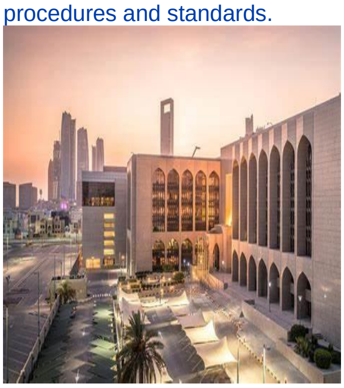
FAB ESG WEEKLY UPDATE

29 July 2022

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

REGULATORY

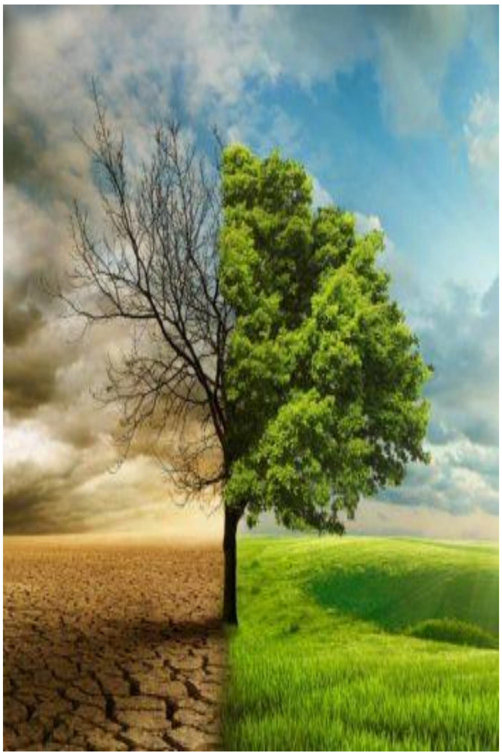
1. The **Central Bank of the UAE (CBUAE)** imposed **financial sanctions on 6 banks operating in the country following failures to achieve appropriate levels of compliance**. The banks' misconduct was found on required due diligence, reporting procedures and standards.



- The banks have been penalised in line with implementing certain provisions of the Organisation for Economic Cooperation and Development (OECD)'s Multilateral Administrative Agreement for Automatic Exchange of Information and Common Reporting Standard (CRS). All banks operating in the UAE have been allowed ample time by the regulator to implement the CRS.
- The CRS is a global methodology for the automatic exchange of financial accounts and tax-related information with other financial regulatory organisations across the world through secure channels. It sets out the required information to be exchanged, the types of financial institutions required to report, the different types of financial accounts and account holders in scope, as well as the common due diligence procedures to be followed by financial institutions.

2. The **European Central Bank (ECB)** and the **European Systemic Risk Board (ESRB)** found that **financial risks from climate-related shocks can spread through the financial system quickly**, triggering company defaults and bank risks. Both entities shared authorship in a report which explores how climate shocks can affect the European financial system, examines the systemic nature of climate risks, and discusses options for a coordinated European macroprudential policy response.

- The report found an interconnected nature of risks from climate transition and physical hazard-related issues. It identified several amplifiers of climate risk across the financial system such as surging carbon prices which could raise the likelihood of a company default, magnifying transition risks for banks and companies. Climate shocks caused by natural hazards such as water stress or wildfires could cause a sudden reassessment of climate risk pricing, triggering a fire sale dynamic with financial institutions liquidating affected securities at distressed prices. These dynamics are also exacerbated by the interdependent nature of natural hazards.
- Exploring the potential for macroprudential policies as part of a broader policy response to address the financial impact of climate change, the report proposes that these policies could work in tandem with supervisory efforts and microprudential regulation, with a focus on systemic aspects of climate-related risks. Applying a system-wide perspective, macroprudential policies would aim to address the risk from collective lending decisions by financial institutions and help strengthen resilience of the financial system to losses when they materialize, with suggested measures such as systemic risk buffers or concentration thresholds.

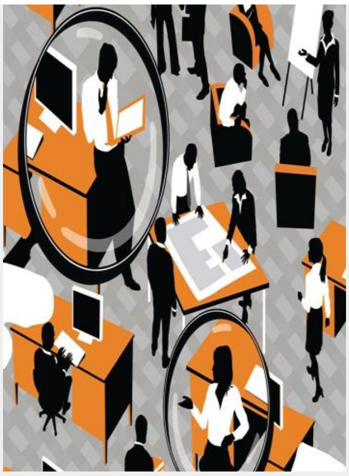


3. The **Government of Australia** introduced a bill that would for the first time **set the country's emissions reduction targets into law**. The ground-breaking initiative took place during the Australian government's first parliamentary session since the election of Prime Minister Anthony Albanese in May.

- The targets under the proposed legislation include greenhouse gas emissions reductions of 43% by 2030, compared to 2005 levels – reflecting the government's recently updated Nationally Determined Contribution commitment under the Paris Agreement – and the achievement of net zero emissions by 2050. The prior government had introduced a 2050 net zero target but chose not to utilize legislation or taxes to achieve the goals and did not raise the country's interim 2030 goal of a 26-28% emissions reduction.
- In addition to the emissions reduction targets, the bill also includes elements requiring the Minister for Climate Change to report annually to Parliament on the country's progress towards the goals and tasking the government's independent Climate Change Authority to assess and publish progress against the targets and advise the government on future targets. The government has also proposed inserting its climate targets in the objectives of government agencies and departments that deliver programs and policies contributing to emissions reductions.

RESEARCH

1. Gallup published the State of the Global Workplace 2022 report highlighting that **employees around the world are more stressed than ever before**. Stress levels in 2021 were even higher than in 2020, when they reached a previous all-time high, with 44% of employees claiming to have experienced a lot of daily stress the previous day.



- The figures for employee engagement are equally as bleak. Globally, just 21% of employees feel engaged at work, according to the report. In North America, the number is slightly higher at 33%, while in Europe it's a dismal 14%, falling to as low as under 10% in the UK, Spain, France, and Italy. Gallup's analysis of 112,312 business units in 96 countries found a strong link between engagement and performance outcomes, such as retention, productivity, safety, and profitability
- In the Middle East and North of Africa, only 15% of the employees surveyed felt engagement at work and 23% believed to be thriving at it. In the region, 40% declared to be worried at work, 45% to be stressed while working and 32% felt daily anger within the office environment. Under an ESG perspective, half of the workers in the MENA region felt satisfied with their countries' environmental efforts, while only 12% thought the social initiatives were satisfactory. Regarding corruption in the MENA region, 76% of the workers felt it as a widespread practice.

2. Invesco released a global sovereign asset management **study** concluding that **more sovereign wealth funds are adopting a formal ESG policy**. The study surveyed 81 sovereign wealth funds and 58 central banks with combined assets of around $23 trillion.

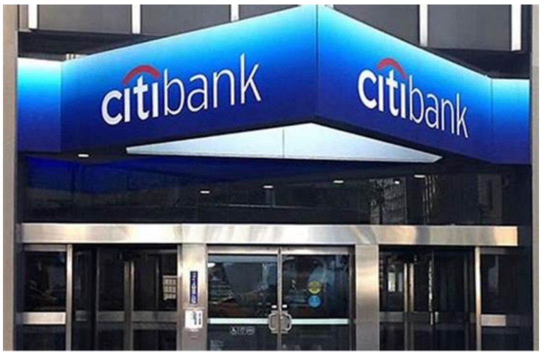
- Three quarters of the world's sovereign wealth funds now have a formal policy on ESG investing, yet just 30% have set a target to reduce carbon emissions across their investments-- though that was up from 23% the prior year. The policy move comes as institutions increasingly look to position for the shift to a low-carbon economy in the fight against climate change and is up from 46% five years ago.
- Those with a formal ESG policy cited a range of challenges in implementing it properly. The greatest issue mentioned was the lack of clear regulatory standards around ESG investing, which 37% of those surveyed called a significant challenge. Other concerns included the quality of data and ESG ratings and concerns about greenwashing, where the environmental benefits of an investment might be misleading.

3. American Clean Power issued a **report** flagging that **clean energy installations in the U.S. dropped 55% between 2021 and 2022** due to the climate bill fail, trade issues and delays caused by the COVID-19 pandemic. The second quarter of 2022 was the lowest for clean energy capacity additions since the third quarter of 2019.

- U.S. onshore wind power installations fell 78% due to supply chain induced slow-downs and delays in power grid interconnections. Since the end of 2021, more than 32.4 gigawatts of clean power projects have been delayed, enough energy to power 6.5 million homes and support 110,000 jobs. Energy storage, such as large batteries that support use of solar and wind power, was the only technology to experience growth, with a 13% increase in installations.
- The U.S. Congress has failed to pass President Joe Biden's climate legislation containing hundreds of billions of dollars in tax credits for clean power after Senator Joe Manchin, a conservative Democrat from coal-producing West Virginia, closed the door on the bill. A U.S. Commerce Department probe into whether imports of solar panels from Southeast Asian countries circumventing tariffs on goods are made in China has thrown the solar industry into disarray. In June, the Biden administration said it would waive tariffs for two years on solar panels from four Southeast Asian countries to revitalize solar installations.

COMMERCIAL

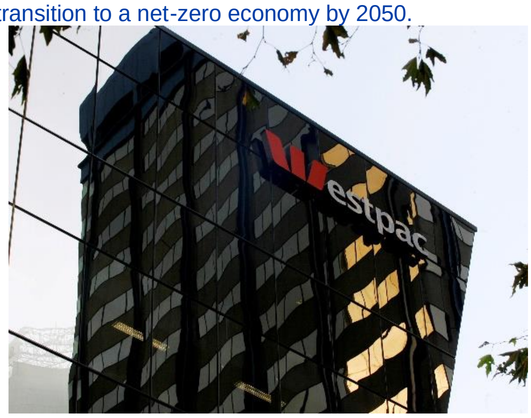
1. Citi launched two new **sustainable deposit solutions at Abu Dhabi Global Market (ADGM)**. Etihad Airways became the first client to deposit funds in Citi ADGM's solution which will further assist the airline in investing excess cash as part of its sustainability agenda.



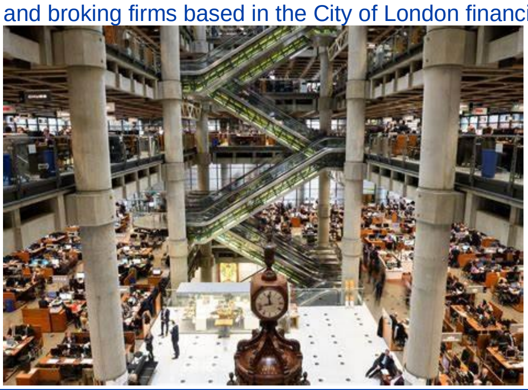
- Etihad will have access to Citi's two new deposit solutions, Sustainable Time Deposit (TD) and Sustainable Minimum Maturity Time Deposits (MMTD), which deliver competitive yields and are based on Citi's green and social bond frameworks, supporting the UN's Sustainable Development Goals (SDGs).
- Citi's Frameworks align with the International Capital Market Association's Green Bond Principles and Social Bond Principles and have been assessed by a leading independent ESG and corporate governance research, ratings, and analytics firm.

2. The Australian bank **Westpac Group** committed to **reduce lending to coal and oil & gas companies by nearly a quarter by 2030**. Westpac also announced it joined the UN-convened Net-Zero Banking Alliance (NZBA), while reinforcing its commitment to the global transition to a net-zero economy by 2050.

- The Sydney-based company joins peers such as National Australia Bank and Commonwealth Bank of Australia in a move to slash emissions. National Australia Bank implemented a $2.4 billion cap on lending to oil and gas companies while Commonwealth Bank of Australia had pledged to halve emissions by 2030.
- Westpac aims for a 23% reduction in scope 1, 2 and 3 absolute-financed emissions by 2030 from firms involved in oil and gas exploration, extraction, or drilling. The bank will also stop dealing with companies with more than 5% of their revenue coming directly from thermal coal mining by the same year.



3. Lloyd's of London, the insurance and reinsurance market located in the capital of the United Kingdom, announced that a **quarter of its constituent companies reached its 35% target for women leaders**. Lloyd's has been trying to improve diversity in the market, which employs around 45,000 people in insurance and broking firms based in the City of London financial district.



- Eighteen companies, or 26% of those surveyed by Lloyd's, met, or exceeded the target for 35% of boards, executive committees, and those committees' direct reports to be women. Women currently filled 30% of leadership positions. The 35% target is supposed to be met by the end of 2023.
- However, the average gender pay gap across Lloyd's market firms remains high, at 37%. Ethnic minority representation rose by one percentage point to 9%. Eleven companies reached Lloyd's ambition for one in three new hires to have an ethnic minority background.