



Monthly ESG Newsletter

July 2023

**ARWIN &
PARTNERS**

Sustainability matters!

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ESG Regulatory/Reporting updates | 1

June 2023

- On 26th June 2023, the International Sustainability Standards Board (ISSB) published its *inaugural standards*. The standards are designed to ensure that **companies provide sustainability-related information alongside financial statements**
- The standards, which fully incorporate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), are:



IFRS S1

IFRS S2

- which **provides a set of disclosure requirements** designed to enable companies to **communicate to investors** about the **sustainability-related risks and opportunities** they face over the **short, medium and long term**
- timing: IFRS S1 is effective for annual reporting periods beginning on 1st January 2024 and as stated by ISSB Chair Emmanuel Fabar “[...] by the 26th of June 2025 when the first reports of IFRS S1 & IFRS S2 will start to coming out from the jurisdictions and companies, those standards would mark a new era of sustainability-related information anticipating risks in the financial statement”

The **objective** of IFRS S1 is to require an entity to **disclose information** about its **sustainability-related risks and opportunities** and it is required to provide:

- a. the governance processes, controls and procedures the entity uses to monitor, manage and oversee **sustainability-related risks and opportunities**;
- b. the entity's strategy for managing **sustainability-related risks and opportunities**;
- c. the processes the entity uses to identify, assess, prioritise and monitor **sustainability-related risks and opportunities**; and
- d. the entity's performance in relation to **sustainability-related risks and opportunities**, including progress towards any targets the entity has set or is required to meet by law or regulation.

- which sets out specific **climate-related disclosures** and is designated to be used with IFRS S1
- timing: IFRS S2 is effective for annual reporting periods beginning on 1st January 2024

The **objective** of IFRS S2 is to require an entity to **disclose information** about its **climate-related risks and opportunities** and it applies to:

- a. climate-related **physical** and **transition** risks;
- b. climate-related **opportunities available to the entity**.

IFRS S2 requires also to provide point a, b, c, d, of IFRS S1 but referring to **climate-related risks**

Source: IFRS



ESAs – Progress Report on Greenwashing

- The European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) published their Progress Reports on Greenwashing in the financial sector. In these reports, the ESAs put forward a common high-level understanding of greenwashing applicable to market participants across their respective areas of interest – banking, insurance and pensions and financial markets
- The ESAs understand greenwashing as “a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants”
- The National Competent Authorities (NCAs) and the ESAs are, therefore, working to meet expectations from stakeholders to ensure consumer and investor protection
- Timing: the ESAs will publish final greenwashing reports in May 2024 and will consider final recommendations

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European Parliament – agrees its position on CSDDD

- The European Parliament agreed its negotiating position on the Commission's proposal for a Corporate Sustainability Due Diligence Directive (CSDDD or CS3D) on 1 June 2023
- The aim of this Directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance
- Under the CSDDD, companies will need to implement climate transition plans, and, in the case of companies with more than 1,000 employees, directors' variable compensation is tied to target achievement
- Sanctions include fines of at least 5% of the net worldwide turnover and non-EU companies that fail to comply with the regime will be banned from public procurement in the EU
- Timing: the European Parliament hope to reach a final agreement on the CSDDD by the end of this year

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European Commission – Taxonomy Delegated Acts

- The European Commission approved two Delegated Acts under the Taxonomy Regulation:
 - I. a Delegated Act with the technical screening criteria (“TSC”) for the remaining four environmental objectives: circular economy, water and marine resources, pollution prevention and control, and biodiversity and ecosystems - also known as “Taxo4” and which also makes the necessary amendments to the existing Taxonomy Disclosure Delegated Act;
 - II. a Delegated Act which amends the existing Taxonomy Climate Delegated Act to include climate adaptation and mitigation TSC for additional economic activities and some changes to existing climate TSC.
- Once the Commission has formally adopted the two Delegated Acts, the European Parliament and Council will then have four months to scrutinise the Delegated Acts
- Timing: Delegated Acts would be applied on 1st January 2024

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European Commission – Sustainable Finance Package

- The package shows how the EU sustainable finance agenda can support companies and the financial sector by encouraging private funding of transition projects and technologies and facilitating financial flows to sustainable investments
- The Commission has put forward a new package of measures to build on and strengthen the foundations of the EU sustainable finance framework. Specifically, the Commission is adding additional activities to the EU Taxonomy and proposing new rules for Environmental, Social and Governance (ESG) rating providers, which will increase transparency on the market for sustainable investments
- Timing: the Sustainable Finance Package follows the launching on Friday 9 June of a four-week feedback period on a first set of sustainability reporting standards for companies

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European Parliament – publishes the Deforestation Regulation (EUDR)

- The Deforestation Regulation is aimed at (a) minimising the Union's contribution to deforestation and forest degradation worldwide, and thereby contributing to a reduction in global deforestation, and (b) reducing the Union's contribution to greenhouse gas emissions and global biodiversity loss
- The Regulation applies to all operators and traders, irrespective of their size (although there are less stringent obligations for SMEs). It thus has the potential to impact all buyers and sellers of relevant commodities (cattle, cocoa, coffee, oil palm, rubber, soya and wood) or derived products
- Financial institutions will not be directly obliged to analyse their investments for deforestation risks (despite the Commission having to assess by 30 June 2025 the need to include financial institutions within the scope of the regime)
- Timing: EUDR will enter into force on 29 June 2023, although the main obligations will not apply until 30 December 2024

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European Parliament – targets for renewable energy

- The Renewable Energy Directive (RED III) has been agreed by a large majority in the European Council and will now be submitted to the European Parliament for final approval. This Directive aims to support the delivery of the energy security and climate objectives in the context of the REPowerEU strategy – Europe's energy response to the Ukraine war
- This increases the EU's targets, requiring at least 42.5% but aiming 45% of EU energy to be renewable by 2030 - as opposed to 32% as it currently stands. These targets are supplemented with sector-specific targets in transport, industry and heating, with parallel targets within respective sectors allowing member states to adopt the target which best aligns with their specific industrial and policy goals
- In addition, RED III aims to accelerate planning and permitting procedures by loosening requirements on environmental impact assessments and giving renewable projects the status of 'overriding public interest' by the end of 2023

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Net-Zero investing

- Global warming and the Net Zero transition have far-reaching implications for investors. In particular, embracing a Net Zero path will impact investors' asset allocation in two ways:
 1. Strategic asset allocation decisions will need to consider how the transition will impact economic and financial variables and thereby, the returns investors can expect in the future across asset classes. Responsible investors will favour sectors and companies which lead the innovation required to make the transition happen
 2. Investors can embrace the Net Zero path within their equity and corporate bond allocations to ensure their portfolios are Net Zero aligned. This urgency is demonstrated by investor and asset manager coalitions, such as the Net Zero Asset Owner Alliance, as well as the Net Zero Asset Managers Initiative. As part of these initiatives, financial institutions are setting science-based climate targets, with the ultimate goal of reaching carbon neutrality by 2050

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OECD economic outlook 2023

- Global economic developments have begun to improve, helped by lower energy prices, improving business and consumer sentiment, and the reopening of China. However, the OECD Economic Outlook 2023 highlights that the upturn is fragile, and the recovery is set to remain weak by past standards, with the effects of tighter monetary policy increasingly being felt
- The Outlook underlines a range of risks, including the possibility that inflation could prove more persistent than projected and that the impact of higher interest rates on financial markets and economic activity could be stronger than expected
- Well-calibrated policy measures are required to unwind the impact of the recent sequence of negative shocks to the global economy, restore economic stability, and strengthen prospects for strong, inclusive and sustainable improvements in living standards

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Repurposing environmentally harmful subsidies

- Clean air, land, and oceans are critical for human health and nutrition and underpin much of the world's economy. Yet they suffer from degradation, poor management, and overuse due to government subsidies
- "Detox Development: Repurposing Environmentally Harmful Subsidies" examines the impact of subsidies on these foundational natural assets. Explicit and implicit subsidies estimated to exceed US\$7 trillion per year, not only promote inefficiencies but also cause much environmental harm. For instance, agriculture is the largest user of land worldwide, feeding the world and employing 1 billion people, including 78% of the world's poor. But it is subsidized in ways that promote inefficiency, inequity, and unsustainability
- The aim of this report is to enhance understanding of the magnitude, consequences, and drivers of policy successes and failures in order to render reforms stricter and more achievable

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Plastic pollution: pathways to net zero

- Plastic pollution continues to be a key sustainability challenge for the world. Each year more than 350 million metric tons of plastic become plastic waste, of which approximately 80 million metric tons (22%) is mismanaged worldwide
- Without additional policy action by 2060 there could be more plastic metric tonnage than whale biomass in the sea, at the same time, the data shows that we are improving our plastic pollution solutions. Over the last decade, mismanaged plastic as a proportion of total plastic waste has declined – in the OECD by 60% and in non-OECD countries by 30%
- In March 2022, the United Nations Environment Assembly adopted a landmark resolution and initiated negotiations for a global plastics treaty to end plastic pollution in what could be the most significant multilateral proposal since the Paris Agreement in 2015

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MSC launches first ever net-zero cruise

MSC Cruises announced plans to operate the first-ever net zero cruise, powered by bio-liquefied natural gas (LNG), on its new flagship, MSC Euribia. The company purchased 400 tons of bio-LNG for the journey, with its significant lifecycle emissions reductions. The vessel will sail for four days between France and Denmark, departing on 3rd of June

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ECB: climate risks expectations by 2024

European banks will have to align with the ECB's climate risk expectations by the end of 2024 otherwise there will be capital penalties. According to the ECB's latest stress test, European banks may lose more than €70 billion to the climate. About 60% of the banks, do not have a framework for climate stress tests

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OECD: updates guidelines on responsible conduct

The OECD Guidelines have been revised to include new or updated recommendations related to (i) climate change (ii) biodiversity (iii) supply chain due diligence and (iv) the "Just Transition" with low-carbon impact. This shift in the sustainability landscape has notably seen the driving of an ambitious legislative agenda by the EU

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75% of investors plan to stop in non-ESG products

Global ESG-focused private markets (PM) assets under management is anticipated to surge over the next few years with a significant majority of limited partner (LP) investors planning to increase allocations to ESG investments, and more than 75% intending to stop in non-ESG products over the next two years

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Iberdrola signs €1 Billion green financing agreement with EIB

Global energy and electricity provider Iberdrola announced today that it has signed a €1 billion financing agreement with European Investment Bank (EIB), with proceeds aimed at funding the buildout of renewable energy projects across Europe sufficient to power more than 1 million homes

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UK-US agreement to energy transition

The US-UK bilateral investment relationship is the largest in the world, with over \$1.5 trillion. The partnership is based on 5 pillars (i) ensuring US-UK leadership in critical and emerging technologies, (ii) advancing economic security, (iii) inclusive digital transformation, (iv) building clean energy economy, (v) cooperating across defence and health security

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Water shortage and possible scenarios

The problem of water scarcity is increasingly dramatic. The World Wildlife Fund (WWF) estimates that by 2025, two-thirds of the world's population could face water shortages. In Italy, 40% of the water that passes through the water supply system is wasted for this reason. AI water solutions have been evaluated

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NEOM closes \$8.4 Billion for world's largest hydrogen plant

NEOM Green Hydrogen Company (NGHC) is a joint venture created between ACWA Power, Air Products and NEOM to build the world's largest green hydrogen plant to produce green ammonia in 2026. The plant is built in Saudi Arabia and can produce 600 tonnes of hydrogen per day

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ESG & Sustainability upcoming events

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Sustainable long-term investments & CSDDD – 5 July

Eurosif is proud to be a partner of the event on the Corporate Sustainability Due Diligence Directive (CSDDD). The event's aim is to bring together key players and gather different stakeholders' views and priorities for the upcoming CSDDD

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European Parliament
(TBD)



Energy & Renewables Networking Event – 6 July

Robert and Hugh have over 50 years combined commercial experience after graduating from Imperial College and Durham University, respectively. They founded CCQ Tech 20 years ago specialising in mathematical and scientific software development, data and digital solutions

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London, United Kingdom



IIA's International Conference 2023 – 10-12 July

The Institute of Internal Auditors (IIA) organised this conference aiming to bring professionals to embrace and learn new technologies and implement new tools and techniques to effectively respond to shifting business and risk landscape integrating ESG metrics

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Amsterdam, Netherlands



Energy Next 2023 – 18-19 July

Energy Next is a free-to-attend industry event focusing on the latest renewable energy and energy management technologies, which will be at the ICC Sydney in Darling Harbour

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Sydney, Australia



Sustainable Business Summit – 26 July

The Bloomberg Sustainable Business Summits bring together business leaders and investors globally to drive innovation and scale best practices in sustainable business and finance

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Republic of Singapore



Advancing Construction Decarbonization 2023 – 31 July-2 August

The 2nd annual Advancing Construction Decarbonization conference will unite over 100 Sustainability and Project Leaders from contracting firms across North America to solve and advance these carbon reduction developments

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Denver, USA

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ESG Conferences organized by Investment Banks and Brokers

Annual list

Organiser	Event Name	Mode	Location	Date	Hyperlink (if any)
 REUTERS	Leadership ESG Summit & Global Broadcast	In attendance	tbd	6-7 September 2023	Reuters
 BORSA ITALIANA	7 th Edition – Sustainability Week	Virtual/In attendance		5-8 September 2023	Borsa Italiana
 UBS	Sustainable Finance Conference 2022	In attendance	London	11 September 2023	UBS
 UBS	Global Energy Transition Conference	tbd	London	12-13 September 2023	UBS
 United Nations	SDG Summit 2023	In attendance	New York	19-20 September 2023	SDG Summit
 PRIVATE EQUITY EUROPEAN ESG SUMMIT	Private Equity European ESG Summit	In attendance	London	4 October 2023	PE ESG Summit
	World Sustainability Congress	In attendance	Amsterdam	18-19 October 2023	Sustainability Congress
 J.P.Morgan	Global Energy Conference	tbd	London	6-7 November 2023	J.P.Morgan
 SOCIETE GENERALE	2023 Société Générale European ESG-SRI Conference	tbd	Paris	7 November 2023	Société Générale
 EFAMA	Investment Management Forum Impact	In attendance	Brussels	23-24 November 2023	EFAMA
 United Nations Climate Change Global Climate Action	UN Climate Change Conference	In attendance		30 Nov – 12 Dec 2023	UN Climate Change

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