FAB ESG WEEKLY UPDATE

04 November 2022

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

REGULATORY

1. The **European Central Bank (ECB)** set a **deadline for banks to deal with climate and environmental risks**. The move is in line with the results of ECB's thematic review, which showed that banks are still far from adequately managing climate and environmental risks. The European Central Bank defined end of 2024 as the final deadline for banks to progressively meet all the supervisory expectations it laid out in its 2020 guide on climate-related and environmental risks. The deadline will be closely monitored and, if necessary, enforcement action will be taken.

- ECB's review concluded that 85% of banks now have in place at least basic practices in most areas but they are still lacking more sophisticated methodologies and granular information on climate and environmental risks. There is also supervisory concern related to the execution capabilities of most banks, where effective implementation of their practices is still lagging behind. As a result, banks continue to significantly underestimate the breadth and magnitude of such risks, and almost all banks or 96% have blind spots in identifying them.
- In a first step, the ECB expects banks to adequately categorise climate and environmental risks and to conduct a full assessment of their impact on the banks' activities by March 2023. In a second step, and at the latest by the end of 2023, the ECB expects banks to include climate and environmental risks in their governance, strategy and risk management. In a final step, by the end of 2024 banks are expected to meet all remaining supervisory expectations on climate and environmental risks outlined in 2020, including full integration in the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing.

2. The **European Securities and Markets Authority (ESMA)** added **ESG disclosures to the regulator's list of Union Strategic Supervisory Priorities (USSPs)**. The USSP is one of ESMA's key tools to coordinate supervisory actions with national competent authorities (NCAs) or national-level regulatory authorities. The initiative is an important step in the implementation of its 2023-2028 strategy, which gives a prominent role to sustainable finance. ESMA intends to accompany the growing demand for ESG-related financial products.

- The European regulator aims to foster transparency and comprehensibility of ESG disclosures across key segments of the sustainable finance value chain such as issuers, investment managers or investment firms and, hence tackle greenwashing. ESMA is taking active steps to protect investors and facilitate investments in a credible ESG market, including gradually increasing scrutiny on ESG disclosures, while building supervisory capabilities to fully embed sustainable finance into daily supervisory work and supervisory culture.
- Earlier in 2022, ESMA released a sustainable finance roadmap with its priority action and implementation areas to address the rapidly emerging and evolving sustainable finance market. The priority areas set included addressing the risk of greenwashing, reviewing SFDR disclosure requirements, implementing requirements for the design of ESG investment products, and contributing to the development of sustainability reporting standards.

3. Hong Kong Exchanges and Clearing Limited (HKEX) launched a new **marketplace for trading of voluntary carbon credits and instruments**. The Core Climate voluntary carbon market is aimed at connecting capital with climate-related products and opportunities in Asia or international markets to support the transition towards net zero.

- According to HKEX, participants on the new platform will be able to source, hold, trade, settle and retire voluntary carbon credits that come from internationally-certified carbon projects from around the world, including carbon avoidance, reduction and removal projects. HKEX will continue to collaborate with stakeholders across the climate value chain to explore climate-related opportunities to enhance Core Climate over time.
- HKEX's marketplace launch is in line with London Stock Exchange's announcement in October of the first public markets capital raising solution for the voluntary carbon market. The move also follows the establishment of the Hong Kong International Carbon Market Council in July, a collaboration of leading corporates and financial institutions primarily focused on the development of an international carbon market, to establish Hong Kong as a premier carbon hub in Asia and beyond.

RESEARCH

1. Canada and **Germany** co-authored a **report** forecasting the **global goal of $100 billion climate finance by developed nations to be reached in 2023 and surpassed in following years**. COP26 conference's final agreement, the Glasgow Climate Pact, urged full delivery of the $100 billion goal annually through 2025, and emphasized the need for transparency on progress. Countries were also urged to at least double the collective provision of climate finance for adaptation to developing nations to $40 billion annually.

- The initial goal to mobilize $100 billion per year by 2020 to support climate action in developing countries was announced in 2009, and reaffirmed in 2015's Paris Agreement, with an agreement to extend the goal through 2025. By 2020, however, annual climate finance mobilization had only reached $83 billion, according to the OECD. Canada and Germany were tasked with implementing a plan to get climate finance back on track.
- The new Delivery Plan also includes a series of guiding principles for developed countries to consider in order to help continue to scale up climate finance, covering adaptation and grant finance, transparency, predictability and private finance mobilization.

2. Boston Consulting Group (BCG) published a survey where **only 10% of the respondent companies fully measured emissions**. Very few companies are currently capable of measuring their greenhouse gas emissions, and major gaps remain in terms of measurement accuracy. The report indicated very little progress on emissions measurement, despite the acknowledgement by companies of the significant benefits of decarbonization. BCG surveyed over 1,600 organizations with 1,000 or more employees and across a broad range of sectors and industries, and with revenues ranging from approximately $100 million to over $10 billion.

- The 2022 survey found only very minor progress has been made over the past year, with only 10% of respondents fully measuring scopes 1, 2 and 3 emissions. Emissions measurement remains a key roadblock to reductions, with the ability to measure tightly tied to decarbonization progress. The survey found that 64% of respondents who measure the full scope of emissions reported significant emissions reductions, compared to only 45% of respondents who only partially measure internal scope 1 and 2 and external scope 3 emissions.
- The report also revealed that most organizations are primarily focused on scope 1 and 2 emissions, with only 12% setting scope 3 as the priority emissions reduction area. While scope 3 emissions, which occur in value chain areas outside of companies' direct control, such as supply chain or use of products, are typically the most difficult to measure and manage, they also make up the vast majority of most companies' emissions impact, accounting for 92% of emissions overall.

3. Honeywell updated its environmental sustainability **index** with the conclusion that **over 90% of companies plan to increase their environmental sustainability budget in 2023**. Honeywell surveyed over 650 professionals directly involved in the planning, strategic development, implementation, or oversight of environmental sustainability goals and initiatives, across multiple industries and geographies. The survey focused on the professionals' sentiments on their organizations' sustainability goals in four categories including energy evolution and efficiency, emissions reduction, pollution prevention and circularity or recycling.

- The survey examined organizations' prioritization of environmental sustainability goals, with energy evolution and efficiency coming out the clear leader, with 73% ranking the category first or second on the priorities list, followed by emissions reduction at 46%, pollution prevention at 36% and circularity and recycling at 38%. Organizations' priorities were reflected in their target-setting, with 80% of respondents reporting that their organizations had set internal environmental sustainability goals for energy evolution and efficiency, but fewer than half reporting the same for circularity and recycling.
- Nevertheless, many executives lack confidence about reaching their near and mid-term sustainability goals despite widespread plans to increase spending on sustainability initiatives. Nearly three-quarters of respondents said that their organizations plan to increase budgets for the next 12 months in all four categories, and nearly all or 97% planning to increase the budget for at least one of the categories. Many of the increases are expected to be substantial, with between 40% to 50% in each category anticipating budgets to grow by more than 20%.

COMMERCIAL

1. Nasdaq committed to **[reduce 100% of scope 1 and scope 2 emissions and 50% of scope 3 emissions by 2030]**. The company also pledged to slash 95% of scope 3 emissions by 2050. Nasdaq's scope 3 emissions accounted for over three-quarters of its gross emissions footprint in 2021. All the companies climate goals have been approved by the Science Based Targets initiative (SBTi).

- In addition to its emissions reduction goals, Nasdaq also committed to annually source 100% renewable energy through 2030, and to ensure that 70% of its suppliers by spend, covering purchased goods and services and capital goods, will set science-based targets by 2027. Nasdaq has increased its renewable energy use across its operations to 100%, up from 82% in 2020.
- Nasdaq is also a participant in key associations that are essential to continue the effort on consistent and transparent ESG reporting. Our association memberships include UN Principles for Responsible Investment (UNPRI), UN Global Compact, the Sustainable Stock Exchanges Initiative, the Task Force for Nature-related Financial Disclosures (TNFD) Forum, and the World Federation of Exchanges' Sustainability Working Group.

2. The **United Arab Emirates** and the **United States of America** signed a **[strategic partnership to invest $100 billion in renewable energy and add 100 gigawatts of clean energy globally by 2035]**. Under the initiative, the UAE and the U.S. will provide technical, project management and funding assistance for commercially and environmentally sustainable energy projects in other countries.

- The partnership aims to assemble and stimulate private and public sector funding and support for clean energy innovation, carbon and methane management, advanced reactors including small modular reactors, and industrial and transport decarbonisation.
- The initiative will also focus on investing in responsible and resilient supply chains, promoting investment in green mining as well as production of minerals and materials vital to the energy transition. Fossil fuel emissions abatement technologies will also be a priority. Both countries will focus on developing new technologies for carbon capture, utilisation and storage, in addition to measuring and reducing greenhouse gas emissions across the hydrocarbon value chain.

3. Singapore unveiled a **[national hydrogen strategy designed to convert half of the country's power supply to hydrogen by 2050]**. Singapore also plans to submit more ambitious emissions reduction goals at the upcoming COP27 to strengthen the commitment to achieve net zero by 2050. Other initiatives announced included raising the carbon tax and new public sector commitments. The country has limited options to deploy renewable energy at scale, lacking land for substantial solar or wind deployment or rivers for hydroelectric power generation.

- Singapore revealed new 2030 emissions reduction targets that will serve as Singapore's updated Nationally Determined Contribution (NDC). The country had previously set a goal to reach peak emissions around 2030, at 65 million tonnes of carbon dioxide equivalent. The new goal means Singapore will aim to hit peak emissions earlier, and to reach around 60 million tonnes of carbon dioxide equivalent in 2030.
- Singapore's new hydrogen strategy includes exploring key hydrogen technologies and carrier pathways to understand the potential for large scale deployment, supporting hydrogen research and development, working with industry and international partners to facilitate global trade in low-carbon hydrogen and to establish supply chains, studying land and infrastructure requirements needed to deploy low-carbon hydrogen in the longer-term, and preparing the workforce for the hydrogen transition.