FAB ESG WEEKLY UPDATE

25 November 2022

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

REGULATORY

1. The **European Parliament** approved **landmark rules to boost gender equality on corporate boards**. By July 2026, all large publicly listed companies in the European Union (EU) will have to take measures to increase women's presence at board level. The adoption of the so-called Women on Boards Directive comes 10 years after the proposal was first made. The move aims to introduce transparent recruitment procedures in companies, so that at least 40% of non-executive director posts or 33% of all director posts are occupied by the under-represented sex by the end of June 2026.

- Large-sized listed companies will have to provide information about the gender representation on their boards to the competent authorities once a year and, if the objectives have not been met, how they plan to attain them. This information will be published on the company's website in an easily accessible manner. Small and medium-sized enterprises with fewer than 250 employees are excluded from the scope of the directive.
- In 2021, only 30.6% of board members in the EU's largest publicly listed companies were women, with significant differences among member states, from 45.3% in France to 8.5% in Cyprus. Even with increases in representation on boards, in 2022 fewer than 1 in 10 of the largest listed companies in EU countries have a woman chair or CEO.

2. The **European Securities and Markets Authority (ESMA)** proposed **rules on the use of ESG or sustainability-related terms in the names of investment funds**. The EU's financial markets regulator and supervisor is seeking input on draft guidelines on the use in funds' names of ESG or sustainability-related terms. The initiative is aimed at protecting investors from greenwashing risk, and to ensure that fund names that include terms such as ESG or sustainability, fairly reflect funds' actual investment policies and objectives.

- The main elements of the consultation paper on draft guidelines for the use of ESG or sustainability-related terms in funds' names on which ESMA is seeking stakeholders' feedback are: a quantitative threshold of 80% for the use of ESG related words; an additional threshold of 50% for the use of sustainable or any sustainability-related term only, as part of the 80% threshold; application of minimum safeguards to all investments for funds using such terms (exclusion criteria); and additional considerations for specific types of funds (index and impact funds).
- ESMA proposed that the draft guidelines would become applicable from 3 months after the publication of their translation on the ESMA website. Furthermore, a transitional period of 6 months is suggested for those funds launched prior the application date, in order to comply with the Guidelines. ESMA will consider the feedback it receives to this consultation after it closes on 20 February 2023 with a view to finalising the guidance afterwards.

3. The **Federal Council of Switzerland** adopted a **law requiring mandatory climate reporting for large Swiss companies**. The new ordinance will be brought into force as of 1st of January 2024. It recognizes large companies' transparency on the climate impact of their activities as a key aspect for the markets to function well and for climate sustainability in the financial sector. The Federal Council aims to address Switzerland's lack of clear and comparable climate-related disclosures.

- Public companies, banks and insurance companies with 500 or more employees and at least CHF 20 million in total assets or more than CHF 40 million in turnover are obliged to report publicly on climate issues. Public reporting involves disclosures not only on the financial risk that a company incurs as a result of climate-related activities, but also on the impact of the company's business activities on the climate. In addition, the company has to describe the reduction targets it has set for its direct and indirect greenhouse gas emissions, as well as how it plans to implement them.
- The draft ordinance was widely supported by stakeholders during the consultation that ran from March to July 2022. In order to give the companies concerned sufficient time for implementation, the Federal Council has decided to bring the ordinance into force as of January 2024.

RESEARCH

1. Zurich Workplace Solutions and **YouGov** published a **survey** concluding that the **majority of employees in UAE plan to change jobs in 2023**. Around 76% of employees in the UAE have either changed jobs in the past year or are planning to do so in the next 12 months, as they seek higher salaries and better benefits. The survey was conducted between September 29 and October 5, polled 2021 respondents out of which 1,006 are employers and 1015 are employees.

- Also, 55% of respondents said higher salary packages motivated them to seek a new job, while 44% wanted better employee benefits and 43% sought professional development and skills growth. About 52% of employers believe they are facing a talent shortage. However, 89% of employees said they would switch jobs for the same pay if better benefits were on offer. While 82% of companies in the UAE believe they offer ample upskilling opportunities, 365 of employees say professional development is lacking in their workplace and 53 % cite unhappiness with growth opportunities as a reason to change jobs.
- In October, a separate study by jobs portal Bayt.com and YouGov found that 86% of working professionals in the UAE have a positive career outlook for 2023. The UAE jobs market has made a strong recovery from the coronavirus-induced slowdown, helped by the government's fiscal and monetary measures.

2. Green Central Banking shared the latest update of its green central banking scorecard with **the U.S. Federal Reserve lagging further behind its peers on environmental action**. The report found that the U.S. central bank has still taken no action at all to consider climate change when conducting monetary policy, and its progress on disclosure and supervision is having only a moderate impact. The Federal Reserve has fallen from 14th to 16th place in the latest edition of the scorecard. It is the worst-performing central bank in the G7 and comes in two places behind the Bank of Russia.

- The Bank of France ranked 1st among the 20 central banks scored on environmental action, followed by the Bank of Italy and the Deutsche Bundesbank, in that order. The Central Bank of Saudi Arabia held the last position, while Argentina remained in the 19th place and South Africa was 18th.
- The European Central Bank (ECB) is a standout performer, boosted by several measures to integrate climate considerations into its market operations and ranking 4th in the scorecard. The People's Bank of China (PBoC) and Bank of Japan (BoJ) are both praised for their ongoing green lending schemes but marked down for supporting fossil fuel sectors and ranked 7th and 8th, respectively.

3. BloombergNEF and **Norton Rose Fulbright** co-issued a global net-zero survey where **companies prioritized the reduction of scope 1 and 2 emissions with a strong focus on the procurement of renewable energy**. The publication forecasted some years before the international transfer of mitigation outcomes under Article 6 of the Paris Agreement takes off at scale and is accessible to the private sector. It also highlighted that voluntary carbon standards remain the preferred route to market for purchasing carbon credits for many organizations.

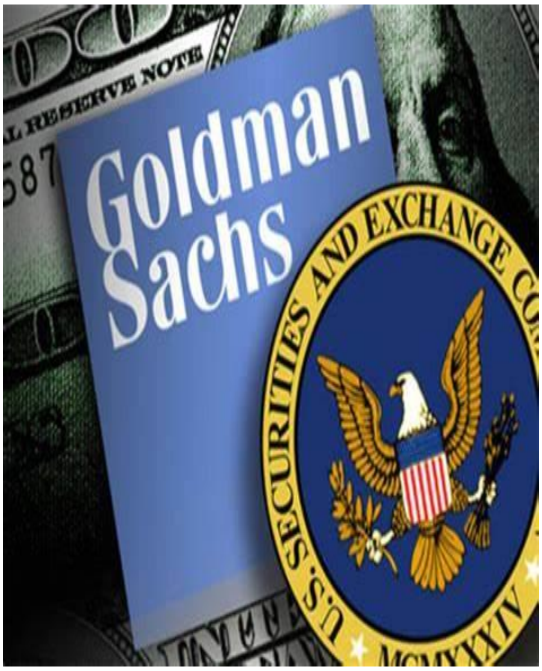
- The survey respondents showed lower-than-expected interest in nature-based credits, but a relatively high proportion indicated that co-benefits would influence their choice of carbon credits. Purchasers have a preference to buy directly from carbon project developers, with purchases from brokers as a second choice. Purchasers of carbon credits can be hesitant to enter into long-term offtake agreements due to risks relating to changes of law and policy. There is nevertheless strong interest in direct investments in carbon projects.
- A two-tiered market may emerge over the next few years, with voluntary carbon credits that have been authorised for international transfer and subject to a corresponding adjustment under Article 6 of the Paris Agreement considered to be higher quality than carbon credits that have not.

COMMERCIAL

1. Masdar announced the company's entry into Turkmenistan through the development of a renewable energy project. The 100 megawatt solar photo voltaic (PV) agreement was reached under a joint development with Turkmenenergo State Power Corporation of the Ministry of Energy of Turkmenistan. Turkmenenergo is the state authority responsible for the generation, transmission, and distribution of electricity in Turkmenistan. The initiative marks Masdar's first project in Turkmenistan.

- The agreement builds on a Memorandum of Understanding (MoU) signed between Masdar and the Turkmenistan government in October 2021 to explore the development of and investment in solar and wind power projects in Turkmenistan on a public-private partnership (PPP) basis.
- Turkmenistan is looking to modernize its energy infrastructure and reduce its dependence on hydrocarbons. While the nation has one of the largest gas reserves in the world, it also has multiple natural advantages for developing renewable energy resources, with abundant annual sunlight levels, and strong wind currents.

2. Goldman Sachs was **charged by the U.S. Securities and Exchange Commission (SEC) for not following ESG investment policies**. Goldman Sachs Asset Management agreed to pay a $4 million penalty to settle the charges, without admitting or denying the SEC findings. SEC's action reinforces that investment advisers must develop and adhere to their policies and procedures over their investment processes, including ESG research, to ensure investors receive the advisory services they would expect to receive from an ESG investment.



- The charges relate to policy and procedure failures between 2017 and 2020 in three ESG-themed GSAM portfolios, the Goldman Sachs ESG Emerging Markets Equity Fund, Goldman Sachs International Equity ESG Fund and a US Equity ESG separately-managed account strategy. According to an SEC investigation into the funds, the failures included not having written policies in place for ESG research, and then failing to follow the policies once they were established.
- The charges come as regulators around the world, are ramping efforts to fight greenwashing, in which the claims made by asset managers regarding the ESG or sustainability criteria used in a fund or firm's investment process is overstated or misleading. Earlier this year, the SEC announced that it had charged BNY Mellon Investment Adviser for misstatements about the ESG considerations used in some of its mutual funds, and Deutsche Bank's investment arm DWS' CEO resigned a day after police raided the firms' Frankfurt offices as part of an investigation into greenwashing allegations at the firm.

3. Canada announced an **investment of C$1.6 billion in the first national climate adaptation strategy**. The initiative marks the country's first ever national climate adaptations strategy, a federal commitment to protect communities against the increasing impacts of global warming, while building a stronger economy. Canada is seeing a rise in extreme weather caused by climate change, with average annual losses from disasters forecast to reach C$15.4 billion by 2030, according to the government.

- The goal of the adaptation strategy is to help reduce those losses with federal policy and investment. Research shows that every dollar spent on adaptation measures saves up to C$15 in costs, including both direct and indirect economy-wide benefits, the government mentioned. Implementing new flooding and wildfire standards for new construction, for example, could save Canada an estimated C$4.7 billion a year, while urban forests in the city of Toronto have lowered cooling costs, improved air quality, and reduced strains on stormwater infrastructure.
- Canada is the world's fourth-largest oil producer and the second-highest carbon emitter among the Group of 20 major economies on a per capita basis, according to research from the Emissions Database for Global Atmospheric Research (EDGAR).