



# Monthly ESG Newsletter

January 2023

**ARWIN &  
PARTNERS**

*Sustainability matters!*

# Contents

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**Section 1: Regulatory Updates**

Section 2: ESG reports

Section 3: ESG news and upcoming events

Appendix I: UNPRI target dates for reporting in 2023

Appendix II: Key milestones for the EBA's work on sustainable finance

Appendix III: Article 9 Downgrades since the beginning of Q4 2022

Appendix IIII: ESG Conferences organized by Investment Banks and Brokers

# December 2022 – ESG Regulatory updates



## ESMA – launches a consultation for the use of ESG terms in funds' names

- In mid-November, the European Securities and Markets Authority (ESMA) is seeking input on draft guidelines on the use in funds' names of ESG or sustainability-related terms. ESMA believes that ESG and sustainability-related terms in funds' names should be supported by evidence of sustainability characteristics
- ESMA proposals are (a) If a fund has any ESG-related words in its name, a minimum proportion of at least 80% of its investments should be used to meet the environmental or social characteristics or sustainable investment objectives in accordance with the binding elements of the investment strategy (b) If a fund has the word "sustainable" or any other term derived from the word "sustainable" in its name, it should allocate within the 80% of investments to "meet the characteristics/objectives" under sub-paragraph (a) above at least 50% of minimum proportion of sustainable investments

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## EBA – publishes its roadmap on sustainable finance

- On 13<sup>th</sup> December, the European Banking Authority (EBA) published its roadmap outlining the objectives and timeline for delivering mandates and tasks in the area of sustainable finance and environmental, social and governance risks
- The roadmap explains the EBA's sequenced and comprehensive approach over the next three years to integrate ESG risks considerations in the banking framework
- The roadmap ensures continuity of actions assumed under the previous action plan, while accommodating the necessary adjustments following the market and regulatory developments, including new mandates and new areas of focus



Focus slides 13-14

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## European Parliament – CSRD published in the Official Journal

- On 16<sup>th</sup> December, the EU's Corporate Sustainability Reporting Directive (CSRD) was published in the Official Journal of the European Union
- The CSRD introduces new requirements for large companies and all companies listed on EU regulated markets, as well as some non-EU companies, to report on sustainability issues, including environmental matters, social and human rights and governance factors. It expands the existing rules under the Non-Financial Reporting Directive (NFRD)
- The directive will enter into force on 5 January 2023 (20 days after publication in the Official Journal) . It must be integrated into Member States' national laws (Including Italy) within 18 months

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## European Parliament – reforms the Emissions Trading System

- On 18<sup>th</sup> December, the European Parliament agreed to reform the Emissions Trading System (ETS), which preserves the "polluter pays" principle, is at the core of European climate policy and key to achieving the objective of EU climate-neutrality
- The participation at EU ETS is mandatory for companies operating in energy-intensive industrial sectors
- Emissions in the ETS sectors<sup>1</sup> must be cut by 62% by 2030. In order to reach this reduction, there will be a one-off reduction to the EU-wide quantity of allowances of 90 Mt (Megatonnes) Co2 equivalents in 2024 and 27 Mt in 2026 in combination with an annual reduction of allowances by 4.3% from 2024-27

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## European Commission – FAQs on the Climate Delegated Act

- On 19<sup>th</sup> December, the European Commission drafted a commission notice on the interpretation and implementation of certain legal provisions of the EU Taxonomy Climate Delegated Act
- This Notice contains technical clarifications responding to FAQs on the technical screening criteria set out in the Climate Delegated Act. The purpose of this Notice is to facilitate the effective application of the Climate Delegated Act
- The document does not address the questions and proposals regarding the reasoning and evidence for the choice of criteria. On these issues, the Commission points out that the impact assessment accompanying the Climate Delegated Act contains further explanations on the development of this act, notably on the reasoning and the balance between the requirements of the Taxonomy Regulation for setting the technical screening criteria

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# Contents

---

Section 1: Regulatory Updates

**Section 2: ESG reports**

Section 3: ESG news and upcoming events

Appendix I: UNPRI target dates for reporting in 2023

Appendix II: Key milestones for the EBA's work on sustainable finance

Appendix III: Article 9 Downgrades since the beginning of Q4 2022

Appendix IIII: ESG Conferences organized by Investment Banks and Brokers

# December 2022 – New documentation on ESG issues | 1



## Frequently asked questions on climate related financial risks

- The Basel Framework is the full set of standards of the Basel Committee on Banking Supervision, the primary global standard setter for the prudential regulation of banks
- The Basel Committee is taking a holistic approach to addressing climate-related financial risks to the global banking system in support of its mandate to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability
- The current publication represents a set of responses to initial FAQs but should not be considered an exhaustive list of standards where the impact of climate risk drivers should be considered

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## The Corporate ESG Guide

- With the devastating impact of climate change being increasingly felt across the world, the concept of the “Just Transition” now takes the central stage. This paper highlights the devastating consequences of climate change and pinpoints the importance of Just Transition considerations for business operations
- The structure of many industries will have to experience the significant reconfiguration to secure the required reduction in GHG emissions
- The Asia-Pacific region has the most extensive and material exposures to the physical climate risk and includes some of the world's biggest emitters - China, India, Japan and Indonesia

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## Biodiversity Loss: A Call to Action

- In order to better integrate biodiversity considerations into portfolio construction, first there is a need to better understand how companies impact and depend on biodiversity. Companies must provide dedicated information for investors to better consider biodiversity related risks and opportunities in their investment decisions
- While biodiversity is quite possibly one of the most complex ESG subjects in existence, it underpins the entire environmental pillar and has strong connections to the social pillar
- There are significant hurdles to effectively account for biodiversity such as challenges around data measurement and a lack of clear standards and guidelines for reporting

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## ESG and Climate Trends to Watch for 2023

- The large-scale trends shaping the ESG-investing world are well-known at this point: climate change risk and the road to net-zero, the growing existential threat of biodiversity loss, social inequalities, regulation and, lately, debate and controversy over what exactly ESG should be
- Many touch on climate change across a variety of angles: from carbon credit funds to insured emissions, and from scrutiny of net-zero targets to decarbonizing industrial real estate
- Regulation is now top of mind not just in the EU, but increasingly in the U.S. and APAC markets

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## Regulatory framework and challenges for Italian banks

- The paper summarises the main regulatory requirements for ESG disclosure and investigates the areas of commonalities at the EU level between the Pillar 3 disclosure requirements and those envisaged by the standards under development by the EFRAG
- It also takes into account the main supervisory initiatives undertaken so far by the Bank of Italy and presents some preliminary thoughts on the major challenges ahead to be faced by Italian banks
- The Bank of Italy, has started a number of initiatives aimed at actively contributing to major international projects, strengthening the dialogue with the national industry and assessing the progress made by supervised entities

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BAIN & COMPANY



## Global Energy and Natural Resources Report 2022

- Bain & Company published its second annual report on the energy and resource transition and surveyed more than 1,000 client executives across the energy and natural resources sector
- Throughout this analysis, Bain & Company wanted to better understand clients' views on the energy and resource transition; new technologies and opportunities; and where they see environmental, social and corporate governance (ESG) challenges in addition to decarbonization
- The results confirm many of the trends we see, with more awareness on ESG topics and heavy investments by companies for decarbonization processes

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McKinsey & Company



## The Energy Transition: A region-by-region agenda for near-term action

- As 2022 comes to a close, the energy transition seems more disorderly than ever. A world economy shaken by a global pandemic and the surging inflation that has accompanied the subsequent recovery has had to contend with a tragic conflict in Ukraine
- This report identifies the requirements for the net-zero transition, highlights a range of near-term actions that countries and regions around the world could take to ensure they energy transition
- As we look toward 2023 and COP28, the dual events of ensuring energy resilience and affordability and of reducing emissions appear equally crucial and relevant

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# Contents

---

Section 1: Regulatory Updates

Section 2: ESG reports

**Section 3: ESG news and upcoming events**

Appendix I: UNPRI target dates for reporting in 2023

Appendix II: Key milestones for the EBA's work on sustainable finance

Appendix III: Article 9 Downgrades since the beginning of Q4 2022

Appendix IIII: ESG Conferences organized by Investment Banks and Brokers

# ESG News Highlights: December 2022

ESG today

## Dow Jones sustainability indices results

S&P Dow Jones Indices announced the results of its annual rebalancing and reconstitution assessments of its preeminent Dow Jones Sustainability Indices. High profile changes to the DJSI North America index include the addition of Eli Lilly, Walmart and Disney and on the other side the deletion from the index of UPS and Starbucks due to ESG inadequate criteria

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Linklaters

## EU Council reaches compromise on CSDDD

The Council of the EU has now finalised its position on the Commission's draft of the Corporate Sustainability Due Diligence Directive also known as CSDDD. The European Parliament still needs to finalise its own position before it is ready to negotiate with the Council and is not expected to be in that position until March/April 2023

[Click here to go to the article](#)

ESG today

## Sustainalytics launches ESG risk ratings

ESG ratings, data, and research provider Morningstar Sustainalytics announced an expansion to its ESG Risk Ratings service to new asset classes including fixed income and private equity. The announcement marks a nearly 30% increase in coverage to more than 16,300 analyst-based ESG Risk Ratings

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FCA FINANCIAL CONDUCT AUTHORITY

## FCA announces ESG Committee to its board

Earlier this year the FCA Board agreed to establish a new ESG Advisory Committee to help execute its ESG-related responsibilities. This includes meeting the Government's expectation that we 'have regard' to the UK's commitment to achieving a net zero economy by 2050, when considering how to advance and achieve our objectives and functions

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ESG CLARITY

## "Nature Action 100" at COP15

The "Nature Action 100" is a global investor engagement initiative to reduce nature loss and biodiversity decline launched at COP15 in Montreal with the aim to bring investors together to collaboratively engage corporates, but on nature-related risks and dependencies instead of on climate

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REUTERS

## EU establishes carbon tax on imports

European Parliament and members of the EU Council reached a late-night deal today on the establishment of a carbon tax on imported goods, aimed at equalizing the carbon price paid by European producers with those outside the EU, and avoiding undermining the EU's actions to reduce product's emissions with imports from countries with less ambitious climate policies

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FT FINANCIAL TIMES

## HSBC ends financing for new oil and gas projects

HSBC will no longer provide financing for new oil and gas projects or for new metallurgical coal mines, according to its new Energy Policy, and the bank will require energy sector clients to provide transition plans consistent with its climate targets in order to continue receiving financing and to improve investment policies

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THE IRISH TIMES

## EU on emissions: polluter pays

The EU takes a big step to achieve climate neutrality. The European institutions have reached an agreement on the new CO2 market features, the Emissions Trading System (ETS) aiming to combat climate change and its key tool for reducing greenhouse gas emissions cost-effectively. The system, translates the 'polluter pays' principle into practice

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# ESG Events Highlights: January 2023



## EMEA ESG Webinar – 10 January

During this webinar will be done a quick recap on what is expected for financial market participants and financial products since the 1st of January 2023 and consultation paper on ESG naming rules and the Platform on sustainable finance supplementary Report on the Environmental Taxonomy

[Click here to go to the page](#)

Virtual



## The London Sustainability Forum – 16 January

Responsible Investor USA 2022 is the 14th annual conference focusing on sustainable business and finance issues in North America. This year, we are back in person in New York to discuss sustainable finance developments and industry best practices

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London, UK



## World Economic Forum – 16/20 January

Under the theme 'Cooperation in a Fragmented World', the Annual Meeting 2023 will bring together more than 2,500 leaders from government, business and civil society, at a pivotal time for the world

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Davos, CH



## 20th International Conference on Renewable Mobility “Fuels of the Future” – 23/24 January

Fuels of the future 2023 welcomes national and international participants including representatives from the raw material collecting and processing industry, the biofuel, certification systems as well as from politics, science and research

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Berlin, DE



## ESG and Climate Trends to Watch for 2023 – 26 January

Against a backdrop of a war in Europe, inflation, energy markets in turmoil, political uncertainty and an unending stream of climate-induced disasters, MSCI's ESG and Climate Trends to Watch for 2023 takes a closer look at some of the major developments

[Click here to go to the page](#)

Virtual

# Contents

---

Section 1: Regulatory Updates

Section 2: ESG reports

Section 3: ESG news and upcoming events

**Appendix I: UNPRI target dates for reporting in 2023**

Appendix II: Key milestones for the EBA's work on sustainable finance

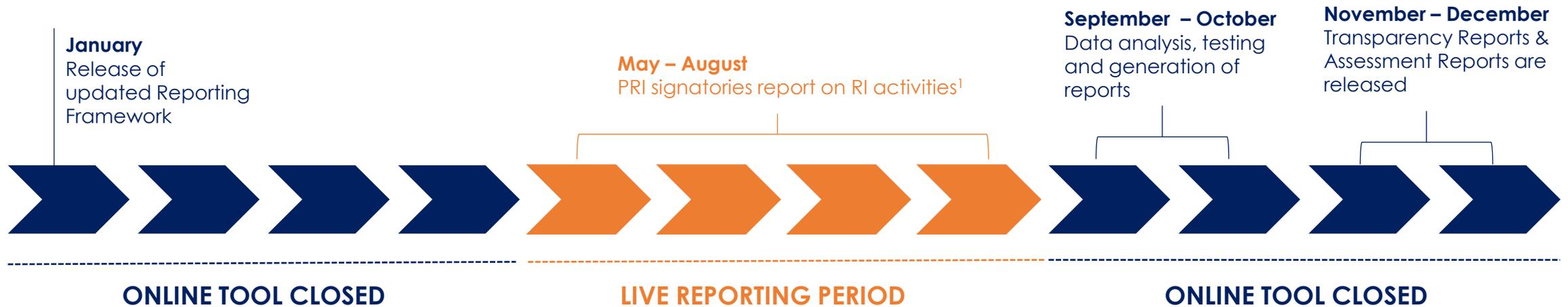
Appendix III: Article 9 Downgrades since the beginning of Q4 2022

Appendix IIII: ESG Conferences organized by Investment Banks and Brokers

# UNPRI target dates for reporting in 2023

The next UNPRI reporting cycle will open in **mid-May 2023**. The 2023 **Reporting Framework** will be released in January 2023, ahead of the reporting period

## Timeline 2023



Source: UN PRI

1 | Note<sup>1</sup>: RI activities – Responsible Investment activities

# Contents

---

Section 1: Regulatory Updates

Section 2: ESG reports

Section 3: ESG news and upcoming events

Appendix I: UNPRI target dates for reporting in 2023

**Appendix II: Key milestones for the EBA's work on sustainable finance**

Appendix III: Article 9 Downgrades since the beginning of Q4 2022

Appendix IIII: ESG Conferences organized by Investment Banks and Brokers

This **roadmap** outlines the **EBA's workplan** on sustainable finance and Environment, Social and Governance (ESG) risks<sup>1</sup>. It builds on and replaces the EBA's first action plan on sustainable finance published in December 2019<sup>2</sup>. The roadmap explains the EBA's **approach and objectives** in the area of ESG and describes the **mandates and tasks** received from the **EU legislators** and directly from the **European Commission**, together with the EBA's associated planned activities and timelines

The EBA's activities **on ESG risks and sustainable finance** can be classified under the following main areas:

1. transparency and disclosures;
2. risk management and supervision (including transition plans);
3. prudential treatment of exposures;
4. stress-testing;
5. standards and labels;
6. greenwashing;
7. supervisory reporting;
8. ESG risks and sustainable finance monitoring framework.



Source: European Banking Authority

13 Note<sup>1</sup>: sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. In the EU's policy context, sustainable finance is understood as: (i) finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects; (ii) transparency when it comes to risks related to ESG factors that may have an impact on the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors  
Note<sup>2</sup>: EBA Action Plan on Sustainable Finance

# Key milestones for the EBA's work on sustainable finance | 2

EBA Roadmap

	2021	2022	2023	2024	2025
 <b>TRANSPARENCY &amp; DISCLOSURE</b>	EBA advise on disclosure under Art.8 of Taxonomy Regulation	ITS on ESG Pillar 3 prudential disclosures	RTS on ESG disclosures for STS securitization	Review of ITS on ESG Pillar 3 prudential disclosures	
 <b>TRANSPARENCY &amp; DISCLOSURE - SFDR</b>	RTS on sustainability disclosure: financial and investment decisions	Review of RTS on sustainability disclosures – fossil gas and nuclear energy investments	Review of RTS on sustainability disclosures –PAI indicators	Support for the implementation of disclosure requirements	
 <b>RISK MANAGEMENT &amp; SUPERVISION</b>	Report on ESG risks management and supervision	Report on ESG risks in SREP for IFs	CP on the Guidelines on ESG risks management	Final GL on ESG risks management Third revision of SREP GL	
 <b>PRUDENTIAL TREATMENT</b>		DP on environmental risks in prudential framework	Final Report on prudential treatment of exposures		
 <b>STRESS TEST</b>	Pilot climate exercise		CP on GL on institutions' stress testing	One-off joint exercise. Final GL on institutions' stress testing	GL on supervisory ESG stress testing
 <b>STANDARDS &amp; LABELS</b>	Updated report on monitoring of AT1 instruments	Report on green securitisation	Advice on green loans and mortgages		
 <b>GREEN WASHING</b>		Surveys to stakeholders and to CAs	Advice on greenwashing – progress report	Advice on greenwashing – final report	
 <b>SUPERVISORY REPORTING</b>		DPM of Pillar 3 quantitative disclosure		ITS on ESG reporting. Ad-hoc collection of P3 quantitative data	Preparation and launch of regular supervisory reporting on ESG
 <b>ESG RISK &amp; SUSTAINABLE FINANCE MONITORING</b>			Development of the monitoring framework for ESG risks and sustainable finance		

# Contents

---

Section 1: Regulatory Updates

Section 2: ESG reports

Section 3: ESG news and upcoming events

Appendix I: UNPRI target dates for reporting in 2023

Appendix II: Key milestones for the EBA's work on sustainable finance

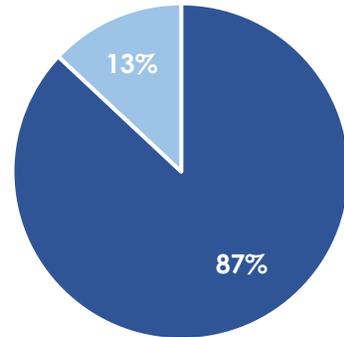
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Appendix IIII: ESG Conferences organized by Investment Banks and Brokers

# Article 9 Downgrades between September and mid-November 2022

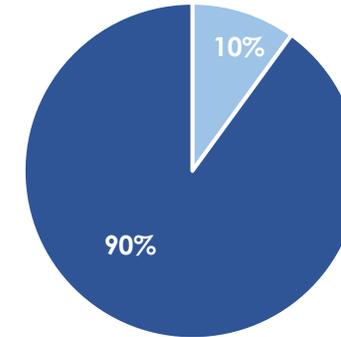
Europe's Asset Managers are increasingly considering the positioning of their sustainable funds

Chart 1 - Fund reclassification from Art 9 to Art 8



■ SFDR Downgrades (Art 9 to 8) ■ SFDR Upgrades (Art 8 to 9)

Chart 2 - Art 9 reclassified



■ Art 9 Funds Reclassified ■ Art 9 Funds Unchanged

## Comments:

- Funds have been downgraded by Asset Managers from Article 9 (funds deemed to have the highest ESG ambition) to Article 8 (funds with some ESG characteristics)
- As shown in Chart 1, **87% of fund reclassification have been downgraded from Art 9 to Art 8**. While, in Chart 2 these reclassifications mean **10% of Europe's Article 9 funds have downgraded to Art 8 in the past two months**

Source: Jefferies

# Contents

---

Section 1: Regulatory Updates

Section 2: ESG reports

Section 3: ESG news and upcoming events

Appendix I: UNPRI target dates for reporting in 2023

Appendix II: Key milestones for the EBA's work on sustainable finance

Appendix III: Article 9 Downgrades since the beginning of Q4 2022

**Appendix IIII: ESG Conferences organized by Investment Banks and Brokers**

# ESG Conferences organized by Investment Banks and Brokers

Organiser	Event Name	Mode	Location	Date	Hyperlink (if any)
 <b>BANCA IMI</b>	Private Placement ESG Industry		Miami	23 January 2023	<a href="#">Banca IMI</a>
 <b>Deutsche Bank</b>	dbAccess Global ESG Conference	Virtual	-	8 March 2023	<a href="#">Deutsche Bank</a>
 <b>BARCLAYS</b>	ESG Finance Conference	Virtual	-	5 April 2023	<a href="#">Barclays</a>
 <b>SVERIGES RIKSBANK</b>	Climate Change & Financial System Conference	tbd	tbd	2-3 May 2023	<a href="#">Sveriges Riksbank</a>
 <b>Raiffeisen Bank International</b> Member of RIBI Group	Sustainable Finance Conference 2022	tbd	tbd	2023	