FAB ESG WEEKLY UPDATE

24 February 2023

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

REGULATORY

1. The **International Sustainability Standards Board (ISSB)** announced that the International Financial Reporting Standards (IFRS)'s **new global sustainability and climate disclosure standards will become effective starting January 2024**. Given sustainability disclosure is new for many companies globally, the ISSB will introduce programmes that support those applying its standards as market infrastructure and capacity is built. Last week, ISSB fully agreed on the substance of the standards at its meeting in Montreal and the expected issuance will take place at the end of Q2 2023.

- The decision on effective date is answering the strong demand from investors for companies globally to disclose comprehensive, consistent and comparable sustainability-related information. IOSCO and governments around the world, including G20 leaders and others, have been vocal about the urgent need for standards that enable companies to disclose information about sustainability-related risks and opportunities, starting with climate, to support systemic financial stability and for investor protection.
- ISSB members voted to reference European Sustainability Reporting Standards (ESRS) within an appendix to the ISSB's general requirements standard, as a source of guidance companies may consider, in the absence of a specific ISSB standard, to identify metrics and disclosures if they meet the information needs of investors. The ISSB announced with the European Commission and EFRAG, last December, that they are working toward a shared objective to maximise interoperability of their standards and aligning on key climate disclosures.

2. Saudi Arabia witnessed a deal to **[implement an ESG framework in the local capital market](#)**. The initiative is supported by a trilateral memorandum of understanding (MoU), signed during the Saudi Capital Market Forum, by KSA's Ministry of Economy and Planning, the Capital Market Authority and the Saudi Exchange Company. All listed companies will be encouraged to adopt corporate sustainability practices supported by the issuance of periodic and rigorous reports.

- A move designed to advance Saudi Arabia's ESG standards, focused on 3 areas: the development of a sustainability selection criteria uniquely adapted to the Saudi market; the development of a national ESG disclosure framework for listed companies, infrastructure companies, and capital market institutions in Saudi Arabia; and the promotion of ESG awareness among investors and companies in Saudi Arabia.
- The operator of Saudi Arabia's stock market, Saudi Tadawul Group, also confirmed cooperation deals with other Gulf bourses. The latest was signed with Qatar exchange on the first day of the Saudi Capital Market Forum. The move aims to replicate the Abu Dhabi exchange's implementation of an ESG framework applied to its listed companies.

3. The **Environment Agency of Abu Dhabi (EAD)** issued a **general policy for managing, organising and protecting groundwater in the emirate**. The policy was based on Law No. 5 of 2016 regarding the regulation of groundwater in Abu Dhabi. The move aims to ensure an optimal use of water while reducing waste, to further build a comprehensive knowledge of groundwater resources, and to promote the use of sound irrigation techniques, methods and practices that reduce consumption..

- The total percentage of fresh water used out of all available renewable water resources is one of the indicators used to measure water scarcity, taking into account non-conventional water sources, such as desalinated water and treated wastewater. Although the water scarcity index of Abu Dhabi is one of the lowest in the world, the Emirate has one of the highest water consumption rates per capita. Also, most of the groundwater reservoirs in the region are non-renewable.
- Once implemented, the policy is expected to achieve a positive environmental impact, by decreasing groundwater extraction up to 650 million cubic metres by 2030, in addition to improving the groundwater quality index both locally and nationally. The policy is also poised to decrease the water extraction rate from 24-fold to 16-fold by 2030. The use of recycled water will enhance feeding aquifers in areas used for irrigation, both in terms of quality and quantity.

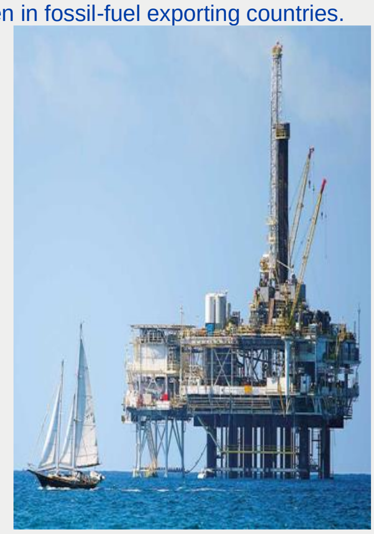
RESEARCH

1. London Institute of Banking & Finance (LIBF) published a **white paper** suggesting that **banks in the Middle East and North Africa (MENA) should quickly go beyond reporting on ESG and get hard data on climate risk**. This data should target both their own exposure and that of their clients. The scale and complexity of climate change requires MENA banks to get ready to report on climate risk, ahead of local regulatory mandates or economic transitions.

- LIBF outlined 4 main reasons for MENA banks to move swiftly to enhance their climate risk reporting: regional banks that aren't aligned with the global regulatory requirements on climate risk reporting could miss the requirements by international partners; to enjoy a first-mover advantage; analysing and reporting on the business risks of climate change is more demanding than reporting on ESG and takes time to set up the right processes, train staff, implement the data and IT systems needed to capture data related to climate change exposure; banks in the region can leverage oil and gas expertise to help a global transition.
- In 2022, the Task Force on Climate-Related Financial Disclosure (TCFD) showed that only around 25% of all companies in the Middle East reported on their exposure to climate change. The lowest score globally, followed by Latin America at 28% of all firms, while Europe was the global leader at 60%. The MENA region could benefit from keeping pace with global best practices on climate risk reporting and avoid losing ground to international counterparts.

2. The **International Energy Agency (IEA)** authored a **report** estimating that **subsidies worldwide for fossil fuel consumption skyrocketed to more than USD 1 trillion in 2022**. This is the highest value ever seen. IEA first estimates for 2022 show that subsidies for natural gas and electricity consumption more than doubled compared with 2021, while oil subsidies rose by around 85%. The subsidies are mainly concentrated in emerging market and developing economies, and more than half were seen in fossil-fuel exporting countries.

- High fossil fuel prices hit the poor hardest, but subsidies are rarely well-targeted to protect vulnerable groups and tend to benefit better-off segments of the population. This was demonstrated again in 2022, as the political priority to respond quickly often overrode the more painstaking task of directing support where it was needed most. Effective targeting requires prior investment in better data collection and in setting up effective cash transfer mechanisms.
- Fossil fuel prices aren't the best way to drive clean energy transitions. Imbalanced or poorly sequenced approaches to transitions, in which fuel supply is cut ahead of demand, create clear risks of further price spikes, and there is no guarantee that such episodes are unambiguously good for transitions. High fossil fuel prices are no substitute for climate policies. In practice, concerns about affordability can reduce the attention and money that policymakers devote to clean energy. They can also in some cases prompt higher use of more polluting fuels and the inflationary pressures push up borrowing costs to the detriment of capital-intensive clean energy investments.



3. BloombergNEF issued a **report** flagging that **carbon capture and storage (CCS) investment hit a record-high of $6.4 billion**. The amount already doubled since 2022. As the decarbonization of hard-to-abate sectors gains momentum and political support rises globally, BloombergNEF expects CCS investment records to continue to be broken. The U.S. policy has been particularly generous to CCS, which should lead to more investment in CCS projects in 2023.

- The U.S. led the pack, with 45% of global investment, but the regional split is far more even than in previous years. APAC investment surged to $1.2 billion, driven by projects in Australia and Malaysia. Although China commissioned a pilot project to capture 0.2 million tons of carbon dioxide per year at a petrochemical complex, it still lags behind its neighbours in terms of CCS development. European Union (EU) funding for CCS was mostly venture capital flowing into direct-air-capture companies. The EU put much of its funding toward industrial decarbonization, with $420 million invested in cement and steel projects.
- On another note, Bloomberg reported this week that **Europe's carbon price hit for the first time a value of €100** as economy rebounds from energy crisis. A record high boosted by an improving economic outlook and expectations of a rebound in industrial output. The price rally could renew concerns among industry and governments.

COMMERCIAL

1. The **United Arab Emirates** launched **[two initiatives to support the country's net zero goal]**. The UAE geospatial platform for future energy and a report that will target the potential for renewable energy storage uptake. Both will track and measure the progress of implementing the UAE energy strategy 2050.

- The geospatial platform will update and analyse data on clean energy projects across the country. The outcome of the data analysed from the platform will inform future clean energy studies and strategies, including the updated version of the UAE energy strategy 2050, which is currently being developed. The UAE energy strategy 2050 aims to increase the share of clean energy projects to 50% of the country's overall energy mix by 2050.
- The potential for renewable energy storage uptake report is being developed jointly by the ministry with its strategic partners to provide insights into the technical and economic potential of storage technologies in the UAE power grid. The report will explore how energy storage can drive the energy transition and support renewable energy use in the country with a focus on technology, the market, research and development, and finance. It will also cover thermal, chemical, electrochemical and mechanical energy storage solutions that have the potential to increase the local uptake of renewable energy.

2. HSBC established **further financed emissions targets for sectors like cement, steel, automotive and aviation**. The emission reduction initiative is aimed at helping the bank's clients to diversify and decarbonise, in line with HSBC's ambition to reach net zero by 2050 or sooner. In 2022, the bank published its first set of financed emissions targets focused on the sectors such as oil and gas, power and utilities, that make up the largest proportion of emissions financed by HSBC.

- HSBC's new 2030 targets apply to 4 additional carbon intensive sectors: cement; iron, steel and aluminium; and the transport sectors of automotive and aviation. The bank's objective is to reduce the emissions it finances, to unlock future growth opportunities for its clients and to help accelerate the transition to a more resilient net zero economy. HSBC also plans to set further sector targets for 2030, targeting agriculture, shipping, commercial and residential real estate.
- The sector pathways estimate the changes needed to limit global warming temperature rises to 1.5C. They are based on expert analysis by the International Energy Agency (IEA) and Intergovernmental Panel on Climate Change (IPCC). Later this year, HSBC plans to publish its bank-wide net zero transition plan, which sets out how it intend to embed the 2050 and 2030 net zero targets into HSBC's strategy, processes, and policies.

3. Allianz Global Investors announced a **voting trend against pay policies of companies that don't link ESG key performance indicators to executive remuneration**. Allianz GI is one of the world's leading active investment managers. During 2022, the company participated in 10,205 shareholder meetings, having voted in more than 100,000 shareholder and management proposals. Last year, it withheld or abstained from at least one agenda item at 69% of all meetings globally, opposed 16% of capital-related proposals, 23% of director-related proposals and 43% of remuneration-related proposals globally.

- Allianz GI supported 70 of 87 shareholder proposals to address climate change issues. The investment manager is available to vote alongside independent shareholders including NGO's. Allianz GI will hold directors accountable if a company doesn't have net zero targets in place and a credible strategy for how to achieve them. It will also vote against the chairperson of the sustainability committee, the strategy committee or the chairperson of the board of certain high-emitting companies if the net zero ambitions or the climate-related financial disclosures are deemed dissatisfactory.
- Regarding governance, Allianz GI placed high importance on the quality of boards as good governance goes hand in hand with better financial performance and high sustainability standards. In 2022, the company voted against a quarter of all directors standing for election, as high concern remains that directors have too many commitments.