



Monthly ESG Newsletter

August 2022

**ARWIN &
PARTNERS**

Sustainability matters!

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July 2022 – ESG Regulatory updates



ECB takes further steps to incorporate climate change into its monetary policy operations

- On July 4th, The Governing Council of the European Central Bank (ECB) has decided to take further steps to include climate change considerations in the Eurosystem's monetary policy framework
- It decided to adjust corporate bond holdings in the Eurosystem's monetary policy portfolios and its collateral framework, to introduce climate-related disclosure requirements and to enhance its risk management practices
- These measures are designed in full accordance with the Eurosystem's primary objective of maintaining price stability. They aim to better consider climate-related financial risk in the Eurosystem balance sheet and, with reference to the objective of supporting the green transition of the economy in line with the EU's climate neutrality objectives. Moreover, they provide incentives to companies and financial institutions to be more transparent about their carbon emissions and to reduce them

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EU Taxonomy: Commission welcomes the result of the European Parliament on the Complementary Delegated Act

- On July 6th, the European Commission welcomes the result of the vote by the European Parliament on the Complementary Delegated Act on climate change mitigation and adaptation covering certain gas and nuclear activities
- This vote is important recognition of the pragmatic and realistic approach in helping many Member States on their transition path towards climate neutrality
- Gas and nuclear will now be included in the Taxonomy as transitional activities in a limited number of circumstances and under strict conditions. This aligns with the pathway to net zero and the transition towards more renewables. Targeted investments in both are still needed in the medium term. The Complementary Delegated Act will enter into application on 1 January 2023

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SMSG advice to ESMA on EFRAG consultation on sustainability reporting standards

- On July 11th, the Securities and Markets Stakeholder Group (SMSG) provides advice to ESMA in the context of the public consultation by EFRAG on the first set of Exposure Drafts on the European Sustainability Reporting Standards (ESRS), on which ESMA intends to respond
- The SMSG deems it important to inform ESMA of its position in this respect, to allow ESMA to take this into account when responding to the consultation and when preparing its subsequent opinion on this matter to the European Commission
- The SMSG welcomes the publication of the EU Sustainability Reporting Standards (ESRS) that provide key elements of the CSRD proposal. The data is of tremendous importance for investors and the general public in line with the objective of the EU to "shift the trillions" towards a more sustainable economy

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ISSB's Exposure Drafts 'IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information' and 'IFRS S2 Climate related Disclosures'

- On 13th of July, ESMA has published a letter addressed to Emmanuel Faber, Chair of the International Sustainability Standards Board (ISSB). It is related to the ongoing ISSB consultation on the international standards for Corporate Reporting
- ESMA encourages the ISSB to work closely with the EFRAG, to find a common ground on: 1) the architecture of the requirements, reporting boundaries and, where possible, terminology; 2) requirements on information on material risks and opportunities from the perspective of enterprise value creation; 3) the approach for the identification of sustainability-related impacts that reporting entities generate on environment and people
- ESMA also urges to facilitate technical discussions involving the EFRAG and the Global Reporting Initiative (GRI)

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The European Commission delegated regulation containing Regulatory Technical Standards (RTS)

- On 25th of July, the European Commission Delegated Regulation containing Regulatory Technical Standards has been published in the Official Journal of the EU
- The statement is part of the ESAs' (European Supervisory Authorities) ongoing efforts to promote a better understanding of the disclosures required under the technical standards of the SFDR ahead of the planned application of the rules on 1 January 2023
- The European Commission, will continue to promote a better understanding of the RTS in relation to the promotion of environmental and social characteristics and sustainable investment objectives in pre-contractual documents

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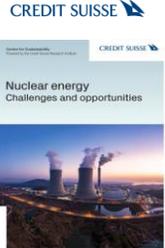
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July 2022 – New documentation on ESG issues

					
<p>ECB – 2022 Climate Risk Stress-Test</p> <p>The European Central Bank (ECB) is required to carry out annual stress tests on supervised entities in the context of its Supervisory Review and Evaluation Process</p> <p>Climate change and the transition to net zero carbon emissions pose risks to households and firms, and therefore to the financial sector. Accordingly, exposure to climate-related and environmental risks is among ECB Banking Supervision's strategic priorities for 2022-24</p> <p>The 2022 ECB climate risk stress test should be seen as a joint learning exercise with pioneering characteristics aimed at enhancing both banks' and supervisors' capacity to assess climate risk</p> <p></p> <p>Focus slide 11,12</p>	<p>UN - The Sustainable Development Goals Report 2022</p> <ul style="list-style-type: none"> The Sustainable Development Goals Report 2022 provides a global overview of progress on the implementation of the 2030 Agenda for Sustainable Development, using the latest available data and estimates It tracks the global and regional progress towards the 17 Goals with in-depth analyses of selected indicators for each Goal According to the Report, the global crises are putting the 2030 Agenda for Sustainable Development in grave danger, along with humanity's very own survival 	<p>Bank of Italy - Climate Risk for Italian Banks</p> <ul style="list-style-type: none"> This note presents recent evidence on initiatives undertaken by Italian banks to assess and integrate the risks posed by climate change into the management of their activities According to data from a recent bank lending survey, only a limited proportion of intermediaries have already initiated analyses of the impact of climate risk (physical and transitional) on their loan portfolios, although a large percentage of banks are set to do so in the near future The number of intermediaries showing awareness and attention to climate change risks is growing, but the dissemination of best practices for their full integration into business strategies remains insufficient 	<p>New Horizons Navigating ESG In 2022</p> <ul style="list-style-type: none"> This report examines the drivers consolidating the market for sustainable finance in the coming years, analysing three main topics: market penetration, regional disparities and responsible investing strategies The United Kingdom's emerging responsible investment framework has the potential to be compatible with the EU's as it has been an early mover on ESG-related regulatory action ESG investment strategies have taken some time to gain recognition in the Middle East and Northern Africa. Several countries including Egypt, Morocco and Jordan lead the region in wind energy production 	<p>Classification Scheme for Sustainable Investments</p> <ul style="list-style-type: none"> This is a white paper drawn in the context of developing a future standard for SRI / ESG related market reports. This is not yet a definitive approach and is meant for discussion purposes to stimulate further thinking and developments in this area There has been an increase of investments in the ESG and sustainability context over the last decade—especially in Europe. The Global Sustainable Investment Alliance estimates global sustainable investments to have reached 35.3 trillion in 2020 The paper is organised as follows: First the introduction of the dimensions and criteria that serve as the foundation for the new classification and as next it has explained the new classification scheme and elaboration on the underlying logic 	<p>A nuclear energy future? For now, it remains unclear</p> <ul style="list-style-type: none"> Although nuclear energy has the potential to generate vast quantities of low-carbon electricity and is evolving with the goal of making the industry safer and less costly, it is still under consideration and source of states debate Construction of nuclear power plants has been plagued by cost overruns, long lead times and delays, which remain a barrier to nuclear power adoption The Credit Suisse Nuclear Energy Report 2022 considers the efficiency and environmental merits and challenges of the technology, presenting also the controversy and political discord over the societies
<p>Click here to download the report</p>	<p>Click here to download the report</p>	<p>Click here to download the report</p>	<p>Click here to download the report</p>	<p>Click here to download the report</p>	<p>Click here to download the report</p>

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ESG Today

Blackstone Invests \$400 Million in Carbon & Environmental Markets Platform

Alternative investment manager Blackstone announced a \$400 million strategic investment led by its energy-focused private equity business Blackstone Energy Partners in global carbon and environmental commodities market infrastructure platform Xpansiv

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ESG News. BETA

EU Parliament pushes for greener aviation fuels

Parliament adopted its position on new draft EU rules to increase the uptake of sustainable fuels by EU planes and airports, in order to cut emissions from aviation and ensure Europe becomes climate neutral by 2050. Suppliers to start delivering sustainable fuel from 2025, reaching 85% of all aviation fuel in EU airports by 2050

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ESG NEWS

How the Royal Bank of Canada fight against greenwashing?

After the Greenwashing, Zero-Washing is the new risk for companies that set Net Zero goals much in the long term, without implementing a serious policy for achieving those goals timed with verifiable milestones. The Royal bank of Canada is focusing on the negative impact of Zero-Washing

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Bloomberg

HSBC re-launches small & mid cap ESG fund

HSBC Asset Management announced the re-launch of its HSBC Opportunity Fund as the HSBC RadiantESG US Smaller Companies Fund. RadiantESG will seek to identify and invest in companies with compelling fundamentals and ESG profiles, using proprietary models to evaluate the companies' key fundamental characteristics

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REUTERS

KKR launches its first two ESG credit funds

Private equity firm KKR & Co Inc is preparing to launch its first two credit funds dedicated to investing based on environmental, social and corporate governance (ESG) principles later this year. The funds will be offered to institutional investors as well as high net-worth individuals

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MARKETS INSIDER

ECB renovate debt holdings to favour greener firms

The European Central Bank plans to gradually renovate its €344 billion corporate debt portfolio to favour greener firms. The ECB is taking another step in aligning monetary policy with climate change goals

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Linklaters

EU: Next steps on Taxonomy Delegated Act on nuclear and natural gas

The European Parliament voted on 6 July not to object to the European Commission's Complimentary Delegated Act (DA) with the technical screening criteria for nuclear power and natural gas under the Taxonomy Regulation

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BCG BOSTON CONSULTING GROUP

BCG has identified ESG Artificial Intelligence solution for sustainability

Advanced analytics and Artificial Intelligence (AI) can be used to help manage challenging issues related to mitigating climate change. AI as a tool is uniquely positioned to help manage these complex issues. Due to its capacity to gather, complete, and interpret large and complex datasets on emissions and climate impact

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ECB incorporates climate change into its monetary policy operations

The European Central Bank (ECB) has decided to take further steps to include climate change considerations in the Eurosystem's monetary policy framework. The ECB aims to introduce climate-related disclosure requirements and to enhance its risk management practices

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EU Commission asks ESAs for input on greenwashing risks

ESAs (European Supervisory Authorities) have been asked to focus on how greenwashing can be avoided, by taking actions and developing new tools to ensure adequate monitoring of greenwashing risks. Supervisory challenges are under consideration in order to enforce new policies

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The EU invest 1.8 billion in clean technologies

The European Union will invest more than 1.8 billion euros in 17 large-scale innovative clean technology projects with a third round of funding under the Innovation Fund. Grants will be provided by the Fund to help bring innovative technologies to market in energy-intensive industries, hydrogen, renewable energy, carbon capture and storage infrastructure

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UniCredit published its first Sustainability Bond Report

UniCredit presented its foundational Sustainability Bond Report based on the principles and guidelines of the 2021 version of the Green and Social Bond Principles and the Sustainability Bond Guidelines of the International Capital Market Association (ICMA), ensuring the transparent allocation and tracking of proceeds

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MSCI launches tool to measure emissions of investment & loan portfolios

Investor-focused decisions support tools and services company MSCI announced the launch of Total Portfolio Footprinting, a new solution to help financial institutions measure carbon emissions across their lending and investment portfolios

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European banks ignore climate in credit models despite short-term risk

European banks are vulnerable to climate-related credit risks in the short term, yet most institutions have not yet included climate in their credit risk models, according to the European Central Bank (ECB). The ECB said four in five institutions neither consider climate risk as a variable when granting loans

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Euronext announces emissions reduction target

Euronext has set its own emission reduction targets. The company will play its role in achieving global climate goals not only by promoting increasingly green financial products and services and guiding investments toward sustainability, but by primarily contributing as a company to reducing its own environmental impact

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Shell invests \$38 Million in forest preservation Carbon Credit Project

Shell Brasil announced USD\$38 million investment in forest preservation carbon credit project developer Carbonext, aimed at helping the company to protect, reforest and develop bioeconomy in the Amazon Forest

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ESG Events Highlights



Sustainable Energy Blockchain & Cryptocurrency – 1/3 August

Sustainable Energy; Blockchain and Cryptocurrency (SEBC-2022) is a meeting place for managers, engineers, scientists and researchers from academia and industry all over the globe

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Virtual



International Conference on Green ICT for Environmental Sustainability – 8/9 August

The conference aims to bring together leading academic scientists, researchers and research scholars to exchange and share their experiences and research results on all aspects of Green ICT for Environmental Sustainability

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NYC, USA



International Conference on Exergy, Energy, Environment and Sustainability – 16/17 August

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Venice, IT



19th International Conference on Sustainable Energy Technologies Sustainability – 16/18 August

SET 2022 is a multidisciplinary, peer-reviewed international conference on sustainable energy sources and technologies that provides a forum for the exchange of latest technical information

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Istanbul, TR



World Conference on Climate Change & Sustainability – 22 August

The climate week will focus on three intensive and interesting days of discussing contemporary challenges and new advancements in climate change

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Virtual



International Conference on Investment Analysis and Sustainability – 30/31 August

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Rome, IT

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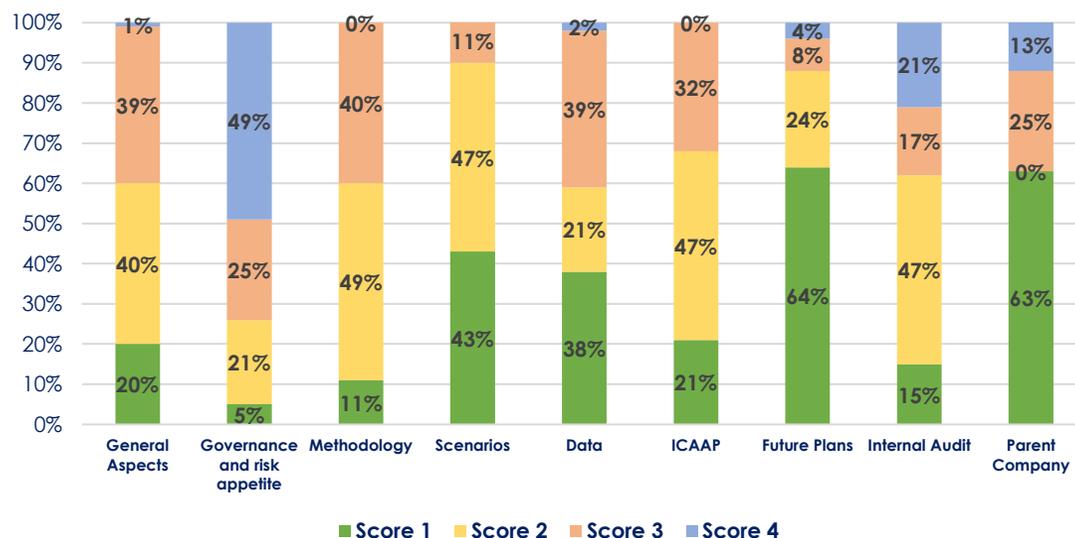
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Stress Test European Central Bank | 1

- In 2022, the ECB has carried out a climate risk stress test among the significant institutions. The ECB climate risk stress test should be seen as a joint learning exercise aimed at enhancing both **banks and supervisors' capacity to assess climate risk**
- The exercise is built to create awareness of climate risk among the supervised institutions and make it easier to determine banks' vulnerabilities and resilience of climate-related risks. The results indicate the extent to which **banks are aligned with the ECB's supervisory expectations**
- The percentage of banks that reported having a stress-testing framework for **climate risk was about 40 percent**. The following are some important results obtained from the test:

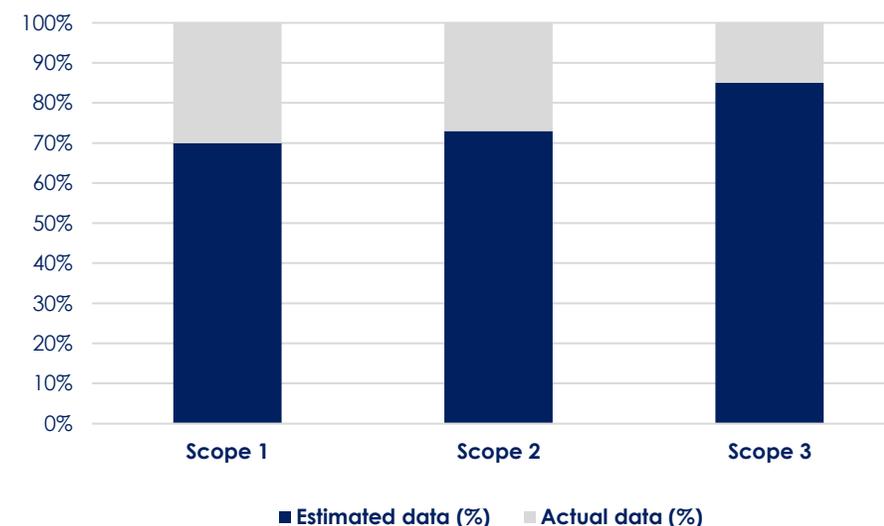
Banks' score per block
(% share of participant banks)



Comments

- The chart provides a detailed indication of institutions' preparedness on the different dimensions of climate risk stress tests **(from 1 to 4, where 1 is the best and 4 is the worst)**

Relative use of actual counterparty data vs proxies for reporting of Scope 1,2 and 3 emission data



Comments

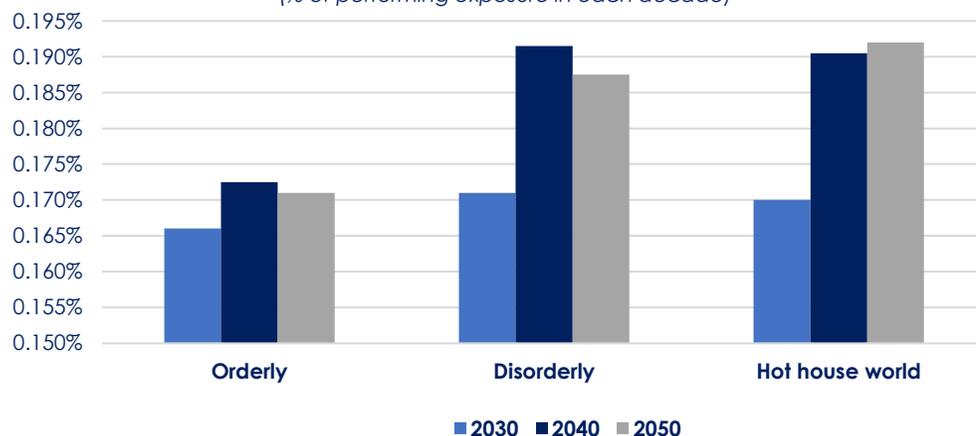
- For all Scope emissions, banks rely heavily on **proxy-based estimates**, as many firms do not currently disclose this information
- In this regard, future regulatory requirements, including the EU disclosure rules currently under discussion, may increase the availability of real customer data to replace proxies

The 2022 stress test considered a wide range of exploratory scenarios covering both transition and physical risk, as well as short-term and long-term prospects. The charts below analyze the long-term outlook for banks under three different scenarios.

1. **The orderly scenario** assumes that climate policies are introduced early and gradually become more stringent
2. **The disorderly scenario** explores a higher transition risk due to delays in policy implementation
3. **The “Hot house World” scenario** assumes that no new climate policies are implemented

Projected loan losses per decade in the long-term scenarios

(% of performing exposure in each decade)



Comments

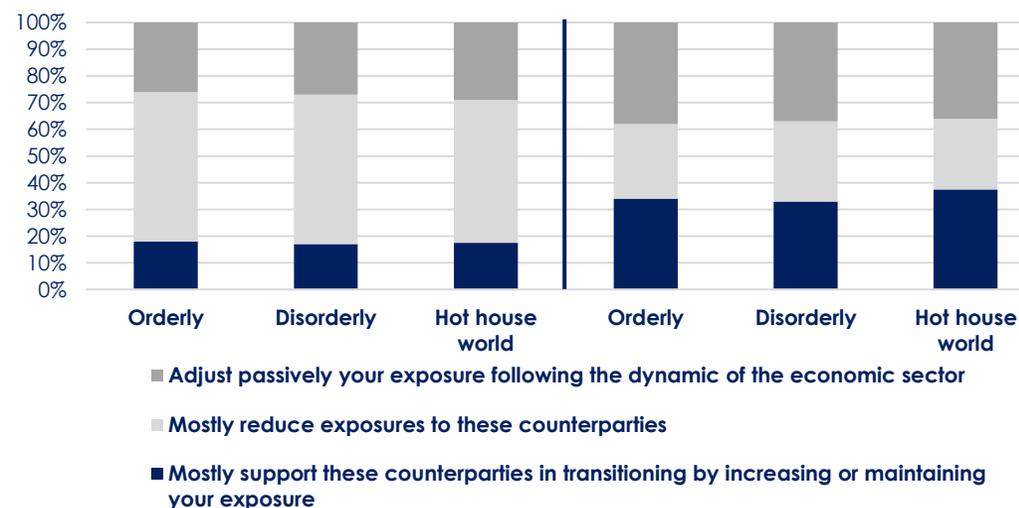
- An **orderly transition would lead to lower loan losses** by 2050 than the other scenarios
- A **disorderly scenario, tends to produce the highest cumulative losses** for the most carbon-intensive sectors, as these sectors are most affected by negative gross value-added developments due to declining demand and changes in the energy mix, resulting in deterioration of their credit quality

Institution’s long-term strategies

(% growth between 2021 and 2050)

Seven highest-polluting sectors

Other sectors



Comments

- Banks consistently reported the same strategic options regardless of the scenario analyzed: **the most polluting sectors were mainly reported as “mostly reduce”**, while **the less polluting among the sectors in scope were reported as “mostly support” or “adjust passively”**
- The lack of elaboration on the different paths signals the need for further efforts to formulate strategic options for the long-term transition scenarios

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ESG Conferences organised by Investment Banks and Brokers

Organiser	Event Name	Mode	Location	Date	Hyperlink (if any)
 RAYMOND JAMES	Sustainability Symposium	Virtual	-	15 August 2022	Raymond James
 COWEN	The 15th Annual Global Transportation & Sustainable Conference	In attendance	Boston	7-8-9 September 2022	Cowen Group
 BNP PARIBAS	ESG Conference	In attendance	Paris	27-29 September 2022	
 OPPENHEIMER	Navigating the ESG & Climate Transition	Virtual	-	28-29 September 2022	Oppenheimer
 CREDIT SUISSE	2022 Credit Suisse Sustainability Week	tbd	tbd	October 2022	Credit Suisse
 SOCIETE GENERALE	ESG/SRI Conference	In attendance	Paris	5-6-7 October 2022	Société Générale SA
 INTESA SANPAOLO	Italian excellences 2022	In attendance	Paris	11-12 October 2022	Intesa Sanpaolo
 CREDIT SUISSE	ESG Land based for a sustainable world	In attendance/Virtual	London	12-13 October 2022	Credit Suisse
 Santander	Santander ESG banking Conference	tbd	tbd	3 November 2022	Banco Santander
 Deutsche Bank	dbAccess Global ESG Conference	Virtual	-	9 March 2023	Deutsche Bank
 BARCLAYS	ESG Finance Conference	Virtual	-	5 April 2023	Barclays