



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



## REGULATORY

1. The **European Union Council** gave the **final green light to the corporate sustainability reporting directive (CSRD)**. Companies will soon be required to publish detailed information on sustainability matters, increasing their accountability, preventing divergent sustainability standards, and easing the transition to a sustainable economy. In practical terms, companies will have to report on how their business model affects their sustainability, and on how external sustainability factors such as climate change or human right issues influence their activities.

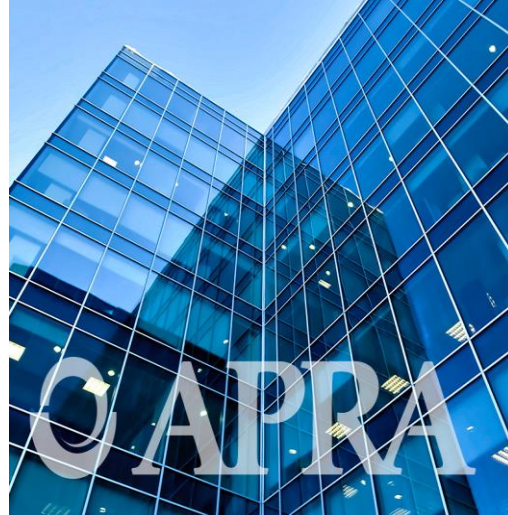


- The CSRD introduces more detailed reporting requirements and ensures that large companies and listed SMEs are required to report on sustainability matters such as environmental rights, social rights, human rights and governance factors. The new sustainability reporting rules will apply to all large companies and to all companies listed on regulated markets except listed micro undertakings. These companies are also responsible for assessing the information applicable to their subsidiaries.
- For non-European companies, the requirement to provide a sustainability report applies to all companies generating a net turnover of EUR 150 million in the EU and which have at least one subsidiary or branch in the EU exceeding certain thresholds. These companies must provide a report on their environmental, social and governance (ESG) impacts, as defined in this directive.



2. The **Australian Prudential Regulation Authority (APRA)** announced the aggregated findings of its **first-ever Climate Vulnerability Assessment (CVA) of Australia's five largest banks**. The Australian financial services regulator assessed ANZ, Commonwealth Bank, Macquarie Bank, National Australia Bank and Westpac by modelling the estimated future financial impact of climate change on their businesses, and their potential responses to physical and transition climate risks.

- The participating banks based their analyses on two scenarios developed by the Network for Greening the Financial System (NGFS), which reflect a range of possible future climate policies, physical risks, including heat, drought and floods, and short and long-term risks stemming from the transition to a greener economy such as increasing carbon prices. The scenarios included a Delayed Transition Scenario with delayed policy action on climate change, followed by a rapid reduction in global emissions after 2030, and a Current Policies Scenario representing a future with continued increase in global emissions beyond 2050.
- The study found that while the climate risks under the scenarios studied were unlikely to lead to severely impact the banking system, banks could experience increasing losses from their lending portfolios from physical and transition risks in the medium- to long-term.



3. **Singapore Exchange (SGX)** launched a new **initiative to help investors identify green, social and sustainability fixed income securities that meet recognised standards**. The move comes at a time when sustainable bonds captured a significant portion of the fixed income market, with global issuance reaching a record 16% of bond volumes last quarter and remaining more resilient than the overall market.

- The SGX Sustainable Fixed Income initiative allows investors to more easily identify investments that meet certain criteria at issuance. These criteria are: Alignment with recognised green, social or sustainability standards for fixed income securities. The list of recognised standards is set out here; Confirmation by an external reviewer that the fixed income securities are aligned to the recognised standards. The reviewer must be a reputable firm with an established track record of providing similar reviews; Publicly published reports setting out the fixed income securities' alignment with the recognised standards.
- SGX estimates that 200 SGX-listed fixed income securities already meet the SGX Sustainable Fixed Income criteria. To maintain such recognition, issuers will be required to publish post-issuance reports as required under the standards, along with any material information that may affect the alignment with these standards.



## RESEARCH

1. **Manifest Climate** published a **climate disclosure benchmark review** with the conclusion that **only 49% of companies' disclosures were of use to market participants in assessing and pricing climate risks**. The review of over 3,000 organizations in 65 countries during the period 2018 to 2021 found that 66% are somewhat aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), up from 45% in 2018.





- Also, 28% of 2021 disclosures were aligned with at least one TCFD Governance recommendation, 55% with a Strategy recommendation, 26% with a Risk Management recommendation, and 27% with a Metrics and Targets recommendation. The most improved pillar was Governance from a 7% alignment in 2018 to 28% in 2021. The least improved pillar was Risk Management from 22% in 2018 to 37% in 2021.
- A deeper review of over 100 companies found that only 49% include decision-useful information. Although climate-related financial disclosure is increasing, it is only decision-useful about half the time. None of the organizations reviewed cover all elements required for disclosures to be decision-useful across the TCFD recommendations. Decision-useful information on Metrics and Targets was present in just 41% of financial services organizations' disclosures.



**2. Bloomberg NEF** released the [electric vehicle outlook 2022](#) highlighting that **EVs of all types are already displacing 1.5 million barrels per day of oil usage**. The annual publication flags EVs as currently meeting the equivalent to about 3% of total road fuel demand. There are now almost 20 million passenger EVs on the road, 1.3 million commercial EVs, including buses, delivery vans and trucks, and over 280 million electric mopeds, scooters, motorcycles and three-wheelers. By 2025 there will be 77 million passenger EVs on the road, representing 6% of the fleet.

- Passenger EV sales are set to continue rising sharply in the years ahead as policy pressure continues to increase, more models hit the market, and consumer interest takes off. Plug-in vehicle sales rise from 6.6 million in 2021 to 20.6 million in 2025. This is higher than last year's outlook, due primarily to higher adoption in China. By 2025, plug-in vehicles represent 23% of new passenger vehicle sales globally, up from just under 10% in 2021. Three quarters of those are full battery electric vehicles.
- The EV share of sales in some markets is much higher, with EVs reaching 39% of sales in 2025 in China and in Europe. Some of the major European car markets go even faster, with Germany, the UK and France all between 40-50% in 2025. China and Europe account for almost 80% of EV sales in 2025, with adoption running much slower elsewhere. The U.S. market starts to pick up from 2023 but still only represents 15% of the global EV market in 2025.



**3. The London School of Economics and Political Science** shared a [supervisory playbook for prudential authorities on net zero transition plans](#). A report targeting how central banks and supervisors can use prudential transition plans as a dynamic instrument to assess and address climate and environmental risks. It suggests while supervisors are currently hindered by a lack of suitable data and overreliance on backward-looking risk management approaches, transition plans can be used alongside scenario exercises and stress testing to help bring distant financial risks into the present.

- The report distinguishes prudential plans from market-led net-zero transition plans championed by initiatives like the Glasgow Financial Alliance for Net Zero, and mandatory corporate disclosure plans such as those being proposed by the U.S. Securities and Exchange Commission. Prudential plans would focus on the risk of misalignment with net-zero targets and would be a regulatory requirement introduced specifically with an eye on micro and macroprudential concerns related to transition risks and the net-zero transition.
- By assessing the quality of institutions' plans and alignment with the targets within them those plans, supervisors could identify climate and environmental risks both in the short and long term. Plans could be used to assess alignment with the transition of the financial sector as a whole and provide the starting point for a discussion of appropriate macroprudential tools to address the relevant systemic risks that may arise.

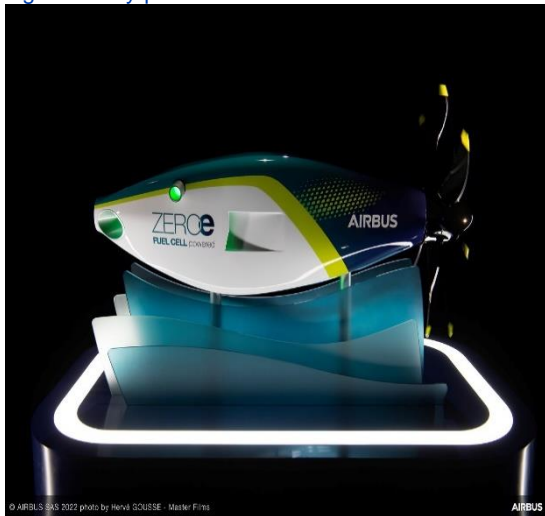


## COMMERCIAL

**1. Airbus** unveiled plans for a [hydrogen-powered zero-emission engine](#). The propulsion system is being considered as one of the potential solutions to equip its zero-emission aircraft that will enter service by 2035.



Airbus identified hydrogen as one of the most promising alternatives to power a zero-emission aircraft, because it emits no carbon dioxide when generated from renewable energy, with water being its most significant by-products.



- There are two ways hydrogen can be used as a power source for aircraft propulsion. First via hydrogen combustion in a gas turbine, second, by using fuel cells to convert hydrogen into electricity in order to power a propeller engine. A hydrogen gas turbine can also be coupled with fuel cells instead of batteries in a hybrid-electric architecture. Hydrogen fuel cells, especially when stacked together, increase their power output allowing scalability.
- Airbus has been exploring the possibilities of fuel cell propulsion systems for aviation for some time. In October 2020, Airbus created Aerostack, a joint venture with ElringKlinger, a company with over 20 years of experience as both a fuel cell systems and component supplier. In December 2020, Airbus presented its pod-concept which included six removable fuel cell propeller propulsion systems.

**2. Deutsche Post DHL Group** introduced a [sustainability-linked finance framework to enable the issuance of sustainability-linked bonds](#). An initiative to establish a direct relation between the company's sustainability strategy and its financing strategy.

- Sustainability-linked bonds issued by DHL under the new framework would have coupon payments tied to the company's performance against its emissions reduction goals, specifically its commitments to reduce absolute scopes 1 and 2 emissions by 42%, and 25% scope 3 emissions by 2030, from a 2021 base year. If the targets are missed, DHL would be required to pay higher interest rates to investors. The company's sustainability performance targets were validated and approved by the Science Based Targets initiative (SBTi).
- Sustainability-linked bonds are designed to incentivize issuers to deliver on sustainability goals with terms tied to the performance towards the targets. These instruments are the fastest growing segment of the sustainable finance market. The sustainability-linked bond market surged 10 times in 2021, reaching \$90 billion of issuance, according to Moody's.



**3. Amazon Web Services** announced a [pledge to be water positive by 2030](#). Amazon's cloud provider service will be returning more water to communities than it uses in its direct operations and supporting water replenishment projects across India, the UK and the US. The company also shared its 2021 global water use efficiency metric of 0.25 litres of water per kilowatt-hour, demonstrating industry leadership in water efficiency among cloud providers.



- As part of this new commitment Amazon Web Services will report annually on its water use efficiency metric, new water reuse and recycling efforts, new activities to reduce water consumption in its facilities, and advancements in new and existing replenishment projects. AWS has been driving four key strategies in pursuit of becoming water+ by 2030: improving water efficiency, using sustainable water sources, returning water for community reuse, and supporting water replenishment projects.
- AWS further improves operational efficiency by eliminating cooling water use in many of its facilities for most of the year, instead relying on outside air. For example, in Ireland and Sweden, the company uses no water to cool its data centers for 95% of the year. AWS also invests in on-site water-treatment systems that allow it to reuse water multiple times, minimizing water consumed for cooling. AWS uses sustainable water sources, such as recycled water and rainwater harvesting, wherever possible.