FAB ESG WEEKLY UPDATE

03 March 2023

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

REGULATORY

1. The **European Union (EU)** created the **world's first best in class standard for the issuance of green bonds**. The European Parliament and the European Council reached an agreement to tackle greenwashing in the bond markets. The European Green Bonds Standard (EUGBS) is voluntary and will enable investors to orient their investments towards more sustainable technologies and businesses. It will also give the issuer more certainty that the bond will be suitable to investors seeking green bonds. The standard aligns with the taxonomy legislation which defines the economic activities considered as environmentally sustainable.

- The EUGBS will enable investors to identify high quality green bonds and companies, thereby reducing greenwashing, while clarifying to bond issuers which economic activities can be undertaken with the bond's proceeds. It will also set in place a clear reporting process on the use of the proceeds from the bond sale and standardise the verification work of external reviewers which will improve trust in the review process. The regulation also establishes a registration system and supervisory framework for external reviewers of European green bonds, the independent entities responsible for assessing whether a bond is green.
- All companies choosing to use the standard will be required to disclose information about how the bond's proceeds will be used but are also obliged to show how those investments feed into the transition plans of the company as a whole. The standard therefore requires companies to be engaging in a general green transition. The adoption of the standard will guarantee to investors that the bond is taxonomy aligned. The disclosure requirements, set out in template formats, will also be opened to be used by companies issuing bonds which cannot fulfil all the requirements to qualify for the EUGBS.

2. The **Australian Securities & Investments Commission (ASIC)** launched its **first court action against alleged greenwashing conduct**. The proceedings in the Federal Court target Mercer Australia for allegedly making misleading statements about the sustainable nature and characteristics of some of its superannuation investment options. This is the first time ASIC has taken an Australian entity to court regarding alleged greenwashing conduct, and it reflects continuing efforts to ensure sustainability-related claims made by financial institutions are accurate.

- ASIC alleges Mercer made statements on its website about 7 sustainable investment options offered. These statements marketed the sustainable options as suitable for members who are deeply committed to sustainability because they excluded investments in companies involved in carbon intensive fossil fuels like thermal coal. Exclusions were also stated to apply to companies involved in alcohol production and gambling. However, ASIC alleges members who took up the sustainable options had investments in companies involved in industries the website statements said were excluded.
- Options included 15 companies involved in the extraction or sale of carbon intensive fossil fuels, 15 companies involved in the production of alcohol and 19 companies involved in gambling. ASIC alleges Mercer made false and misleading statements and engaged in conduct that could mislead the public. ASIC has issued over $140,000 in infringement notices in response to concerns about alleged greenwashing, which include companies such as Tlou Energy, Vanguard Investments Australia, Diversa Trustees and Black Mountain Energy. Action against greenwashing is one of ASIC's 2023 Enforcement Priorities.

3. The **U.K. Competition and Markets Authority (CMA)** announced a more permissive approach to agreements between competitors in relation to environmental sustainability. The initiative will loosen the anticompetitive agreements' prohibition applied to competitors that may wish to cooperate with one another in order to achieve more environmentally sustainable outcomes such as reducing their carbon footprint or improving the environmental standards of their products.

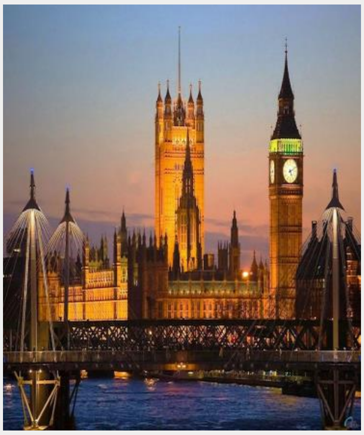
- The CMA has made a public commitment to promote environmental sustainability and help to accelerate the transition to a net zero economy through 3 initiatives. First, by ensuring that markets for sustainable products or services develop in competitive ways. Second, by helping consumers make informed choices about the climate impact of the goods and services they use. Third, by ensuring that competition law isn't an unnecessary barrier to companies seeking to pursue environmental sustainability initiatives.
- This more permissive approach to climate change agreements reflects the fact that climate change represents a special category of threat, highlighted by the sheer magnitude of the risk that climate change represents, the degree of public concern about it, and the binding national and international commitments that successive U.K. governments have entered into. Additionally, by reducing negative externalities which contribute towards climate change, such agreements merit a more permissive approach.

RESEARCH

1. BloombergNEF issued a **report** concluding that **bank finance for cleaner energy grew but still lagged fossil fuels**. In 2021, banks financed 81% as much low-carbon energy supply as fossil fuels. For every dollar of bank financing activity supporting fossil-fuel supply, 0.8 supported low-carbon energy. Bank financing for energy supply totalled $1.9 trillion. Of that, $842 billion went to low-carbon energy projects and companies, and $1,038 billion went to fossil fuels. Bank financing mainly goes to companies and projects in North America, China and Europe.

- The most frequently referenced climate scenarios indicate that, on average, to adequately displace fossil fuels to limit the average global temperature rise to no more than 1.5°C, we need to increase the energy supply investment ratio or new investment in low-carbon to fossil-fuel supply from the current 1:1 to a minimum of 4:1 by 2030. This means for every dollar invested in fossil fuel supply in 2030 this should be matched with four times as much being invested in low-carbon energy supply.
- Regarding some specific subgroups, the 30 Global Systemically Important Banks (GSIB) underwrote $1.1 trillion of energy supply transactions, with $499 billion being low-carbon and $581 billion for fossil fuels in 2021. Net-Zero Banking Alliance (NZBA)'s 126 banks collectively underwrote $1.2 trillion of energy supply financing, of which $586 billion was low-carbon and $638 billion for fossil fuels. Banks not in the NZBA underwrote $656 billion of energy supply financing, with $256 billion being low-carbon and $400 billion for fossil fuels.

2. FTSE Woman Leaders published a **report** stating that **for the first time ever FTSE 350 companies met the 40% target for women on boards, 3 years ahead of the 2025 target**. The U.K. government-backed report showed that the proportion of women on FTSE 350 boards increased by almost 3% in 2022 to reach 40.2% as of Jan. 11, 2023, while in the top 100 companies, the FTSE 100, women held 40.5% of board positions, up from 39.1% in 2021.



- In February 2022, FTSE Women Leaders Review set FTSE350 companies a 40% voluntary target for women on boards and in leadership teams by December 2025, up from a previous target of 33%. The initiative was backed by the Financial Conduct Authority (FCA) in April 2022 by including broader diversity targets. Unlike countries such as Belgium and France, the U.K. still lacks a mandatory quota system for women on boards at listed companies which makes the progress more remarkable.
- In fact, 10 years ago, 152 of the FTSE 350 Boards had no women on them. Now there are women on every board and the vast majority of companies have 3 or more. Only 10 of the UK's 350 largest listed companies still have all-male executive teams. However, the portion of women in leadership roles defined as the executive committee and its direct reports, still falls short of the target, with the FTSE 100 at 34.3% and FTSE350 at 33.5%. Currently, only 7 women lead FTSE 100 companies.

3. ShareAction authored a **report** pointing out that **the majority of the world's asset managers aren't investing responsibly**. The report ranks from best to worst in a league table the 77 major asset managers in Europe, USA and Asia Pacific, who in total control over $77 trillion of assets under management. The study found that the vast majority have consistently failed to invest in a way that will protect climate, biodiversity and people.

- Two-thirds of the managers surveyed, who handle $60 trillion in assets, scored a CCC rating or worse, indicating serious gaps in their responsible investment policies and practices for at least one section. The 4 biggest asset managers in the world, Blackrock, Vanguard, Fidelity Investments and State Street Global Advisors, all scored poorly, receiving either D or E grades, which means those managers with the greatest influence are coming worst in class.
- The report also found a huge geographical split between the asset managers. The best from Europe vastly outperformed their regional peers in the U.S. and Asia Pacific, filling every spot in the ranking's top 10. The U.S. managers received the worst grades more than 3 times as frequently as their European peers. Nevertheless, even the top performing asset managers in the

survey have a biodiversity blind spot, often failing to take into account the protection of important habitats such as forests, rivers and oceans when managing their investments.

COMMERCIAL

1. The **United Arab Emirates** witnessed a **32% year-on-year growth in green and sustainable finance issuance during 2022**, according to Arthur D. Little. Between 2019 and 2022, the UAE recorded increasing environmental, social, and governance reporting across major public and private institutions such as Dubai Financial Market, Ministry of Climate Change and Environment and publicly listed companies in the Securities and Commodities Authority (SCA). Also, an impressive $24.55 billion in green and sustainable finance was generated by the Middle East and North Africa (MENA) region in 2021, an increase from $3.8 billion in 2020 to achieve an extraordinary 532% year-on-year growth.

- In 2022, First Abu Dhabi Bank, Majid Al Futtaim's fundraiser gathered $1.25 billion as the credit facility linked to the company's ESG goals. Further, Dubai Islamic Bank is currently in progress of concluding its own reporting, spanning ethics and integrity, thriving workplace, positive community impact, environmental stewardship, and sustainable finance and investments. Qatar has enacted a series of initiatives to make at least $75 billion available for sustainable investments.
- While implementing ESG strategies, regional banks found that the complexity of ESG data has not been entirely captured and addressed by current data governance frameworks, leaving them to tap ad hoc solutions for collecting, managing, and governing ESG data. The challenge of maintaining data transparency and high standards of quality is amplified in the context of ESG, as requirements are often not yet fully standardized or detailed by regulators.

2. Abu Dhabi Sustainability Week (ADSW) gave voice to the **carbon intensive industries call for financing to support decarbonization**. Reducing emissions in the hard-to-abate industries like cement, steel, aluminium, petrochemicals, shipping, aviation, heavy industry, and manufacturing, is key to tackle climate change. As an example, the industry and transportation carbon footprints together represent almost half of the global emissions.

- ADSW and Masdar produced a report which found that decarbonization budgets are a significant source of concern, with less than a third of executives believing their funds are adequate and over half haven't yet set net zero targets. Half of industry executives now believe net zero is more feasible than previously but call on governments to boost support. Also, 60% of organizations surveyed across Europe, Asia-Pacific, the Middle East, and North America haven't yet set decarbonization targets, and leaders from those organizations cite a lack of reliable finance as the main barrier for committing to targets.
- Moreover, 83% and 62% of senior executives from the Middle East and Asia-Pacific respectively highlighted that they are taking steps to reduce emissions but haven't set a target date for completion. Further, only 30%of senior executives overall indicated their budgets will be able to meet decarbonization needs, while more than 50% are concerned about the impact of global economic headwinds on decarbonization investment. In addition to financing hurdles, the report also highlights a disparity in available technologies to accelerate decarbonization.

3. The **Government of Canada** will **require suppliers to disclose emissions and set reduction targets**. As of April 1, 2023, the major suppliers of the Canadian government will be compelled to disclose their greenhouse gas emissions and set reduction targets. The new standard outlines that federal government procurements over $25 million should incent suppliers to disclose their emissions and set reduction targets. Suppliers can fulfil this requirement through participation in Canada's net zero challenge or another approved internationally recognized and functionally equivalent standard or initiative.

- Additionally, a new standard on embodied carbon in construction will require the reporting and reduction of the carbon footprint of all new major government construction projects, initially starting with concrete. Specifically, these projects must use lower carbon concrete, where available, so that the total emissions associated with the project's concrete is at least 10% less than the regional average for concrete. The move is an important step towards implementing a buy clean strategy in government procurement.
- Canada also announced that more than 40 companies have now joined its net zero challenge. Since the initiative was launched in August 2022, companies such as Microsoft Canada, Aecon Group, 3M Canada and Cogeco have positively answered the call. The net zero challenge is a voluntary initiative that encourages businesses to develop and implement credible and effective plans to transition their facilities and operations to net zero emissions.