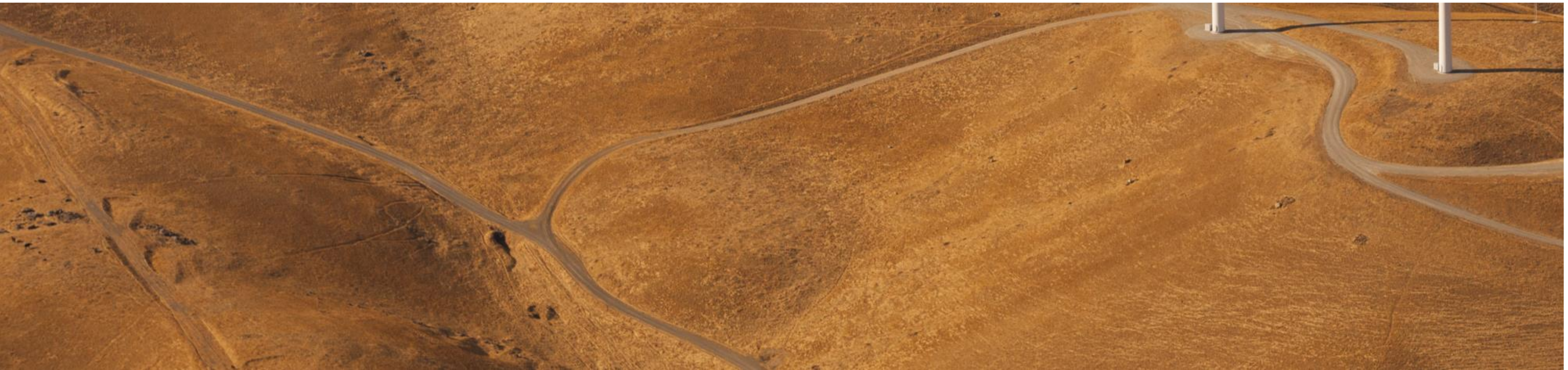
ESG Digest #16

October 2023






Contents:

Research by PwC: Climate tech investment falls in by 40%, but hits record share of VC and PE funding

Venture capital and private equity investment in climate technology ventures has declined by 40% in 2023, but continued to outperform the broader market, which continues to be impacted by economic and geopolitical turmoil, according to a new PwC State of Climate Tech report.

For the report, PwC used its Climate Tech Investment Index as its underlying dataset, and analyzed more than 8,000 climate tech startups, and over 32,000 deals worth more than $490 billion over the past 10 years, in addition to asking investors about market trends.

The report reveals that investors are increasingly putting capital into technologies with higher potential to reduce emissions, with a shift towards technologies such as green hydrogen and carbon capture, usage and storage. The share of investment into the industrial sector, which accounts for more emissions than any other sector of the economy (34%), has almost doubled to 14% between Q4 2022 and Q3 2023.

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Research by EM: Buying carbon credits doesn't discourage corporate decarbonization

New research from Ecosystem Marketplace has revealed that the companies engaged in the voluntary carbon market (VCM) are surpassing their counterparts in key areas of climate action, accountability and ambition, rather than simply using credits as a method to 'buy their way out'. The research was done based on the CDP data for 2022.

In 2022, 7,415 companies disclosed their activities to the CDP Climate Change program, primarily detailing their actions in 2021. And among these, 11% (822 companies) participated in voluntary project-based carbon credits as buyers or originators. Additionally, 55 companies used project-based carbon credits for compliance purposes.

The report highlights that 59% of companies engaged in carbon markets reported a more substantial decrease in gross emissions compared to 39% of companies which are not participating in VCM.

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Research by Nasdaq: Companies feel internal and external pressure to set net-zero target

The vast majority (88%) of companies feel internal and external pressure to set a net-zero target as a part of their climate change efforts, according to a Nasdaq survey report, 2023 Global Net Zero Pulse. The survey polled ESG and sustainability professionals across company market caps and sectors.

Other key findings of the report are:

- Nearly 25% of companies have set a net zero target and another 25% expect to within the next two years.
- Education is one of the biggest hurdles that companies face in developing a carbon credit strategy
- The carbon dioxide removal (CDR) is necessary to achieve any corporate net zero commitments.

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Almost six in ten (57%) of the world's listed companies reported climate risk in line with five or more topics recommended by the Taskforce on Climate-Related Financial Disclosures (TCFD) in 2022. While 90% of companies provided disclosures in line with at least one of the TCFD's 11 recommendations, compared with 80% in 2021 and only 64% in 2020. Average disclosures per company reached 5.3 in 2022, up 66% from 3.2 in 2020.

For the new status report, the TCFD conducted a study, using artificial intelligence technology, of the publicly available reports of more than 1,350 large companies across a broad range of regions and sectors over three years.

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Research: TCFD report finds sharp increase in company disclosure of climate risks and opportunities

Armenia introduces National Sustainable Finance Roadmap

The Central Bank of Armenia has approved the “National Sustainable Finance Roadmap of Armenia,” which consists of four key areas:

- Mobilize sustainable finance and funding pillar and associated activities aim to facilitate the flow of capital to industries and activities aligned with low-carbon ambitions of Armenia
- Enhance sustainable finance markets
- Guide financial market participants in taking account of ESG risks and factors in carrying on their business activities
- The Build awareness, capacity and knowledge pillar and association activities target awareness raising, capacity-enhancement and knowledge building on sustainability risks and opportunities in Armenia

The Central Bank of the Republic of Armenia has also developed an action plan, which it will implement in cooperation with the relevant interested bodies.

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EU adopts laws to increase renewable energy share, decarbonize aviation and reduce emissions from heavy duty trucks

The EU Council has formally adopted the new Renewables Energy Directive raising the 2030 target for the share of renewable energy in the EU's overall energy consumption from 32% to 42.5%. The Renewable Energy Directive also includes a series of sector-specific sub-targets aimed at accelerating the adoption of renewables in industries in which adoption has been slower, including transport, industry, buildings and district heating and cooling.

The Council also adopted the “ReFuelEU aviation” law that will require a minimum share of SAF at EU airports, starting a 2% in 2025, and increasing over time to reach 70% by 2050. Also, the new rule include a requirement for flights departing EU airports to refuel only with the fuel necessary for the flight.

EU Council also agreed on Rule to reduce emissions from heavy duty trucks by 90% by 2040.

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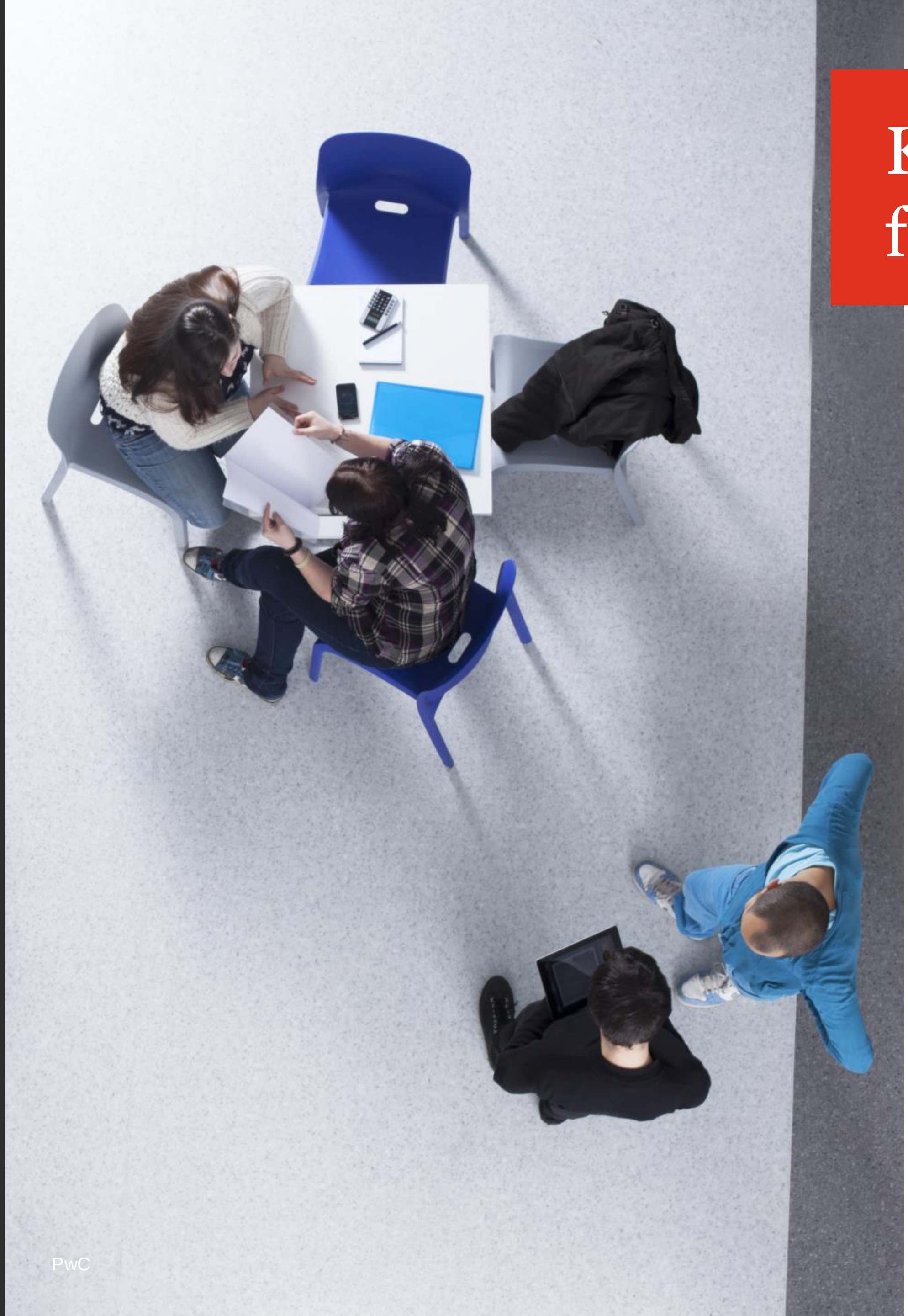

Kazakhstan to require ESG reporting for financial institutions

Financial institutions in Kazakhstan will be required to submit ESG reports starting from January 1, 2025, as announced by the Deputy Chairman of the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market Maria Khadzhieva at the Digital Bridge forum, which was held on October 13, 2023.

Currently, 79 companies out of 150 that are listed on the Kazakhstan Stock Exchange are submitting their ESG reports.

In April 2023, the Agency developed guidelines on ESG reporting, which are based on international practice. The guidance includes reporting on financial organizations' impact on the environment, social sphere, economy, as well as an assessment of ESG impact on financial performance of organizations.

In addition, the Kazakhstan Stock Exchange also promotes ESG principles. The KASE has developed and implemented a methodology for ESG reporting preparation for listed companies, which has been included in the requirements for preparation of annual reports. In addition, KASE has developed an infrastructure for listing and placement of "green", social and other bonds issued to finance sustainable development projects.

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October 13, 2023

CDP to align with ISSB Climate Disclosure Standard in 2024

Climate research provider and environmental disclosure platform CDP announced that it would align its sustainability reporting questionnaire with the IFRS Foundation's International Sustainability Standard Board's new climate disclosure standard beginning this coming year. CDP will also consider other emerging sustainability disclosure systems going forward, in order to ease the reporting burden on companies, and encourage broader reporting on key environmental issues.

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EU and South Korea to delay adoption of Sustainability Reporting Standards

The European Commission announced plans to delay key aspects of its Corporate Sustainable Reporting Directive (CSRD), including the adoption of requirements for companies to provide sector-specific sustainability disclosures and for sustainability reporting from companies outside of the EU.

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South Korea's Financial Services Commission (FSC) announced it would delay the implementation until after 2026 after "taking into account the relevant regulatory timelines in major economies overseas".

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Earlier this year the UK's Financial Conduct Authority and the US Securities and Exchange Commission also announced about postponement of publication of their ESG disclosure rules.

UK Finance for Biodiversity Foundation publishes guide on biodiversity

The Finance for Biodiversity Foundation (FfB) has released recommendations for financial institutions on managing biodiversity and the climate nexus, the interaction between biodiversity and climate change.

The Unlocking the biodiversity-climate nexus report recommends companies integrate biodiversity into their climate targets, policy and reporting, and finance synergy-generating solutions for the biodiversity and climate nexus and those minimising trade-offs.

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Australia releases proposed IFRS-based Climate-related Reporting Standards

In line with the Australian Government's commitment to introduce mandatory reporting on climate-related disclosures, the Australian Accounting Standards Board (AASB) has released an Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information. It is available for comment until 1 March 2024.

ED SR1 includes three draft Australian Sustainability Reporting Standards (ASRS Standards):

1. ASRS 1 General Requirements for Disclosure of Climate-related Financial Information
2. ASRS 2 Climate-related Financial Disclosures
3. ASRS 101 References in Australian Sustainability Reporting Standards.

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The Council of the European Union announced today the adoption of a regulation creating a new European Green Bond Standard, marking the last major step for the establishment of a new European Green Bonds (EuGB) label, aimed at fighting greenwashing and helping advance the sustainable finance market in the EU.

In addition to setting out the requirements for issuers wishing to use the EuGB designation, the new regulation also includes voluntary disclosure guidelines for other environmentally sustainable bonds and sustainability-linked bonds issued in the EU.

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EU Council Adopts New European Green Bond Standard

USA issue Principles for Climate-Related Financial Risk Management

The Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System (Board), and Office of the Comptroller of the Currency (OCC) are jointly issuing principles that provide a high-level framework for the safe and sound management of exposures to climate-related financial risks. The Principles are intended for the largest financial institutions with over $100 billion in total consolidated assets.

The Principles provide a high-level framework for financial institution governance, policies, procedures and constraints, strategic planning, risk management and reporting, and scenario analysis. These principles are consistent with the risk management frameworks described in the agencies' existing rules and guidance.

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Brazil to require mandatory Sustainability Reporting from 2026

Public companies in Brazil will be required to provide annual sustainability and climate-related disclosures, starting in 2026, according to a new announcement from Brazil's Securities and Exchange Commission (CVM) and Ministry of Finance.

According to the CVM, the new reporting requirements will be based on the recently published sustainability and climate-related disclosure standards issued by the IFRS Foundation's International Sustainability Standards Board (ISSB).

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USA announce a number of ESG-related investments

The Biden administration announced the selection of seven sites across the U.S., alongside a $7 bln investment, for the establishment of new clean hydrogen hubs, aimed at dramatically scaling up capacity of low-carbon hydrogen production to decarbonize hard-to-abate industries. The hubs are anticipated to collectively produce 3 mln metric tons of hydrogen annually, enabling the reduction of 25 mln tons of carbon emissions from industrial sectors per year.

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The Biden administration announced $3.5 bln of awards for projects aimed at strengthening electric grid resilience and reliability across the U.S., enabling the deployment of cleaner and lower cost energy, marking the largest-ever direct investment in the U.S. electric grid.

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New York Governor Kathy Hochul announced a series of awards for 6.4 GW of renewable energy projects, including 3 major offshore wind and 22 land-based projects. When completed, the projects are anticipated to generate enough electricity to power more than 2.5 mln homes, deliver 12% of New York's energy needs, and reduce greenhouse gas (GHG) emissions by 9.4 mln metric tons annually.

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Switzerland to introduce labelling and disclosure Rules for Sustainable Investment Products

Switzerland’s Federal Department of Finance (FDF) announced that it would proceed with plans to propose regulations to address greenwashing in the financial sector, including investment and disclosure rules for financial products using labels such as ‘sustainable,’ green,’ or ‘ESG.’

Regulations include requiring financial products that feature a sustainability label to align with one or more specific sustainability goals, or to contribute to the achievement of sustainability goals. The proposals also included transparency rules, including requiring financial service providers offering sustainable investment products to describe their sustainability approach, and how the approach is achieved and measured, as well as regular reporting on the defined sustainability goals.

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Bloomberg launches indicators to measure exposure to physical climate risk

Business and financial markets information service provider Bloomberg and climate financial risk data analytics provider Riskthinking.AI announced today the launch of new science-based physical risk indicators, aimed at enabling companies and investors to assess and understand exposure to climate-related risks such as floods, droughts and wildfires.

According to the companies, the launch of the new indicators comes as regulators are moving to require disclosure of climate-related risks, in new and emerging reporting regimes including Europe's CSRD and the new international IFRS sustainability disclosure standards.

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FII Institute, ESG Book, launch ESG scores for emerging markets companies

Sustainability data and technology provider ESG Book and non-profit foundation the Future Investment Initiative (FII) Institute announced the launch of the Inclusive ESG Tool and Inclusive ESG Score, a new set of solutions aimed at improving ESG data quality and facilitating sustainable investment capital flows for emerging markets (EM) companies.

According to the organizations, the new solutions aim to help address a multi-trillion dollar ESG investment gap, with emerging markets receiving less than 10% of ESG capital flows, despite accounting for over half of global GDP. FII Institute said that investors have indicated that ESG ratings agencies are a key barrier to investment flows in emerging markets.

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If you have any questions or need assistance, please contact us:

Akbota Askanbay
Director
ESG Assurance Team
akbota.askanbay@pwc.com

Zhazira Zhanadilova
Senior Manager
ESG Advisory Team
zhazira.zhanadilova@pwc.com

Vassiliy Kalabin
Manager
ESG Advisory Team
vassiliy.kalabin@pwc.com

Saniya Begenova
Manager
ESG Advisory Team
saniya.b.begenova@pwc.com

Yelena Krupina
Senior Associate
ESG Advisory Team
yelena.krupina@pwc.com

PwC Offices in Eurasia

Kazakhstan

Almaty
34, Al-Farabi Avenue

Astana
15/1, Kabanbay Batyr Avenue

Atyrau
55, Aiteke Bi Street
Tel: +7 (727) 330 3200

Azerbaijan

Baku
90A, Nizami Street
Tel: +994 12 497 2515

Uzbekistan

Tashkent
88A, Mustaqillik Avenue
Tel: +998 (71) 1206 101

Mongolia

Ulaanbaatar
Sukhbaatar Square 2, SBD-8
Tel: +976 7000 9089

Georgia

Tbilisi
12, Aleksidze Street
Tel: +995 (32) 25080 50

Armenia

Yerevan
2, Vazgen Sargsyan Str
Tel: +374-10-512151