FAB ESG WEEKLY UPDATE

06 January 2023

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

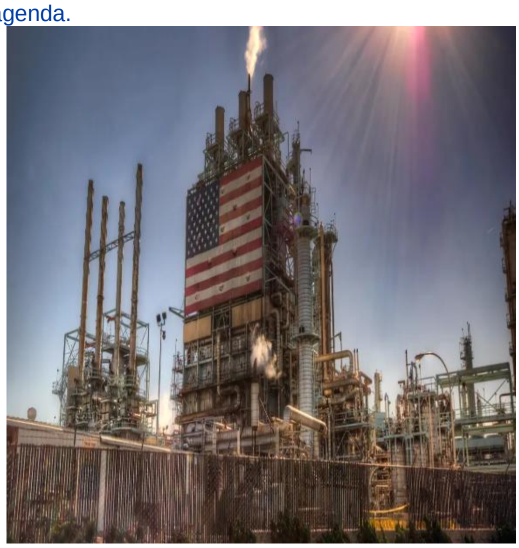
REGULATORY

1. The **European Securities and Markets Authority (ESMA)** noticed that **less than 1% of sustainable funds meet the European Union (EU)'s Ecolabel criteria**. ESMA's evaluation of 3,000 ESG UCIT funds with Article 8 or 9 labels found that only 16 products met the portfolio greenness threshold. ESMA concluded that just 26 sustainability-orientated funds have a portfolio greenness ratio above the proposed Ecolabel threshold. The securities regulator also highlighted that the current limited availability of taxonomy-related information constitutes a major challenge.

- ESMA's assessment tested thousands of funds representing more than €1 trillion in assets against three key criteria of the proposed Ecolabel, including the minimum portfolio greenness threshold of 50 percent alignment with the EU's green taxonomy. The regulator also looked at how the funds performed against the Ecolabel's exclusionary criteria around fossil fuel limits, pesticides, tobacco and controversial weapons. Here the funds performed better, with 1,472 or 48% of the sample passing all four exclusionary criteria.
- Undertakings for Collective Investment in Transferable Securities (UCITS) are a category of investment funds designed to both streamline and safeguard investment transactions. UCITS are usually structured like traditional mutual funds, exchange traded funds, or a money market fund. The Ecolabel is an EU-wide designation awarded to green products and services.

2. The **State of Kentucky** issued a **divestment warning to several financial institutions over a boycott on energy companies**. Kentucky State Treasurer Allison Ball announced that, after a review of their energy and climate policies, listed banks and asset managers were found to be in an active boycott of fossil fuel companies. As a response, the Kentucky state government could begin divesting from the firms if they didn't reverse their boycotts. The initiative marks the latest move in an anti-ESG push by politicians in several Republican-leaning states, which recently saw 19 Attorneys General sign a letter accusing BlackRock of acting with mixed motives in its pursuit of an anti-fossil fuel and pro-net zero agenda.

- The announcement follows the passage of a bill in the Kentucky General Assembly last year requiring the annual publication of a list of financial companies engaged in energy company boycotts, defined as refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company, based on the company's engagement with fossil fuel exploration, production, utilization, transport and sale, and its failure to commit to environmental targets beyond those required by law.
- The full list of financial institutions subject to potential divestment by the Kentucky State due to boycotting energy companies includes BlackRock, BNP Paribas, Citigroup, Climate First Bank, Danske Bank, HSBC, JPMorgan Chase, Nordea Bank, Schroders, Svenska Handelsbanken, and Swedbank.



3. The **Financial Stability Board (FSB)** stated that **banks need financial prod to tackle climate change**. In an interview to the Financial Times, the FSB secretary-general Dietrich Domanski added that without measures such as a carbon tax, lenders will resist reforms. The FSB's key climate change road map, published in the middle of 2022, called for regulators to seek better climate-related data from the financial sector, to conduct analysis of financial institutions' vulnerabilities to climate change, and to monitor those risks.

- The outgoing secretary-general of the FSB, which is responsible for studying global risks to financial stability and devising policies to mitigate them, said climate change was one of the topics that dominated this year's meetings of finance ministers, regulators and central bankers in Basel.
- Domanski also took aim at supervisors' increasing use of stress test exercises to police climate risk. He said a market-based solution was likely to prove more effective than spending time on detailed and very expensive planning exercises into the cost of climate change.

RESEARCH

1. WTW published a **[report](#)** concluding that **ESG measures in executive incentive plans are gaining momentum**. WTW examined the disclosures of 885 of the largest public companies in the US, Europe, UK and Canada, across multiple sectors, and with median annual revenue of $10 billion. More than three quarters of companies utilized at least one ESG metric in 2022, whereas the use of environmental and diversity & inclusion metrics roughly doubled in 2022. Europe had the highest proportion of companies utilizing ESG metrics for incentive plans at 91% and the US the lowest with 69%. By sector, ESG incentives were greatest in the utilities and energy, at 93% and 92%, respectively, and least common in the IT with 59%.

- The report found that 77% of the companies surveyed used at least one ESG metric in their incentive plans, up from 68% in 2021. ESG metrics are most commonly used in short-term incentive (STI) plans, with 75% of companies using at least one metric for these plans, up from 66% last year. ESG integration into long-term incentive (LTI) plans is growing rapidly, having reached 21% in 2022, compared to 13% in 2021.
- Environment and diversity & inclusion saw the most significant increase last year, with 40% of companies now including at least one environmental metric in executive compensation plans in 2022, up from 22% in 2021, and 45% using a diversity & inclusion metric, up from 22%. Overall, 72% of companies used at least one social metric, while 45% used at least one governance metric, and 40% used environmental metrics.

2. The **British Society of Motor Manufacturers and Traders** shared a **[report](#)** flagging that **new electric cars sales overtook diesel models in the U.K. for the first time in 2022**. Overall new car sales in the region fell to the lowest level since 1992 due to a global supply chain disruption which ranged from continued shortages of semiconductors to Covid-related shutdowns of Chinese plants. Petrol cars remained the most popular option for British buyers last year, accounting for more than half of sales.

- Electric car sales rose by more than a quarter in 2022, accounting for 16.6% of sales, while diesel demand fell to less than 10%. Battery electric is now the second most popular power-train among UK new car buyers, supplanting diesel for the very first time. Diesel once accounted for more than half of U.K.'s car sales but has fallen out of favour following the 2015 Volkswagen emissions scandal and the introduction of rules in cities such as London that specifically penalise diesel vehicles.
- New rules come into effect next year in the U.K., stipulating that a percentage of each carmakers' sales must consist of zero-emission vehicles. The levels are expected to begin at 22% in 2024 and rise to 100% by 2030. But regulations that set out exact definitions for the targets such as whether hybrid models count, and whether carmakers without enough electric models on sale can team up with others to hit the targets, have been delayed until at least the summer.

3. LeasePlan issued a **[report](#)** pointing out that **the cost of owning and running an electric car is now lower than petrol or diesel in almost every country in Europe**. The claim is justified with the rise of fuel prices during last year. LeasePlan, which has 1.9 million vehicles used by corporate fleets, collated running costs and lease prices for its vehicles, comparing them by segment and across 22 countries.

- The report found the costs of a standard family car, such as a Ford Kuga or an electric Skoda Enyaq, were equal or lower in 19 out of 22 European countries, including the UK, France, Germany and the Netherlands. Only in Poland, Italy and the Czech Republic was the model notably more expensive when electric. Among smaller cars, such as the Renault Megane or the Kia Nero, the UK purchase and running costs were €919 a month for electric, €941 for diesel and €954 for petrol, it found. The same cars in France were only €735 a month for electric, compared with €904 for diesel and €868 for petrol.

- While petrol and diesel refuelling costs remained similar across most areas, the costs of recharging an electric car varied wildly. Typically, charging at home overnight for several hours was a cheaper alternative to using public fast-chargers, which attract a premium for their higher speed.

COMMERCIAL

1. ADNOC announced the **allocation of $15 billion to low-carbon solutions**. The amount was earmarked for landmark decarbonization projects by 2030 including carbon capture, electrification, new carbon dioxide absorption technology, enhanced investments in hydrogen and renewables. ADNOC will apply a rigorous commercial and sustainability assessment to ensure that each project delivers lasting tangible impact.

- The move is a key enabler of ADNOC's ambition to reach net zero by 2050 and its goal to reduce 25% of the company's carbon intensity by 2030. It builds on the company's strong track record as a leading lower-carbon intensity energy producer, which includes its use of zero carbon grid power, a commitment to zero flaring as part of routine operations and deployment of the region's first carbon capture project at-scale.
- Since January 2022, ADNOC has received 100% of its grid power supply from Emirates Water and Electricity Company's nuclear and solar energy sources, making it the first major company in the industry to decarbonize its power at scale through a clean power agreement of this kind. ADNOC also concluded a $3.8 billion deal to build a first-of-its-kind, sub-sea transmission network in the MENA region, connecting ADNOC's offshore operations to the onshore power network, with the potential to reduce ADNOC's offshore carbon footprint by up to 50%.

2. Hong Kong achieved the **completion of the largest ESG bond issuance in Asia**. The issuance raised $5.75 billion in a triple-currency offering, with bonds denominated in US dollars, Euros and Renminbi. The deal drew significant demand, with the offering more than 6x oversubscribed, attracting more than $36 billion in orders. Following particularly strong demand for the RMB denominated bonds, the Renminbi tranches were doubled in size to RMB10 billion.

- Prior to this offering, Hong Kong had issued approximately $10 in green bonds, beginning with its inaugural $1 billion offering in 2019, followed by additional institutional issuances in 2021 and its first retail green bond in 2022. Proceeds from the prior offerings were allocated to projects in areas including Water and Wastewater Management, Green Buildings, and Waste Management and Resource Recovery, as well as Energy Efficiency and Conservation.
- Issuances of green, social, sustainability and sustainability-linked (GSSS) bonds have grown to a record share of global bond volumes, reaching 16% of the overall market in Q3 of 2022. While bond market volatility has pressured GSSS volumes in recent quarters, issuances continue to outpace those of the broader bond market.

3. Singapore appointed its **first-ever government chief sustainability officer**. Lim Tuang Liang will be responsible for driving the government's sustainability efforts with effect from 1st of January 2023. The newly created role is aimed at working with public sector agencies to develop and coordinate strategies, while spearheading partnerships with businesses, civil society partners and individuals on advancing the sustainability agenda.

- The appointment is in line with the Singapore green plan 2030, the government's sustainable transition strategy aimed at strengthening Singapore's commitment to the United Nation's 2030 Sustainable Development Agenda. Targets under the plan include quadrupling solar energy deployment by 2025, reducing waste to landfill 30% by 2030, reducing water consumption, greening buildings, and requiring cleaner energy cars.
- Singapore has also committed to reaching peak emissions around 2030 and has recently announced an acceleration of its ambition to reach net zero emissions by around mid-century, from its prior commitment of halving emissions by 2050 and achieving net zero as soon as viable in the second half of the century.