FAB ESG WEEKLY UPDATE

03 February 2023

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

REGULATORY

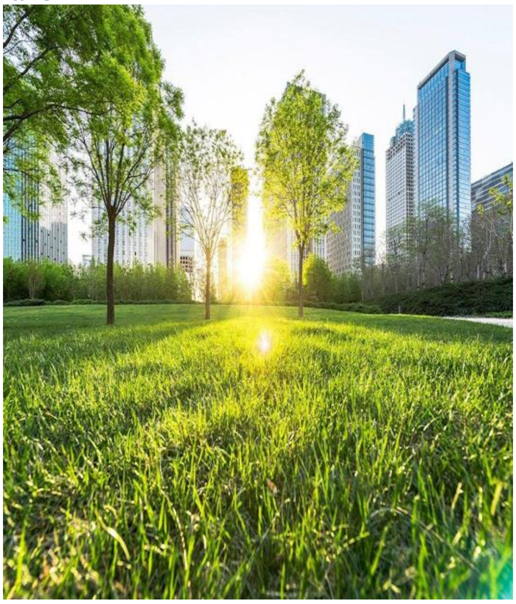
1. The **European Securities and Markets Authority (ESMA)** issued its first **opinion on the European Sustainability Reporting Standards (ESRS) draft** developed by the European Financial Reporting Advisory Group (EFRAG). ESMA stated that the ESRS broadly meets the objective of being conducive to investor protection and of not undermining financial stability. The Commission will now consider ESMA's opinion alongside opinions submitted by the EBA, EIOPA and other public bodies and adopt ESRS into delegated acts by 30 June 2023.

European Securities and Markets Authority

- To upgrade the ESRS from broadly capable to fully capable, ESMA suggested the European Commission to address issues related to possible improvements of the level of consistency vis-à-vis the requirements of the Corporate Sustainability Reporting Directive (CSRD) and other pieces of EU legislation, important clarifications of definitions and terminology and further guidance on the materiality assessment process. The CSRD will be applied from 2024 for large public-interest companies with over 500 employees, companies with more than 250 employees or €40 million in revenue in 2025, and listed SMEs in 2026.
- Other European Supervisory Authorities (ESAs) such as the European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority (EIOPA) also published an opinion on the ESRS draft. EBA acknowledges that, overall, the draft ESRS are consistent with international standards and any other relevant EU Regulation. EIOPA flagged that guidance is needed to ensure reporting of relevant material sustainability impacts across the value chain of financial institutions in a risk-based manner.

2. The **European Commission** launched the **[green deal industrial plan to put Europe's net-zero industry in the lead of clean tech production]**. The move is a response to the U.S. inflation reduction act which will provide $369 billion of subsidies for electric vehicles and other green products. The deal is based on four pillars: a predictable and simplified regulatory environment; speeding up access to finance; enhancing skills; and open trade for resilient supply chains.

- The Commission will propose a net-zero industry act to identify goals for net-zero industrial capacity and provide a regulatory framework suited for its quick deployment, ensuring simplified and fast-track permitting, promoting European strategic projects, and developing standards to support the scale-up of technologies across the single market. The framework will be complemented by the critical raw materials act, to ensure sufficient access to those materials, like rare earths, that are vital for manufacturing key technologies, and the reform of the electricity market design, to make consumers benefit from the lower costs of renewables.
- The International Energy Agency (IEA) forecasts the global market for mass-produced clean energy to triple and reach $650 billion annually by 2030, while related manufacturing jobs are expected to grow to more than double of the current numbers. To develop the skills for a people centred green transition the Commission will propose to establish net-zero industry academies to roll out up-skilling and re-skilling programmes in strategic industries.



3. The **U.K. Financial Reporting Council (FRC)** updated its **ESG statement of intent to boost ESG key disclosures**. The publication sets out areas where there remain ongoing challenges in ESG reporting, while suggesting actions for preparers to produce decision relevant information. It also discloses the FRC's plans to engage with the market to ensure that stakeholder needs are being met as demand for ESG information continues to evolve.

- The update also includes guidance and examples of best practice but also the FRC's continued commitment to working internationally, supporting efforts towards a common international framework for sustainability disclosures, including key projects underway by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) to develop international ethical, independence and assurance standards.
- The FRC identified 5 key areas of focus over the coming year: to develop guidance and best practice on the distribution and consumption of ESG data; to examine companies' materiality processes to consider how enhancements could be made to ensure that companies provide stakeholders with relevant and decision-useful information; to also update guidance on climate-related risks for financial reporting preparers; to introduce requirements for actuaries to take account of climate and other ESG related risks in their work; and to revise the corporate governance code to recognize growing importance of ESG reporting.

RESEARCH

1. The **U.S. Federal Reserve** published a **report** reviewing the **climate action plans of 30 global systemically important banks (GSIBs) and the progress made toward achieving them**. The U.S. Central bank focused on banks within North America, Europe, and Asia, analysing their public disclosures to understand the adaptation efforts, mitigation practices and challenges in achieving the climate-related goals.

- Regarding adaptation, the Fed found that 25 banks have a dedicated board or executive-level group focused on addressing climate risks, and 26 have a group focused on ESG and sustainable finance. However, banks have generally been quicker to assess the impact of climate change on their own activities rather than the impact of their activities on climate. Only 18 GSIBs have signed on to the UN's Principles for Responsible Banking, while 24 have joined the Net Zero Banking Alliance (NZBA). Additionally, 24 banks have begun identifying various high transition risk sectors.
- As for mitigation, out of 30 GSIBs, 29 are measuring scope 1 and 2 emissions, but only eight are doing any scope 3 measurements. They are doing so by purchasing data from vendors, with only some supplementing this information with client surveys. The report found that the banks have collectively committed $1.2 trillion on an annualised basis through to 2030. However, if the banks maintain this pace, it would only account for 26% of $130 trillion the International Renewable Energy Agency (IRENA) estimates is needed to reach net zero by 2050.

2. Climate Bonds Initiative issued a 2022 sustainable finance market **snapshot** where **green bonds and other labelled bonds held its 5% market share**. Green, social, sustainability, sustainability-linked and transition bonds (GSS+) issuance held its market share despite a difficult year for fixed-income markets, in which GSS+ volumes fell year-on-year for the first time in a decade. In 2021, the share of GSS+ issuance reached record volumes of over $1 trillion and held a 5% share of the global bond market. However, challenging macroeconomic factors in 2022 contributed to a drop in debt volumes.

- GSS+ issuance held its 5% share of the global bond market in 2022 despite the tough terrain leading volumes to fall to $863.4 billion. Green bond issuance comprised just over half of labelled issuance in 2022, with $487.1 billion issued. Sustainability bonds contributed $166.4 billion, social bonds totalled $130.2 billion, SLBs saw $76.3 billion, whilst transition bonds saw just $3.5 billion. Lifetime GSS+ volumes had topped $3.7 trillion by the end of 2022.
- For 2023, Climate Bonds Initiative has identified 5 expectations regarding sustainable finance: a rigour in SLB market; the rise of resilience investments; government support for green finance; a transition bond tipping point; and steaming issuance steaming ahead.

3. KPMG released a **report** showing that **one in three 18–24-year old workers have rejected a job offer based on ESG record**. ESG factors are influencing employment decisions for almost half of UK office workers, with millennials and younger workers driving the growing trend of climate quitting to seek out a more environmentally friendly job. KPMG surveyed around 6,000 U.K.-based adult office workers, students, apprentices and those who have left higher education in the past six months on their attitudes to work.

- The findings highlight that almost 1 in 2 or 46% want the company they work for to demonstrate a commitment to ESG, while 1 in 5 or 20% have turned down a job offer when the company's ESG commitments were not in line with their values. Those aged 25-34 are the most likely to value ESG commitments from their employer, representing 55% of the surveyed ones, but 18-24 years old and 35-44 years old are not far behind with 51% and 48%, respectively.
- When it comes to looking for a new role, 1 in 5 respondents or 20% said they had turned down a job because the company's ESG commitments were not in line with their values, rising to 1 in 3 for 18–24-year-olds. Shared values are also a key consideration with 825 placing some importance on being able to link values and purpose with the organisation they work with. Again, it is those in the age brackets between 18-44 that were most likely to agree: 18-24 are most likely with 9%, 25-34 years followed on 86% and 35-44 on 84%.

COMMERCIAL

1. Principles for Responsible Investment (PRI) announced an **[update of the organization's responsible investment reporting framework]**. A milestone set to impact the reporting process of investors and asset owner signatories, while being both mission-led and signatory-centric. The reporting process has been on hold since 2021, to allow for the updates to the framework. With the release of the new framework, the reporting cycle will begin again in May 2023.

- The changes to the PRI's reporting framework reflect the increasing regulatory demands facing signatories over the past several years, particularly since the PRI reporting took place in its current form in 2012, as well as the fragmented global landscape, with different demands and expectations in different markets. The new framework aims in part to deliver a reporting process highlighting where progress has been made, and where more work is needed.
- Changes include improvements in clarity, with updated terminology and minimized ambiguity in questions, improvements in consistency and applicability, as well as restructuring of some sections for better alignment with other sustainability reporting frameworks such as TCFN, TNFD and ISSB. The framework also incorporates changes to reflect emerging themes across the responsible investment landscape, including the introduction of new voluntary indicators focused on human rights.

2. UniCredit unveiled a new policy **preventing all support to oil & gas activities in the Artic region and all new explorations or expansions of oil reserves**. The bank also set targets for the three most carbon intensive sectors within its portfolio. The sector targets include oil & gas, power generation and automotive sectors, to reach the bank's net-zero ambition for own emissions by 2030 and financed emissions by 2050. This is in line with a net-zero pledge signed in October 2021.

- UniCredit's coal policy anticipates a phase-out of coal financing by 2028. Regarding oil & gas, the bank will target a 29% reduction in its scope 3 financed emissions, starting from a baseline of 21.4Mt CO_2e in 2021. This target is related to the bank's oil & gas drawn balance of €7.8 billion. For power generation, UniCredit will target a 47% reduction in scope 1 intensity at 111 gCO_2e/kWh from a baseline of 208 gCO_2e/kWh in 2021, through rebalancing its portfolio and significantly increasing green lending activities. This target is related to the bank's power generation drawn balance of €8.9 billion.
- For the automotive sector, UniCredit will target a 41% reduction in scope 3 weighted physical intensity at 95 gCO_2/vkm from a baseline of 161 gCO_2/vkm. This target is related to the bank's Automotive drawn balance of €1.8 billion. Additionally, UniCredit plans to strengthen advisory services for corporates in high emitting sectors, boost sustainable lending, support clients in developing and scaling up innovative climate solutions and target partnerships with companies specialised in sustainability for specific sectors.

3. Amazon achieved a **worldwide record for the most renewable energy announced by a single company in one year**. Amazon secured 108 clean energy projects in 2022, including 25 newly announced wind and solar deals, growing the company's renewable energy capacity by more than 8 gigawatts through the year.

- The new renewable energy deals solidified Amazon’s position as the largest corporate buyer of renewable energy, with a portfolio now exceeding 20 gigawatts, the equivalent to the energy needed to power 5.3 million U.S. homes. The 25 new projects include eleven projects providing 372 megawatts in Europe, including investments in 2 new offshore wind projects, four projects in North America for 918 megawatts, including a new solar project paired with energy storage in California, and 10 new renewable energy projects in India, Indonesia, and Japan.
- The company’s renewable energy portfolio now consists of over 400 projects globally, including 164 wind farms and solar farms, and 237 rooftop solar projects on Amazon facilities. Amazon said that it is on track to power its operations with 100% renewable energy by 2025, ahead of its original 2030 target. Amazon announced 133 projects in 11 countries during 2022, in another record year.