

Monthly ESG Newsletter

November 2024

**ARWIN &
PARTNERS**

Sustainability matters!

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ESG Regulatory updates

October 2024



EU Commission – strengthens support for EU Deforestation Regulation implementation

- The Commission published additional guidance documents and a stronger international cooperation framework to support global stakeholders, Member States and third countries in their preparations for the implementation of the EU Deforestation Regulation (EUDR)
- Under the EUDR, any operator or trader who places commodities such as cattle, wood, cocoa, soy, palm oil, coffee, rubber (and some of their derived products, such as leather, chocolate, tyres, or furniture) on the EU market, or exports from it, must be able to prove that the products do not originate from recently deforested land or have contributed to forest degradation
- The guidance presented will provide additional clarity to companies and enforcing authorities to facilitate the application of the rules, coming on top of the Commission's continuous support for stakeholders since the law's adoption
- Timing: ongoing 2024
 - Note: European Parliament and the Council, it would make the law applicable on 30 December 2025 for large companies and 30 June 2026 for micro- and small enterprises

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ESMA – focus on implementing the sustainable finance framework in 2025

- The European Supervisory Authorities (ESMA) have each published their work programmes for 2025 setting out their strategic priorities for the coming year. Sustainable finance remains one of the top priorities for all three regulators
- According to its 2025 Annual Work Programme, ESMA will intensify its focus on implementing the sustainable finance legal and supervisory framework, combating greenwashing, and promoting transparency in sustainable investments. Specific outputs in relation to sustainable finance include:
 - collaborating with national supervisory authorities to support the development of supervisory tools and methodologies to detect and address potential greenwashing practices, including using natural language processing (NLP)
 - developing technical standards under the ESG Ratings Regulation
 - potentially providing further guidance and Q&As for sustainability disclosures under the SFDR
- Timing: 2024-2025 ongoing

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PRA – provides banks with feedback on accounting for climate risk

- The Prudential Regulation Authority (PRA) has sent a "Dear CFO letter" to a selection of banks providing feedback from its thematic review of written auditor reports received in 2023. Among other matters, the review included its findings on accounting for climate risks
- The aim of the findings is to encourage banks to identify improvements that can be made in capabilities in quantifying the impact of climate risk on expected credit loss (ECL). The near-term areas of focus include:
 - identifying the climate-related risk drivers that could influence ECL for loan portfolios that have the highest sensitivity to climate risks
 - use of quantitative analysis on the impact of climate-related risk drivers on ECL and significant increase in credit risk at a portfolio level
 - identifying how economic scenarios and weightings used for ECL calculations should be adapted to incorporate climate-related risk drivers
- The PRA plan focus on disclosures to help users understand the effect of climate risk on firms' exposure to credit risk, how the effect of climate risk has been considered in ECL measurement
- Timing: 2024-2025 ongoing

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EU Commission – state of the Energy Union 2024

- The EU's energy policy is pivotal in balancing competitiveness, security, and the shift towards climate neutrality by 2050. As part of the European Green Deal, energy policies are crucial in addressing 75% of Europe's greenhouse gas (GHG) emissions, aligning with objectives like zero pollution, biodiversity conservation, and a circular economy. This policy framework, which matured further in 2023 and 2024 with the Fit for 55 Package, outlines legislative measures to meet the EU's climate and energy targets by 2030, marking a strong commitment to reducing emissions and enhancing sustainability
- Accelerating the transition to clean energy remains critical for ensuring sustainable, competitive, and affordable energy in the EU. The EU has set a milestone 2030 target of reducing GHG emissions by 55% (compared to 1990) with an intermediate 2040 target of a 90% reduction. The annual State of the Energy Union report tracks the EU's progress, detailing advancements in decarbonization, energy security, and internal energy markets. These initiatives are crucial for the EU's economic resilience, industry competitiveness, and broader climate goals
- Timing: 2024 ongoing

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The Green Central Banking Scorecard

- The Green Central Banking Scorecard ranks G20 countries based on the efforts of their central banks and supervisory institutions to integrate environmental considerations into their operations. The ranking is based on four categories: Research and Advocacy, Monetary Policy, Financial Policy, and Leading by Example
- The research evaluates the progress made by G20 countries since the 2022 edition, considering their historical environmental impact and imbalances in global monetary power. The report underscores the urgency for high-impact green policies, particularly from countries with significant historical responsibility for climate change. In the 2024 rankings, the European Union banks as France, Germany, and Italy occupy the top positions, with Brazil and China while US lack of action on environmental risks
- Despite progress by some central banks, the report identifies key areas where further action is needed, particularly in recognizing the dual materiality of climate change. Many institutions are slow to adopt policies that move away from carbon-intensive activities and embrace sustainable alternatives. A continued reliance on fossil fuels is creating challenges for price stability, necessitating a shift in how central banks integrate environmental factors into inflation forecasting and macroeconomic modeling

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How important are ESG factors for banks' cost of debt? An empirical investigation

- The paper examines the relationship between banks' ESG (environmental, social and governance) scores and their funding costs. It also provides empirical insights into the question of whether investors consider changes in ESG scores when making investment decisions
- Eurozone banks will find themselves increasingly reliant on market funding in the upcoming years, with the gradual phasing out of long-term refinancing operations (TLTRO III). One significant factor that could influence the cost of financing for banks in the market is their exposure to environmental, social and governance (ESG) factors. Investors are progressively incorporating ESG considerations into their investment decisions
- ESG ratings, which offer a comprehensive evaluation of companies' sustainability performance based on a variety of indicators, could have the potential to exert an impact on the funding costs of financial intermediaries. The research paper investigate the relation between the ESG ratings and banks' cost of funding through two distinct analyses: firstly, we explore the effect of ESG ratings on banks' bond yields at issue; secondly, we examine the impact of rating changes on bond yields to maturity during time, to analyse deeper whether yields do respond to ESG scores

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IEA: Global Hydrogen Review 2024

- The Global Hydrogen Review is an annual publication by the International Energy Agency that tracks hydrogen production and demand worldwide, as well as progress in critical areas such as infrastructure development, trade, policy, regulation, investments and innovation
- The report is an output of the Clean Energy Ministerial Hydrogen Initiative and is intended to inform energy sector stakeholders on the status and future prospects of hydrogen. Focusing on hydrogen's potential role in meeting international energy and climate goals, the Review aims to help decision makers fine-tune strategies to attract investment and facilitate deployment of hydrogen technologies at the same time as creating demand for hydrogen and hydrogen-based fuels. It compares real-world developments with the stated ambitions of government and industry
- This year's report has a special focus on Latin America and includes analysis on recent developments of low-emissions hydrogen projects in the region and how to unlock demand and move towards project implementation. In addition, the report assesses in detail the greenhouse gas emissions associated with different hydrogen supply chains

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Tokenisation implications for central banks

- The purpose of this report is to describe ways that tokenisation may affect the functioning of regulated financial markets. It critically analyses opportunities, challenges and risks, and identifies the most relevant implications for central banks and, more broadly, for the global financial system. For the purposes of the report, tokenisation is defined as the process of generating and recording a digital representation of traditional assets on a programmable platform
- The report also emphasizes central banks' critical role in responding to private sector tokenisation initiatives. Key considerations include how central banks assess trade-offs between various settlement assets in token arrangements, identifying which token arrangements require regulation and oversight, and understanding the potential effects on monetary policy, such as shifts in the structure of regulated markets or the demand for different types of money
- In addition, the report highlights that risks traditionally associated with conventional market infrastructures, such as governance, legal, credit, and liquidity risks, also apply to token arrangements, but these may manifest differently due to the unique features of tokenisation

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World Economic Outlook 2024

- Global growth is expected to remain stable yet underwhelming. However, notable revisions have taken place beneath the surface since April 2024, with upgrades to the forecast for the United States offsetting downgrades to those for other advanced economies, in particular, the largest European countries
- Likewise, in emerging market and developing economies, disruptions to production and shipping of commodities especially oil conflicts, civil unrest, and extreme weather events have led to downward revisions to the outlook for the Middle East and Central Asia and that for sub-Saharan Africa. These have been compensated for by upgrades to the forecast for emerging Asia, where surging demand for semiconductors and electronics, driven by significant investments in artificial intelligence, has bolstered growth, a trend supported by substantial public investment in China and India. Five years from now, global growth should reach 3.1 percent - a mediocre performance compared with the pre-pandemic average
- Global disinflation is progressing, but services price inflation remains high, requiring targeted monetary policy. Near-term policies should focus on stabilizing the economy as cyclical imbalances ease, while structural reforms are key to boosting future growth

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IEA: European nations on hydrogen demand

The global pipeline of hydrogen production projects has doubled in the past year, but Europe risks losing out to Asia and the Middle East without clearer plans to stimulate demand for hydrogen from industry. There is "continued momentum" for bringing low-emission hydrogen production projects online, despite "persistent cost pressures" across the world

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Sustainalytics: Launches support to EU Action Plan

ESG ratings, data, and research provider Morningstar Sustainalytics announced the launch of a series of new tools as part of its EU Sustainable Finance Action Plan Solutions Suite, aimed at helping investors and companies address emerging EU regulatory reporting requirements. The new and updated solutions include CSRD aligned data offering, ESMA fund naming rules, and the next iteration of its EU Taxonomy solution

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Italy opens greenwashing probe into Shein website

Italy's antitrust agency has launched an investigation into a Dublin-based company that operates Shein's website and app over possibly misleading environmental claims made on the fast-fashion retailer's website. The investigation accuses Shein's website of trying "to convey an image of production and commercial sustainability of its garments through generic, vague, confusing and/or misleading environmental claims"

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CEOs rally for climate action ahead of COP29

CEOs and senior executives from over 100 global corporations are calling on governments and the private sector to accelerate climate action to meet the goals set in the Paris Agreement, according to an open letter released by the World Economic Forum's alliance of CEOs. Signatories said governments and businesses need to collaborate to address challenges related to climate risk mitigation, including complex policies and the adoption of reporting frameworks

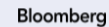
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ECB supervision on ESG in the banking system

The European Central Bank (ECB), through the Single Supervisory Mechanism (SSM), has influenced the lending channels of European banks since 2020 by reallocating credit and adjusting credit spreads. This information comes from BankIT aimed to understand whether climate-related supervision could impact banks' actions in the short term

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WisdomTree ESG Funds draw SEC penalty

Advisory firm WisdomTree Asset Management Inc. agreed to pay \$4 million to settle US Securities and Exchange Commission allegations that it failed to deliver on its promise to create exchange-traded funds that avoided investments in fossil fuels or tobacco. Some of the companies chosen as investments were involved in coal mining and transportation, natural gas extraction and retail sales of tobacco products

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Global water crisis: risk in the next 25 years

More than half the world's food production will be at risk of failure within the next 25 years as a rapidly accelerating water crisis grips the planet, unless urgent action is taken to conserve water resources and end the destruction of the ecosystems on which our fresh water depends, experts have warned in a landmark review. Half the world's population already faces water scarcity

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EU invests 4.8 Billion in decarbonization projects

The European Commission has selected 85 decarbonization technology-focused projects to receive €4.8 billion in grants utilizing funds raised through its EU Emissions Trading System (EU ETS). In 2023, EU lawmakers agreed to increase the ETS' scope expanding the system to new sectors generating revenues of approximately €40 billion from 2020-2030

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ESG & Sustainability upcoming events

November 2024



Morningstar: Sustainable Investing Summit 2024: 7-8 November

Responsible investment stewardship requires that investors understand the long-term ESG risks under the surface of portfolios. The Morningstar Sustainable Investing Summit provides institutional investors with cutting-edge research

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Amsterdam,
NL



2024 ESG Summit: 14 November

The 2024 ESG Summit aims to equip senior leaders with the tools and insights necessary to cultivate and nurture effective partnerships

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New York,
US



European Sustainability Reporting Standards (ESRS): 15 November

The seminar will bring together experts and practitioners from Member State representations, business and trade associations, companies, consultancies, auditors and other stakeholders

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Brussels,
BE



ESG Integration Forum – Europe: 19 November

The ESG Integration Forum – Europe 2024 is designed to provide you with the tools and knowledge to ensure you are ready to meet investors' expectations and make ESG central to your business strategy

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London,
UK



Responsible Investment Forum: 20-21 November

The ESG Integration Forum – Europe 2024 is designed to provide you with the tools and knowledge to ensure you are ready to meet investors' expectations and make ESG central to your business strategy

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London,
UK



Climate Technology Conference: 27-28 November

The London Climate Technology Show aims to be the largest climate technology exhibition and conference in the world for advancing the global net zero economy transition and shaping a sustainable future with ground breaking and collaborative technologies

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London,
UK

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ESG Conferences organized by Investment Banks and Brokers

Annual list

Organiser	Event Name	Mode	Location	Date	Hyperlink (if any)
 J.P.Morgan	Global Energy Conference	In attendance	London	4-5 November 2024	JPMorgan
 OECD	7th OECD World Forum on Well-being	In attendance	Rome	4-6 November 2024	OECD
 United Nations Climate Change Global Climate Action	UN Climate Change Conference (COP29)	In attendance	Baku	11-22 November 2024	UN Climate Change
 UniCredit	ESG Day 2024	In attendance	Milan	14 November 2024	Unicredit
 MOODY'S RATINGS	State of Nations 2024	Virtual	-	19 November 2024	Moody's
 Jefferies	Energy Transition Conference	In attendance	New York	21 November 2024	Jefferies
 J.P.Morgan	European Financials Conference	In attendance	London	21-22 November 2024	JPMorgan
 Kepler Cheuvreux	IR Summit 2024	In attendance	London	10-11 December 2024	Kepler Cheuvreux

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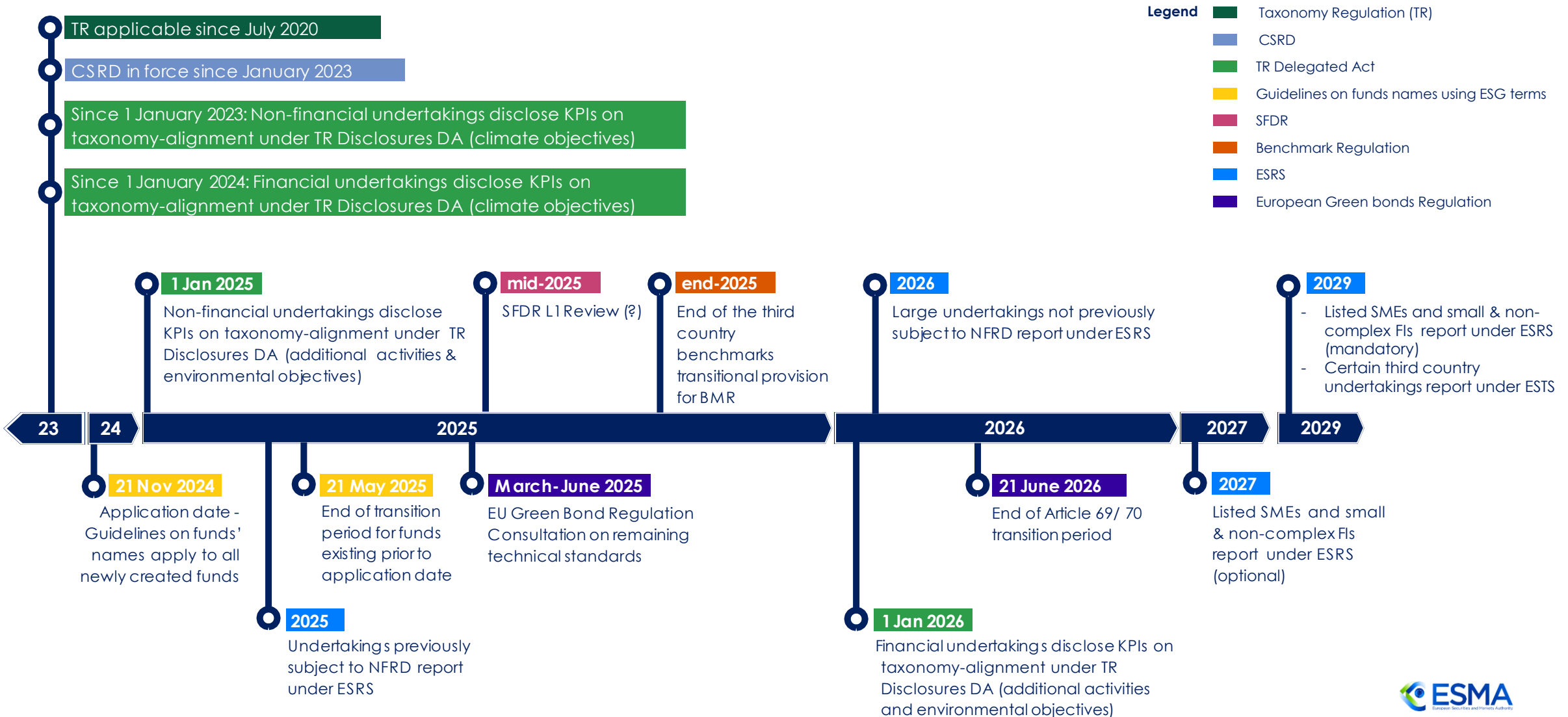
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