per month, with the goal of handling 200 tonnes of food waste per day. The company aims to decrease dependence on more expensive fishmeal for livestock feed.

3. Deutsche Bank's Frankfurt offices were raided by German authorities in line with an **ongoing investigation over greenwashing concerns** targeting the bank's investment arm DWS. The asset manager was accused of misleading investors about ESG factors in its financial products. The German financial regulator BaFin launched an investigation which is similar to an ongoing probe by the US Securities and Exchange Commission (SEC).

- The Frankfurt public prosecutors' office said the search had been triggered by reports in the international and national media. According to those, DWS, when marketing so-called green financial products had sold these financial products as greener or more sustainable than they were. After BaFin examination, sufficient factual evidence has emerged that, contrary to the statements made in the sales prospectuses of DWS funds, ESG factors were not considered at all in many investments.
- The bank's governance profile has recently been under the spotlight. It is just a month since Deutsche's headquarters were raided by federal police, criminal prosecutors and BaFin representatives over separate allegations that unnamed bank employees may have violated anti-money laundering laws.