FAB
First Abu Dhabi Bank

FAB ESG WEEKLY UPDATE

17 February 2023

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

REGULATORY

1. The U.K. **Advertising Standards Authority (ASA)** updated environment guidance on carbon neutral and net zero claims in advertising. The British regulator highlighted that the use of unqualified carbon neutral, net zero or similar claims should be avoided. Information explaining the basis for these claims helps consumers' understanding, and such information should therefore not be omitted. Marketers should include accurate information about whether they are actively reducing carbon emissions or are basing claims on offsetting, to ensure that consumers do not wrongly assume that products or their manufacture generate no or few emissions.

- ASA added that claims based on future goals relating to reaching net zero or achieving carbon neutrality should be based on a verifiable strategy to deliver them. If claims are based on offsetting, those should comply with the usual standards of evidence for objective claims set out in ASA's guidance and provide information about the offsetting scheme used. Where it is necessary to include qualifying information about a claim, that information should be sufficiently close to the main aspects of the claim for consumers to be able to see it easily and take account of it before making any decision.
- In 2021, the British regulator found a broad spectrum of consumer engagement on environmental issues, influencing their understanding of, and reaction to, environmental claims. Carbon neutral and net zero were the most commonly encountered claims, but there was little consensus as to their meaning. There were calls for significant reform to simplify and standardise the definitions of such terms and for claims to be policed by an official body, such as government. Consumers were often disappointed regarding offset practices within carbon neutral claims.

2. The French **Autorité des Marchés Financiers (AMF)** proposed an **introduction of minimum environmental requirements in European law that must be met by financial products**. Under it, providers of sustainable and ESG investment products in Europe would be required to follow specific ESG approaches and provide products that meet certain environmental criteria. AMF's proposals aim to add more stringent requirements for providers of article 8 and article 9 funds under the EU's Sustainable Finance Disclosure Regulation (SFDR), which came into effect in January 2023.

- The AMF believes the SFDR has created a gap between the reasonable expectations expressed by investors and the reality of the practices, having also fuelled greenwashing by not setting minimum environmental impact requirements for article 8 and 9 financial products. The regulator also claims the SDFR didn't sufficiently define the concept of sustainable investment.
- To address this issue, AMF's new proposals include the establishment of minimum environmental criteria for article 8 and 9 products with compliance subject to national supervision; outlining a minimum proportion of article 9 funds' portfolio assets aligned with the EU Taxonomy which should increase over time; and a requirement for financial market participants managing article 8 and 9 funds to adopt a binding and acceptable ESG approach in the investment process. AMF also suggests article 9 funds should exclude investments in fossil fuel activities not aligned with the EU Taxonomy and strict conditions for article 8 funds.

3. The U.S. **Securities and Exchange Commission (SEC)** is considering **adjustments to ease the controversial climate risk disclosure rule**. In an interview on CNBC, SEC's chairman Gary Gensler defended changes to a proposed rule that would require publicly traded companies to disclose how their operations affect climate change. The adjustments were justified by public feedback and not a pushback from politicians or investors. SEC is taking into account feedback from nearly 15,000 public comments before adopting the rule.

- The proposed enhancement and standardization of climate-related disclosures for investors requires publicly traded companies to disclose to investors how their operations affect the climate and contribute to carbon emissions. The proposed climate disclosure rule was unveiled in March 2022, while updates are expected to be released in April. The initiative has been unpopular among C-suite leadership, as illustrated by CNBC's 2022 survey, where only 25% of the CFOs supported the disclosures.
- Two of the primary issues from the proposals that appear to have drawn significant attention in the feedback received by the SEC include a rule requiring climate costs to be reported if they represent more than 1% of a financial statement line item, and the requirement in some cases to report on emissions in company value chains beyond the company's direct control, or scope 3 emissions. Criticisms about these requirements include the high cost of providing these disclosures, suggestions of immateriality in some cases, and concerns about the ability to provide accurate information.

RESEARCH

1. S&P Global published a **report** forecasting the **growth of sustainable bond issuance in 2023**. S&P believes green, social, sustainability, and sustainability-linked bond (GSSSB) issuance could reach between $900 billion to $1 trillion, nearing the record of $1.06 trillion issued in 2021. S&P added that GSSSB issuance from nonfinancial corporates, financial services, and the U.S. and international public finance sectors is likely to comprise 14% to 16% of all bond issuance in 2023.

- S&P identified 3 key themes that could determine whether GSSSB issuance hits the $900 billion-$1 trillion forecast this year. These are policy, regulation, and transparency initiatives; calls for investment in climate adaptation and resilience; and the sustainability-linked bonds' inflection point.
- Europe is expected to retain its leading share of issuance in 2023. In addition, there is likely to be a strong pipeline of issuance coming from the Middle East this year. GSSSB issuance from EMEA also led the way among global regions in 2022. However, some ground was lost as issuance in the Middle East and Africa slowed significantly.

2. NewClimate Institute and **Carbon Market Watch** issued a **report** highlighting that the **climate plans of most major corporations fall well short of their net zero claims**. The corporate climate responsibility monitor 2023 assessed companies which are part of the race to zero initiative and found that their climate plans will only cut 36% off their combined emissions by their net-zero target years, instead of the 90-95% that is required.

- The world needs to halve its carbon footprint by 2030 to keep temperature rises within the relatively safe 1.5°C, yet the companies that have a 2030 target commit to cutting only 15% of their real emissions by 2030. Almost all the climate plans rely on offsetting. Together, the corporations plan to offset between 23% and 45% of their combined carbon footprint.
- A few companies have shown leadership in some areas of climate action, such as innovating pioneering technology that monitors and matches renewable energy consumption and production round the clock or investing in electric vehicles and low-carbon fuel.

3. Kearney, **Polestar** and **Rivian** co-authored a **report** claiming that the **auto industry is likely to miss climate goals by 75%**. The study alerts the industry will dramatically overshoot the intergovernmental panel on climate change (IPCC)'s target to try to limit the average global temperature increase to 1.5°C by 2050 if automakers don't take action. It goes further by suggesting that electrification alone isn't the solution, even if every car sold in the world tomorrow would be electric, the auto industry would still be on track to overshoot the climate target.

- The report suggests 3 levers for a chance to achieve the target by 2050: including a firm end date for selling fossil-fuel cars and investing more in manufacturing capabilities of electric cars; creating more green charging options by investing in renewable energy supplies to global grids; and focusing on more sustainable supply chains.
- The study highlights, as a first point, the need to accelerate the transition to EVs. To replace fossil cars with electric ones, set firm end dates on the sales of fossil cars, and invest in the production of EVs instead. Secondly, it underscores that for EVs to reach their full potential, they need to be charged with renewable energy. The main takeaway of the report is the importance of collective action. Collaboration is the main enabler for the car industry to move further and faster, as collective problems require collective solutions.

COMMERCIAL

1. Dubai Islamic Bank (DIB) announced the **largest-ever sustainable sukuk issuance by a Middle East Financial institution**. DIB successfully priced its second sustainable sukuk with a landmark of $1 billion. The move also represented the largest issuance by a Middle East financial institution in the international capital markets since June 2021. The sukuk was issued in line with DIB's sustainable finance framework, which was created to facilitate financing of green and social initiatives and projects.

- The response from investors was overwhelming and despite issuing a larger size of $1 billion, DIB achieved a 3x oversubscription, which itself was the largest book size seen for a GCC bank in over a year. DIB's $1 billion 5.5-year senior issue has a profit rate of 4.80% per annum representing a spread of 102.4bps over 5-year U.S. treasuries.
- Bank ABC, Dubai Islamic Bank, Emirates NBD, First Abu Dhabi Bank, HSBC, KFH Capital, Mashreq, Sharjah Islamic Bank, Standard Chartered and the Islamic Corporation for the Development of the Private Sector acted as Joint lead managers and bookrunners on the transaction.

2. Emirates National Oil Company (ENOC) and **Dubai Electricity and Water Authority (DEWA)** will tap the **use of hydrogen in mobility.** Both companies agreed to develop and operate a joint integrated pilot project exploring DEWA's existing green hydrogen production facility in the Mohammed bin Rashid Al Maktoum Solar Park and ENOC's knowledge of the fuel market and reach to customers. The partnership was established during the World Government Summit 2023 which took place in Dubai this week.

- The project includes a feasibility study to build a hydrogen fuelling station that contributes to achieving the goals of the Dubai green mobility initiative 2030. The move also aims to stimulate the use of sustainable means of transportation, and support the national hydrogen vehicle system, while developing the UAE's hydrogen economy and opening local markets to hydrogen vehicles.
- An initiative in line with the UAE's energy strategy which aims to double the contribution of clean energy to the total mix to 50% by 2050 and reduce the carbon footprint of power generation by 70%. The country aims to achieve net zero emissions by 2050 and is looking to invest Dh600 billion over the next three decades to meet growing energy demand. The initiative builds on DEWA's commitment to invest Dh40 billion in capital expenditure over the next 5 years to strengthen the company's renewable energy portfolio.

3. Masdar explores ways to **advance climate action in emerging markets**. The UAE-based renewable energy company signed an agreement with the International Finance Corporation (IFC) to explore areas of collaboration to support climate action for emerging markets. The collaboration framework was signed on the side-lines of the World Government Summit 2023.

- Masdar and the IFC will support the establishment of a green hydrogen platform for emerging markets, and potential collaboration on bankability and structuring issues for African renewable energy projects. The framework also covers mechanisms to accelerate the adoption of distributed photovoltaic (DPV) systems, and the development of innovative new technologies and business models in emerging markets as a response to the evolving climate crisis.
- IFC, a member of the World Bank Group, is the largest global development institution focused on the private sector in developing countries. IFC uses its capital, expertise, and influence to create markets and opportunities in developing countries. Masdar is active in a number of emerging markets, developing utility-scale and DPV projects to bring clean energy to communities across Asia and Africa. Africa could capture as much as 10% of the global green hydrogen market, helping to create up to 3.7 million jobs and adding as much as $120 billion to the continent's gross domestic product.