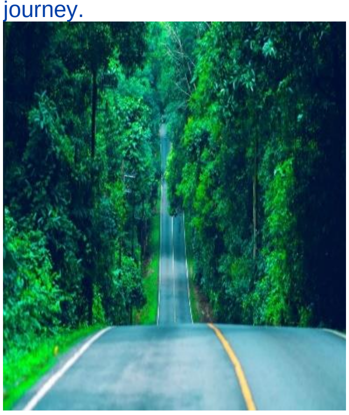
FAB ESG WEEKLY UPDATE
14 October 2022

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

REGULATORY

1. The **UNEP FI Net Zero Banking Alliance (NZBA)** published a guide designed to **help banks assess opportunities, allocate effort, and advocate for supportive policies regarding transition finance for the real economy**. Banks facilitating their clients' decarbonization strategies to assist the real economy meet global climate objectives is the core purpose of transition finance, according to the guide. The document provides two guiding principles for banks as a minimum baseline. The condition where clients must have a credible, feasible, and sufficiently ambitious transition plan. And, that transition finance must meaningfully advance a client's net-zero journey.



- The NZBA suggests bank-specific frameworks which may include the following components: a governance framework for transition finance, including the bank's own targets; a product scope; a risk management framework; due diligence processes (e.g., DNSH consideration, just transition considerations); approaches to use of proceeds transition finance; approaches to general corporate purpose transition finance; a disclosure policy; eligible activities and technologies; an internal taxonomy (referencing third-party roadmaps or taxonomies, as appropriate).
- Bank-specific frameworks may be useful if they are detailed, practical, and actionable for client engagement purposes. Also, if they are publicly disclosed (at least those elements which can be publicly disclosed for commercial reasons). As more banks disclose their specific frameworks, best practices will be accumulated among the Alliance members and the wider banking community.

2. The **World Bank** announced the launch of a **trust fund aimed at pooling public funds to provide grants for projects to reduce carbon emissions**, including decommissioning coal-fired power plants. The Scaling Climate Action by Lowering Emissions (SCALE) fund will provide grants to developing countries as they deliver pre-agreed results in reducing greenhouse gas emissions. SCALE will be the new umbrella trust fund for the bank's results-based climate finance activities. The World Bank is in the process of capitalizing the new fund, with the aim of launching it at the COP27 climate change conference in Egypt in November.

- The SCALE fund will bring new resources to emissions reduction projects in low- and middle-income countries, help generate larger projects, generate high-quality carbon credit assets and help countries enhance access to international carbon markets. The World Bank did not identify a projected size for the new fund. The world's biggest multilateral development lender in fiscal 2022, ending on June 30, delivered over $30 billion in climate-related finance.
- In a paper provided to the World Bank's and International Monetary Fund's joint Development Committee, the bank said it has identified three areas that are particularly well suited to such results-based financing grants: natural climate solutions based on agriculture, forestry, land-use and oceans; sustainable infrastructure such as energy and transport; and fiscal and financial solutions that directly or indirectly mobilize resources for climate actions.

3. The **International Civil Aviation Organization (ICAO)** agreed to a **long-term goal for net zero aviation emissions by 2050**. The United Nations agency described the decision reached at the 193-nation ICAO's assembly as an industry milestone and a compromise by several European countries who wanted a more ambitious target. China, backed by Russia and Eritrea, questioned the feasibility of the goal, and argued developed countries must provide financial support to developing nations with faster-growing aviation markets.

- ICAO cannot impose rules, but its decisions influence national policies. Officials hope a global target set through ICAO will go beyond industry announcements to boost supplies of new sustainable aviation fuel and encourage private investment. Environmentalists criticised the non-binding nature of the agreement as toothless.
- The air industry net zero 2050 announcement comes just days after the very strong statement on behalf of G7 transport and health ministers to work with greater determination together to promote the safe and sustainable reopening of international travel.

RESEARCH

1. The **Global Impact Investing Network (GIIN)** published a **report** forecasting **$1.164 trillion of impact investing assets under management worldwide**. A milestone given that it is the first time that such investments surpass the trillion-dollar mark. The report notes that it does not qualify all green bonds as impact investments, as many are held by investors without a specific impact investment strategy, and due to holders and issuers not measuring and managing their investments' impact.

- The report highlights some of the key drivers of the impact investing market's momentum, including the rapid growth of the green bond market. Since first launching in 2008, green bonds, used to finance environmental projects and initiatives, have soared, with annual issuance reaching well over $550 billion last year, and the success of the instruments driving the development of several other sustainable finance products, including blue, transition, sustainable, and social bonds to combine for over $1 trillion of annual issuance.
- Another driver outlined in the report is the confluence of a surge in cash reserves by companies during the pandemic, with growing shareholder pressure to invest those reserves productively, coupled with stakeholder demands for companies to address issues including climate change and social inequity.

2. The **Task Force on Climate-related Financial Disclosures (TCFD)** shared a **report** highlighting an **increase in the number of companies reporting on climate-related risks and opportunities**. Among the respondents to the TCFD survey, 77% said that their reasons for implementing the TCFD recommendations included requests for climate-related information from investors, and 85% said that climate-related issues are material for their companies. Only 26% reported that TCFD reporting is required by law or regulation.

- Also, 80% of companies provided disclosures in line with at least one of the TCFD's 11 recommendations during 2021, with increases across every recommendation category. The category with the greatest level of alignment in 2021 was disclosure of climate-related risks and opportunities, provided by 61% of companies, compared with 53% in 2020 and only 42% in 2019. Reporting on the integration of climate-related risk into companies' overall risk management processes saw the greatest increase over the past 2 years, rising by 20 percentage points to 37% from 17% in 2019. 44% of companies now report on Scopes 1, 2 and 3 emissions, compared to 40% last year, and 34% in 2019.
- Overall, across all 11 categories, the report found a 14 % increase in alignment by companies over the past 2 years. Despite the increases, however, the study found significant room for continued improvement, with only 4% of companies reporting in alignment with all 11 TCFD disclosure recommendations.

3. The **World Wide Fund for Nature (WWF)** announced a **framework** to **assess central banks and supervisors' progress in integrating environmental and social issues into their oversight of the insurance sector**. The document aims to be a guide for central banks, financial supervisors and policymakers wishing to bolster their work on environmental risks, while allowing researchers to track progress in G20 nations and 20 other countries.

- The project is an extension of the Sustainable Financial Regulations and Central Bank Activities (Susreg) framework, which covers banking regulation and was released by WWF in 2021. The framework contains over 80 indicators, covering micro and prudential supervision and disclosure, as well as regulator leadership and internal organisation. WWF expects to publish its first assessment based on the criteria in June 2023.
- A key focus of the framework is the use of transition planning, both by supervised firms and supervisors themselves. One indicator of progress is that supervisors should publish a strategy outlining a science-based transition plan with associated measures for contributing to a net-zero and nature-positive financial sector.

COMMERCIAL

1. Taqa committed to **reduce 25% of greenhouse gas emissions across its asset portfolio by 2030**. The Abu Dhabi-based utility also aims to cut 33% of its carbon footprint in the UAE by the end of this decade. The move is part of a comprehensive 2030 environmental, social and governance strategy unveiled on Thursday, which the company said was a credible step towards achieving its net zero ambitions by 2050.

- The company is one of the largest listed integrated utilities in Europe, Middle East and Africa region by market value, having significant investments in power and water generation, as well as in the oil and gas sector. Taqa is a key player in the UAE expediting the country's clean energy transition. The company recently acquired a controlling stake in Masdar's renewable business, which aims to become a global clean energy company with a capacity of more than 50 gigawatts by 2030.
- Taqa plans to invest Dh40 billion in infrastructure development as it looks to add about 27 gigawatts of power capacity by the end of this decade. Under its 2030 strategy launched last year, the company plans to expand its power-generation capacity in the UAE to 30 gigawatts and its global generating capacity by 15 gigawatts. It also aims to generate more than 30% of its power from renewable sources by 2030, from 5% in 2021.

2. Lightyear launched in the UAE the **world's first long-range solar electric vehicle**. The company initially produced 500 units of its first version "Lightyear O" and most of them have been sold out. Lightyear priced the vehicle at Dh900,000 but also announced a second model, more affordable in the range of Dh120,000 to Dh140,000, to be released by 2024/2025.

- The solar-powered vehicle has a top speed of 160km per hour and a battery range of 625km. Additional daily solar range of up to 70km and annual solar yield of up to 11,000km. The car is highly eco-friendly as its interior is crafted from plant-based leather, recycled PET bottle fabrics and sustainably restructured rattan palm.
- The vehicle was launched at Sharjah Research, Technology and Innovation Park (SRTI Park) in line of a partnership aimed to help Lightyear raise funds in the region. The country's solar energy potential is key for the research and development of such models. SRTI Park also bridges the gap between private, government and universities.

3. Munich Re announced it will **no longer invest in or insure new oil & gas projects**. The move is in line with the company's aim to reach net zero emissions by 2050. The world's biggest reinsurer also pledged to reduce 25-29% of net greenhouse gas emissions of its investment portfolio by 2025, and to reduce coal-related exposure in its insurance business by 35%.

- Under Munich Re's new guidelines, the company has committed, as of April 2023, to no longer invest in or insure contract or projects exclusively covering the planning, financing, construction or operation of new oil and gas fields that have not had production before year-end 2022, new midstream oil infrastructure, or new oil-fired power plants.
- Additionally, in its liquid equities and corporates portfolio, Munich Re has committed to no longer make new direct investments in pure-play oil & gas companies as of April 2023, and by January 2025 the company will require credible 2050 net zero commitments from listed oil & gas companies with high levels of emissions.