FAB ESG WEEKLY UPDATE

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

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REGULATORY

1. The **UNFCCC Transitional Committee** agreed on several **[loss and damage funding recommendations to be considered by Governments at COP28](#)**. In a meeting that took place in Abu Dhabi, the fund and the Transitional Committee on the operationalization of the new funding arrangements for responding to loss and damage, agreed on key measures to supply funds to repair the damage from climate. The loss and damage fund was established last year at COP27 in Egypt, but governments have struggled to adapt it. The fund aims to help countries, particularly those most vulnerable, to deal with the irreversible damage from climate change.

- Governments from richer and poorer countries drew up the blueprint for a new loss and damage fund. The loss and damage fund will draw on funding sources including large developing countries as well as the U.S., the European Union (EU) and the U.K. No firm target has been set for how much money the fund will disburse, but countries most affected by the climate crisis hope it will reach hundreds of billions of dollars within a few years. The blueprint must be formally adopted at COP28 in the UAE and this agreement by the transitional committee—which is under the UN framework convention on climate change, provides a good base.
- The Transition Committee recommended the World Bank to administer the fund for an initial period, but some countries had viewed this proposal as potentially representing the interests of western countries. The committee urged developed countries to provide support to the fund but whether wealthy nations would be under strict obligations to contribute has not yet been resolved. Dr Sultan Al Jaber, COP28 President-designate and the UAE's Minister of Industry and Advanced Technology, welcomed the agreement reached in Abu Dhabi.

2. **France** decided to **[ban fossil fuel companies from responsible investment labelled funds](#)**. In an update to the country's socially responsible investment (SRI) label, France included new rules to effectively exclude most of oil & gas companies from its SRI-labelled funds. Created in 2016, the SRI label was the first State label in France allowing the general public to choose savings instruments which embed environmental, social and governance (ESG) principles into their management.

- Since its creation, the label has contributed to the evolution of financial management in a more socially responsible and transparent manner. SRI-labelled funds are systematically referenced in life insurance and retirement savings plans. Today, 1174 funds are SRI-labelled, in a total of €773 billion. The criteria for the SRI label, which have not been significantly revised since 2016, needed an update to meet the higher expectations of savers and the scale of the current collective challenges, particularly the drive to tackle climate change.
- On the basis of these recommendations, France's Minister of the Economy, Finance and Recovery Bruno Le Maire has decided to launch a new version of the SRI label. One which is more ambitious, and makes climate impact a key principle of the label. The eligibility of the funds will exclude companies that exploit coal or unconventional hydrocarbons, as well as those that launch new projects to explore, exploit or refine hydrocarbons (oil or gas), but also require a transition plan aligned with the Paris Agreement.

3. **Australia** announced the country's **[sustainable finance strategy to support its path to net zero](#)**. A move which provides an ambitious and comprehensive framework for reducing barriers to investment into sustainable activities.

- The policy priorities of the strategy are structured in 3 key pillars. Pillar 1 aims to improve transparency on climate and sustainability. Pillar 2 covers the financial system capabilities. Pillar 3 addresses the Australian government leadership and engagement. Each pillar contains a range of proposed tools and policies, to support sustainable finance in the country.
- The foundation of the strategy ensures that markets have access to high-quality, credible and comparable information that will enable them to assess both the financial risks that climate change and other sustainability issues present to firms, and the impact of firms on the climate and environment (pillar 1). This includes the government's climate-related disclosure regime and a sustainable finance taxonomy. At the same time, Australia's financial regulators should be well supported in their efforts to address the impacts of climate change on businesses and the financial system (pillar 2). Finally, the government should take a leading role in supporting the development of sustainable finance markets and shaping international developments in sustainable finance markets (pillar 3).

RESEARCH

1. The **Asian Development Bank (ADB)** published a **[report](#)** on **bonds which finance the sustainable blue economy**. Designed as guide for issuers, the report shows how blue bonds can be incorporated into sustainable financing strategies. It analyses ways investors can evaluate the impact of their investments and how underwriters can ensure their integrity. The publication explains the importance of marine ecosystems and provides guidance on how the proceeds of blue bonds can have social co-benefits, support climate adaptation, and promote ocean health. The guidelines define a sustainable blue economy as one that maintains, restores and protects diverse, productive and resilient ecosystems; halts the loss of biodiversity; enhances energy efficiency; and reduces carbon emissions and pollution while improving livelihoods and jobs.

- The report outlines 8 eligible project categories and details how these relate to green bond eligibility criteria: coastal climate adaptation and resilience; coastal climate adaptation and resilience; coastal climate adaptation and resilience; coastal climate adaptation and resilience; coastal climate adaptation and resilience; marine pollution; sustainable ports; and sustainable marine transport.
- Oceans serve as vital heat and carbon sinks, absorbing 31% of carbon dioxide emissions and regulating the global climate. The report claims that transition to a sustainable blue economy is instrumental to achieve the goals of the Paris Agreement. The blue economy sectors are responsible for 21% of the required emissions reductions. Marine environments also provide essential ecosystem services, including being a primary source of protein for 17% of the world's population. Marine biodiversity loss can therefore have severe consequences on food systems, livelihoods, prosperity and resilience.

2. **Honeywell** authored a **[survey](#)** with the conclusion that **80% of the companies plan to increase the budget for environmental sustainability goals**. It enquired 750 business leaders directly involved with their organization's environmental sustainability initiatives at companies across multiple regions and economic sectors, with at least 1,000 employees. Well over 4 out of 5 companies plan to increase spending on environmental sustainability initiatives over the next 12 months, as the achievement of sustainability goals extends its lead as a top corporate priority, and executives become more confident in meeting those goals.

- Honeywell found that the achievement of sustainability goals remains the most cited priority for the executives, identified by 75% of organizations as one of their 5 most important near-term initiatives, up from 65% last year, and well ahead of second-place digital transformation initiatives, at 56%. Of the environmental sustainability categories studied, energy evolution & efficiency was the top cited priority category, mentioned by 62% of respondents asked to choose two categories. It was followed by emissions reduction at 47%, pollution prevention at 43%, and circularity & recycling at 33%.
- Sustainability initiatives remain a top priority as a significant majority of businesses reported plans to increase spending towards the achievement of their environmental sustainability goals over the next 12 months, including 88% looking to grow their budget for energy evolution & efficiency, 84% for emissions reduction, 84% for pollution prevention, and 83% for circularity & recycling. The survey also found that executives appear more confident in hitting both their near- and longer-term environmental sustainability goals, across every category, with the biggest increases in confidence coming in emissions reduction. Also, 72% of companies reported being optimistic about their goals in this area over the next 12 months, up from 65% last year, and 72% were also optimistic about their 2030 goals, compared to only 63% last year.

3. **Finance Watch** issued a **[report](#)** proposing a **loan-to-value tool for a capital surcharge triggered by a certain threshold of climate-related risk**. The loan-to-value threshold would be set in proportion to the amount of fossil fuels a bank is exposed to, that can be safely exploited within the carbon budget for a given temperature increase. According to Finance Watch, the tool has been used in the real estate market, proving effective at managing risks and improving the quality of mortgage loan portfolios and bank capitalisation. The report also mentions that 97% of the world's fossil fuel reserves would have to be left in the ground if humanity wants to limit global warming to 1.5°C with an 83% probability.

- The new proposal is a response to the failure of European financial institutions to back an earlier microprudential solution proposed by Finance Watch in 2020. A one-for-one rule where banks and insurers should hold one euro for every euro used to finance new fossil fuels as a way to be held liable for potential losses.
- In addition to providing recommendations on macroprudential policy, the report analyses how climate change is factored into economic modelling. With COP28 happening soon, Finance Watch is sounding the alarm on the severe disconnect between climate science and economic modelling shaping economic and financial policy. Finance Watch recommends that financial institutions' stranded fossil fuel assets exposures must be quantified, as well as extend the current 2030 time horizon used by European Union (EU) financial institutions.

COMMERCIAL

1. **Abu Dhabi Islamic Bank (ADIB)** published its **[debut sustainable finance framework](#)**. The framework establishes the criteria and eligibility requirements that determine which projects are labelled green, social, or sustainable. The framework also determines the eligibility of projects for the bank to finance or refinance, including the issuance of green, social and sustainability sukuk.

- Emphasis was placed on projects with environmental benefits across renewable energy, energy efficiency, green buildings, pollution prevention and control, sustainable water and wastewater management, clean transportation and projects supporting social objectives, including access to healthcare and education, employment generation and affordable housing.
- ADIB issued its ESG strategy, which is seamlessly integrated into ADIB's sustainability framework. It encompasses key pillars such as maximising positive impact, becoming a lifelong partner of customers, fostering a strong economic footprint, maintaining a people-centric organisational culture, upholding governance excellence, or remaining a steadfast lifelong partner for communities.

2. **Emirates** operated its **[first flight fuelled by sustainable aviation fuel (SAF)](#)**. On October 24, Sydney became the first destination for the SAF operated Emirates' flight EK 412. Earlier this year, Emirates and Shell Aviation had signed a memorandum of understanding to identify areas of collaboration in the concept of sustainable and technology-driven travel experiences.

- Around 315,000 gallons of blended SAF were supplied by Shell into the airport's fuelling system with the ratio of 40% neat SAF and 60% conventional jet A-1 fuel. Compared to conventional jet fuel's life cycle, SAF reduces greenhouse gas emissions by up to 80%. Emirates continues to show longstanding efforts in enhancing its environmental framework. This year, the airline provided a fund of $200 million to research & development projects focused on the reduction of fossil fuels consumption in commercial aviation.
- In January, Emirates carried out the first demonstration flight in the region with the use of 100% SAF. Ever since, the airline has been actively promoting the research around the industry's knowledge of SAF use in high blends. Its research involves assessing the performance, safety, and reliability of this type of fuel, as well as supporting the standardization and future certification of 100% SAF.

3. **Virgin Atlantic** was granted a U.K. permit for a **[historic 100% sustainable aviation fuel transatlantic flight](#)**. The airline will fly from London to New York on November 28 using 100% sustainable aviation fuel (SAF), paving the way for a world first, while airlines step up efforts to decarbonise travel. The U.K. Civil Aviation Authority permit follows a programme of technical reviews by the regulator, which analysed different aspects of the planned flight, including undertaking ground testing with Rolls Royce on a Trent 1000 engine fuelled by 100% SAF.

- Led by Virgin Atlantic and partly funded by U.K. Department for Transport, the preparation for the flight has involved a consortium of companies such as Boeing, Rolls-Royce and BP, to demonstrate SAF as an alternative to regular jet fuel. The U.K. Civil Aviation Authority worked closely with the consortium throughout their application and will continue to work alongside the industry to learn more about the performance and impact of sustainable aviation fuels.
- Virgin Atlantic were awarded up to £1 million of U.K. government funding in December 2022, following a challenge from the U.K. Department for Transport to support the industry in achieving the first transatlantic flight on an aircraft powered by 100% SAF. The permit is one of the approvals required for the flight and paves the way for Virgin Atlantic to submit applications to Federal Aviation Administration, Irish Aviation Authority, and Transport Canada to allow the flight to travel through the U.S., Irish and Canadian airspace.