FAB ESG WEEKLY UPDATE

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

For previous editions please refer to our website repository.

REGULATORY

1. The **U.S. Federal Reserve** released **climate-related financial risk guidelines for banks**. A move aimed at providing a high-level framework for the safe and sound management of exposures to climate-related financial risks for large financial institutions. The principles are consistent with the risk management framework described in the agencies' existing rules and guidance. The principles are intended for the largest financial institutions, those with $100 billion or more in total assets, and address physical and transition risks associated with climate change.

- The principles are intended to support efforts by the largest financial institutions to focus on key aspects of climate-related financial risk management. General climate-related financial risk management principles are provided with respect to a financial institution's governance; policies, procedures, and limits; strategic planning; risk management; data, risk measurement, and reporting; and scenario analysis. Additionally, the principles describe how climate-related financial risks can be addressed in the management of traditional risk areas, including credit, market, liquidity, operational, and legal risks.
- The final principles neither prohibit nor discourage large financial institutions from providing banking services to customers of any specific class or type, as permitted by law or regulation. The decision regarding whether to make a loan or to open, close, or maintain an account rests with the financial institution, so long as the financial institution complies with applicable laws and regulations.

2. **Brazil's Securities and Exchange Commission (CVM)** will impose **mandatory sustainability reporting by 2026**. The requirement is applied to public companies in Brazil and from 2026 onwards those will have to provide annual sustainability and climate-related disclosures. The International Sustainability Standards Board's (ISSB) IFRS sustainability disclosure standards will be incorporated into the Brazilian regulatory framework, setting out a roadmap to move from voluntary use starting in 2024. The announcement coincided with the IFRS Foundation Trustees meeting in Panama City, during which IFRS Foundation Trustees and staff met with representatives of key stakeholders in the region.

- The CVM signalled that the ISSB's Standards can help strengthen Brazilian capital markets by enhancing transparency around sustainability-related risks and opportunities and facilitate companies attracting capital and global investments. Brazil has required the use of IFRS accounting standards since 2010. Last month, the IFRS Foundation published the Spanish translation of IFRS S1 so that companies across Latin America can begin using the Standard, with the IFRS S2 translation to follow soon. The Portuguese translation is also expected in coming months.
- The Latin American jurisdictions have been at the forefront of mandating sustainability-related financial disclosures. Both Chile and Colombia have mandated use of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations and SASB Standards, which the ISSB's Standards build upon. National standard-setters in Mexico are also publicly discussing plans for use of the ISSB's Standards.

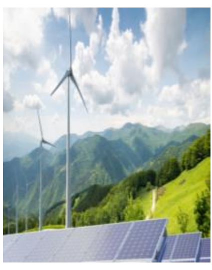
3. **New York** announced the **largest renewable energy investment made by an American state**. A move to advance the U.S. first offshore wind blade manufacturing facilities, with the state of New York committing $300 million and attracting an additional $668 million in private funding.

- The initiative will finance 3 offshore wind and 22 land-based renewable energy projects, totalling 6.4 gigawatts that will power 2.6 million New York homes and deliver 12% of New York's electricity needs by 2030. The projects are expected to create approximately 8,300 family-sustaining jobs and bring $20 billion in economic development investments state wide, including developer-committed investments to support disadvantaged communities.
- The investment supports progress toward New York's goal for 70% of the state's electricity to come from renewable sources by 2030 and to reach 9 gigawatts of offshore wind by 2035. With it, New York will now have enough operating, contracted, and under development renewable energy projects to supply 79% of the state's 2030 electricity needs with renewable energy.

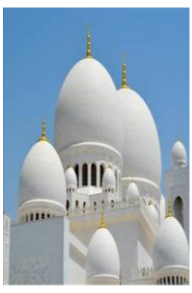
RESEARCH

1. The **Presidency of COP28** and the **International Renewable Energy Agency (IRENA)** co-authored a **report** urging **governments to triple renewable energy capacity and double energy efficiency by 2030**. The report provides actionable policy recommendations for governments and the private sector on how to increase global renewable energy capacity to at least 11,000 gigawatts with solar photovoltaic (PV) and wind power accounting for about 90% of renewable energy capacity additions, while also doubling annual average energy efficiency improvements in the target period. This falls under the COP28 Presidency's Action Agenda objective of fast-tracking a just and orderly energy transition to keep 1.5 °C within reach. Most major economies are already on board with that goal.

- Energy efficiency policy measures should include the adoption of targets with specific time horizons; strong regulatory frameworks including building codes and energy efficiency standards for appliances; fiscal and financial incentives; and public campaigns to build awareness of the role of energy efficiency measures, public transport and green mobility for cost savings and collective decarbonisation goals.
- A group of 20 nations such as China, the U. S. and India, agreed in September to pursue efforts to triple global renewable energy capacity by 2030. Annual average investment in renewable power generation must reach $1 300 billion by 2030, compared to $486 billion in 2022. In the developing world, governments must minimise investment risks and provide access to low-cost financing. The global financial architecture must be reformed to support the energy transition in the Global South. Climate-related funding from multilateral development banks must be ramped up, and public capital should be redirected from the fossil fuels sector to renewable energy.



2. The **United Nations Environment Programme Finance Initiative (UNEP FI)** issued a **report** on **mobilising Islamic banking for climate action**. The Middle East and North Africa (MENA) region is confronted with more extreme heat and less precipitation with every degree of global temperature rise. Operating in an area that's highly vulnerable to the physical impacts of climate change, financial institutions in the region are both exposed to high risks but also presented with great investment opportunities in the transition to a low-carbon economy.



- As an important part of the MENA and the global finance industry, Islamic finance has the potential to be a significant driver of climate finance in the region. In addition to regulatory imperatives and financial rewards, there also are clear moral reasons for incorporating climate action into Islamic banks' business strategies. However, most Islamic finance institutions are only in the early stages of assessing and mitigating climate risks. Therefore, it is crucial for Islamic financial institutions to maintain a clear perspective, enabling them to effectively navigate the increasing risks while harnessing the myriad opportunities that climate-related finance offers.
- An increasing number of Islamic banks in the MENA region are starting to integrate sustainability and ESG into their operational framework with varying degrees of scope and depth of integration. Climate change awareness and engagement differs from one bank to another. Some Islamic banks are adopting global reporting and disclosure practices. They are also adopting internationally relevant frameworks and evaluative approaches, sometimes with modifications for Islamic finance. But some Islamic banks still seem to see climate concerns as relatively peripheral to their business or struggle to integrate it into their day-to-day business frameworks.

3. **Moody's** published a **report** forecasting **2023 sustainable bond issuance to reach $950 billion despite third-quarter decline**. Issuance volumes of green, social, sustainability and sustainability-linked (GSSS) bonds pulled back sharply in Q3 2023, falling 26% year-over-year to $198 billion, slightly underperforming the global bond market's 22% decline, after significantly outperforming the market in the first half of the year. The 3rd quarter also saw a continued divergence in regional GSSS trends, with sustainable bond volumes representing 19% of total bond issuance in Europe year-to-date, compared to only 4.5% in North America.

- Despite the slower Q3 performance, however, Moody's maintained its full year 2023 GSSS issuance forecast of $950 billion, representing 4% growth over the prior year, with the report highlighting an anticipated return to growth in the fourth quarter, driven in part by COP28-related initiatives. GSSS' share of global bond issuance year-to-date remains above levels during the prior year, with sustainable bonds representing 14% of the market over the first 9 months of the year, compared to 13% in the same period last year. Q3 GSSS share was 14%, slightly below last quarter's 15% share.
- By bond type, green bonds accounted for most of the drop in GSSS issuance in Q3, falling 37% in the quarter to $100 billion, after a record setting first half of the year. Despite the pullback, Moody's maintained its full year forecast for green bond issuance of $550 billion, up more than 10% over 2022. Social bond volumes fell 29% to $42 billion in Q3 after a strong Q2, while sustainability bonds declined by a more modest 13% to $37 billion.

COMMERCIAL

1. The **Presidency of COP28** announced a **net zero transition charter for private sector companies**. The charter serves to encourage organizations to make public net zero emissions pledges and targets, underpinned by high integrity and quality, produce credible and transparent transition plans, and publish periodic, accurate, complete, and transparent reporting on their progress. For organizations at the beginning of their journey to net zero, the charter should act as a beacon, which will help to provide guidance on the steps that can be taken to strengthen their position to take net zero science-based, credible, and transparent pledges.

- By signing the charter, private sector entities will certify their adherence or their commitment to publicly set 1.5 degree aligned, science-based, credible and transparent net zero by 2050 and interim emissions reduction targets, either through a net zero aligned national pledge or an internationally recognized net zero initiative that holds members to account for their net zero pledges, or individually following a commensurate scope and level of ambition with public, third-party validation of their pledge through a generally accepted science-based review process. Those who have already made pledges as outlined above do not need to re-commit.
- Under the charter, companies commit to produce a credible net zero transition plan, by or within 1 year after the conclusion of COP28. They also have to publicly report annual emissions and progress on their net zero commitment and transition plan, including through high quality platforms that feed into the UNFCCC global climate action portal. And finally, companies have to report on emission data and reduction pathways, validation done through self-attestation or an independent third party.

2. **Mubadala** issued its **first-ever green bond for $750 million**. The issuance saw strong demand from the market. The green bond has a tenor of 10.5 years, at a yield of 6.03% and a coupon at 5.875. The transaction further diversified Mubadala's debt investors base by bringing in new investors, as a large proportion of demand came from new investors who had never invested in Mubadala's bonds.

- The order books peaked at more than $6 billion with robust demand from local, European, Asian, and American accounts. Oversubscription peaked at 9.1x with one of the most oversubscribed issuances during 2023. The receipts will be invested in categories aligned with the Green Financing Network.
- Green bonds have gained prominence and popularity in recent years as investors seek to support environmentally friendly projects and companies. They serve as a conduit for financing projects that have positive environmental impacts, such as renewable energy, energy efficiency, and sustainable infrastructure. The issuance of green bonds is a testament of Mubadala's commitment to sustainability, climate action, and responsible investing.

3. The **European Investment Bank (EIB)** and **BNP Paribas** agreed to **provide €627 million in new financing to boost energy efficiency**. EIB signed its first true sale securitisation transaction with BNP Paribas and its total investment will support the transition to climate neutrality by financing home energy efficiency investments in existing buildings.

- Under the arrangement, BNP Paribas pledges to supply fresh lending of around €627 million to private individuals over a 3-year period. Financing will exclusively support energy-efficient housing equipment, notably high-energy performance boilers, insulation windows, and installation of solar panels. Altogether, these projects will contribute to the reduction of carbon dioxide emissions.
- As the European Union (EU)'s climate bank, the EIB aims to encourage the emergence and deployment of new technologies to meet today's challenges, such as the energy transition to a new low-carbon growth model. In 2022, EIB investment in France for renewable energies, clean mobility and energy efficiency amounted to €5.9 billion, representing 70% of the Bank's total financing in the country of €8.4 billion.

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