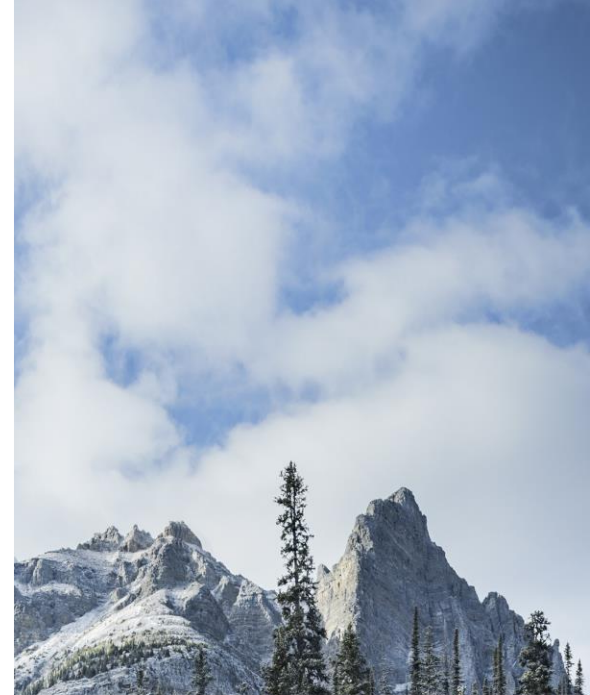




ESG Digest #6

December 2022



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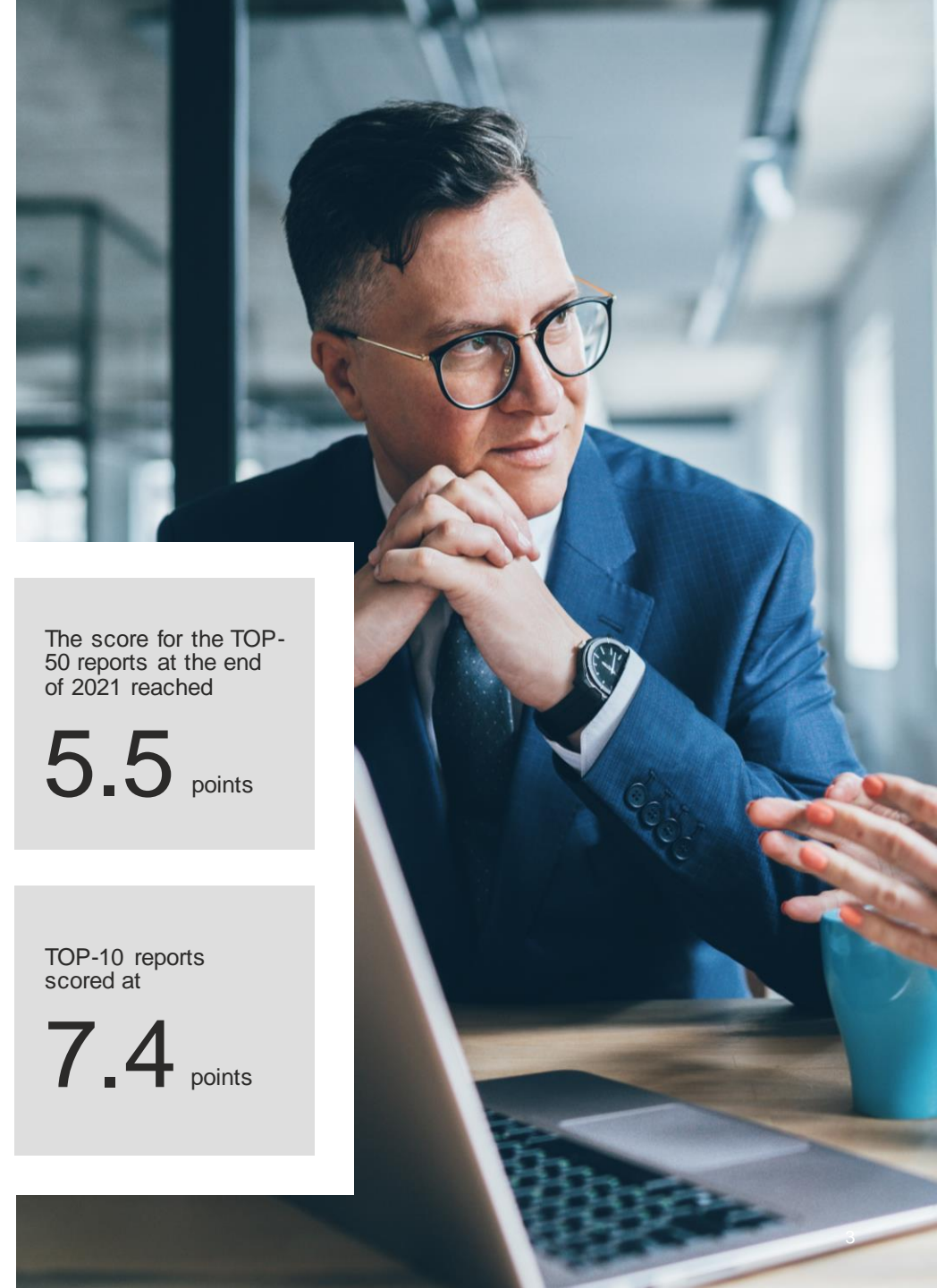
PwC Kazakhstan Research: TOP 50 ESG Disclosure Companies for 2021

PwC Kazakhstan published its 3rd edition of TOP 50 ESG Disclosure Companies ranking for 2021. As part of the study, PwC team evaluated the quality and availability of ESG information in public reporting of 98 Kazakhstani companies.

The quality of ESG information disclosure in the reports continues to improve. The average score for the TOP-50 reports at the end of 2021 reached 5.5 points, compared to 5.1 and 4.6 in 2020 and 2019 years. TOP-10 reports scored at 7.4 points, increase by 0.7 points from 6,7 in 2020.

In 2021 companies improved disclosure of social aspects (HRM related practices, in particular) and start to discuss more complex issues. Ecology related disclosures remain at the same level. Topics on climate change, diversity and inclusion, and human rights are rarely disclosed. Disclosure of information on ESG strategy and sustainability management is still challenging.

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The score for the TOP-50 reports at the end of 2021 reached

5.5 points

TOP-10 reports scored at

7.4 points



PwC Kazakhstan Research: Energy transition is the basis of decarbonization of Kazakhstan

In the study, PwC experts analyzed global and Kazakhstani energy and fossil fuel markets.

The main research topics included the energy crisis, exacerbated by various geopolitical events, the role of coal in the energy transition, and the current state of the renewable energy sources (RES) market. In addition, several RES and clean technology development opportunities were identified.

The energy crisis has significantly affected development of energy markets. The pandemic, geopolitical events and climatic changes have led to an increase in fossil fuel consumption, which has caused a sharp increase in gas and coal prices. Imposed sanctions against Russia, as well as the desire of the European Union to significantly reduce the consumption of Russian gas, led to the second wave of the energy crisis, Russia being the largest supplier of gas and coal to Europe.

Kazakhstan continues to develop RES. In the first half of 2022, the share of renewable energy in the structure of electricity generation reached 4.24%, demonstrating 17% increase compared to the same period of 2021. At the same time, a further increase in the volume of renewable energy requires economic, infrastructural and legislative reforms.

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Global natural gas consumption in 2021 increased by

5.3%

Coal consumption (tons) of the energy industry of Kazakhstan in 2021

60 mln

Total capacity (MW) of renewable energy facilities in Kazakhstan in 6m2022

2,330

ISSB released the first two proposed sustainability disclosure standards

In March 2022, the International Sustainability Standards Board (ISSB) released the first two proposed sustainability disclosure standards and aims to finalize them by 2023.

The standards cover general sustainability-related financial information and climate-related disclosures and are aligned with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the industry-specific requirements of Sustainability Accounting Standards Board (SASB) Standards.

IFRS S1 General Requirements for Disclosure of Sustainability-related financial information proposes overall requirements for disclosing sustainability-related financial information and require an entity to disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed.

IFRS S2 Climate-related Disclosures proposes requirements for identifying, measuring and disclosing climate-related risks and opportunities and require an entity to provide information about its exposure to all of its significant climate-related risks and opportunities.

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TCFD became mandatory in UK

In March 2022, the UK began a program of making it mandatory for a range of entities to report on their climate-related risk in line with the recommendations of the global Taskforce on Climate-related Financial Disclosures (TCFD).

- Commercial companies with a UK premium listing became subject to TCFD-aligned reporting for accounting periods beginning on or after 1 January 2021 and the first annual reports including mandatory TCFD disclosures are expected in spring 2022.
- Issuers of standard listed shares and Global Depositary Receipts (GDRs) representing equity shares - for accounting periods beginning on or after 1 January 2022 and the first annual reports with TCFD disclosures are expected in spring 2023.
- Large businesses became subject to TCFD-aligned reporting for accounting periods beginning on or after 6 April 2022.

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Mongolia introduced guidelines on ESG and sustainability reporting

In August 2022, Mongolia released a Sustainability Reporting Guidance for Mongolian Companies to help listed companies, prospective issuers, and other interested companies disclose their sustainability practices.

The Guidance provides an overview of global sustainability reporting frameworks and trends, followed by an eight-step outline of how listed companies and other issuers can build the capacity to report on sustainability. The Guidance also provides lists of indicators that companies can select from to fulfill their sustainability disclosure requirements.

The Guidance also outlines how ESG reporting could benefit the companies; especially, in terms of meeting international investors' demands and accessing a more diverse range of longer terms financing while complying with the regulators' requirements and further strengthening their brand reputation internally and externally.

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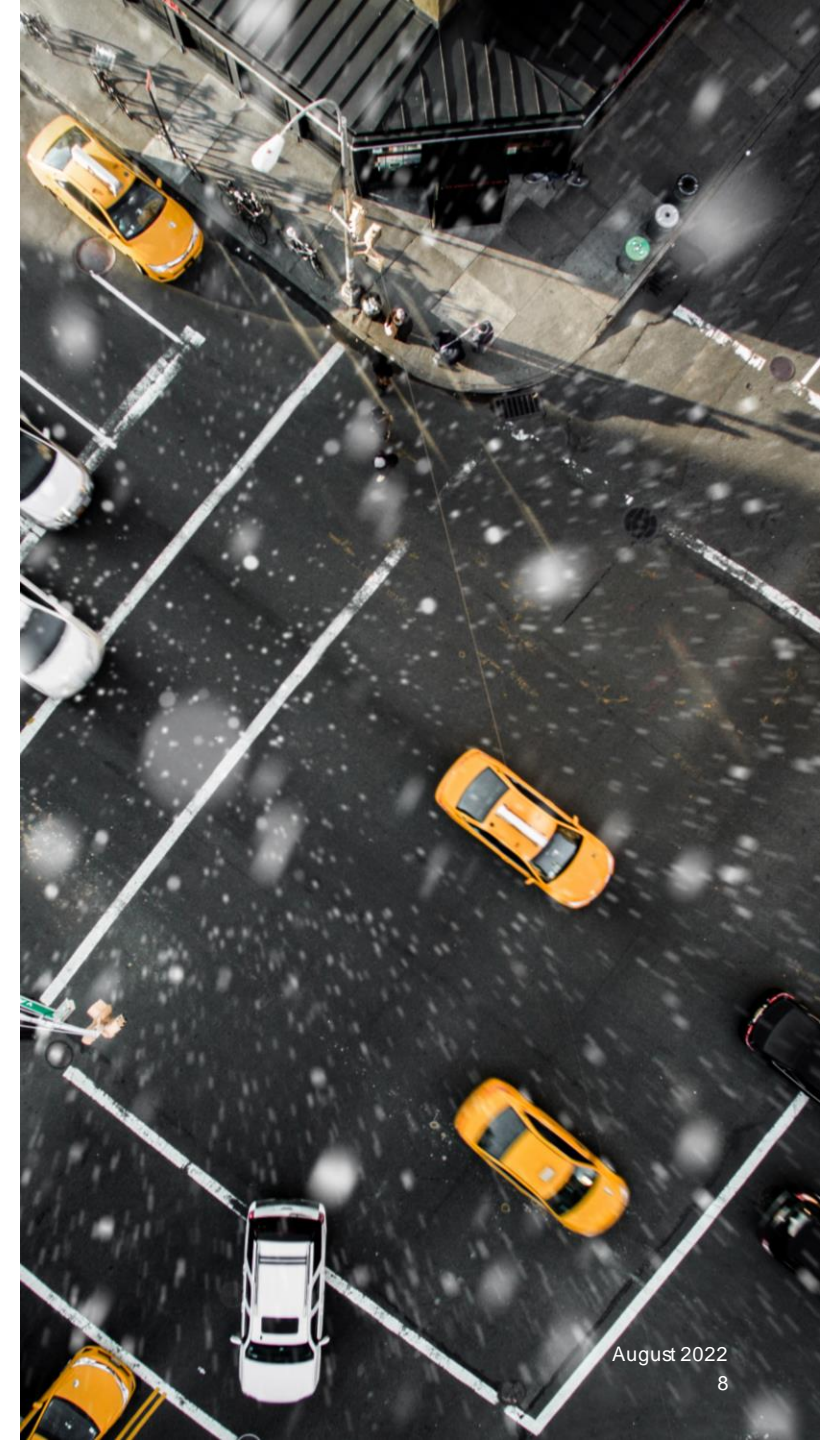
The US adopted Inflation Reduction Act that will help to fight with climate change

In August 2022, USA adopted the Inflation Reduction Act of 2022 (IRA). The IRA is the most meaningful climate bill ever passed in the US and has the potential to significantly curb the country's greenhouse gas emissions (GHG) over the next few years.

The legislation is expected to raise nearly \$800 billion from multiple resources and direct nearly \$400 billion to clean energy. The funds will be delivered through a mix of tax incentives, grants, and loan guarantees. Clean electricity and transmission command the biggest slice, followed by clean transportation, including electric-vehicle (EV) incentives.

It is expected that the Act will reduce US GHG emissions to approximately 40%, compared to 2005-levels, by 2030. Without the enactment of the IRA, the US was on course to reduce its GHG emissions to only 26%, compared to 2005-levels, over this period.

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California (USA) and EU: shifting to electric vehicles

In August 2022 California banned the sale of new gas-powered cars by 2035. Later in October 2022, EU also banned sales of new petrol and diesel cars from 2035. However, both policies will not ban people from owning and driving conventional vehicles or from selling them on the used market.

The transportation sector represents the largest source of greenhouse gas emissions both in California and the EU. The new policies are part of ambitious plans to fight climate change by reducing greenhouse gas (GHG) emissions and accelerating the transition to an electric future.

[Read more about California](#)

[Read more about the EU](#)



In the beginning of October 2022, the *London Stock Exchange (LSE)* announced the launch of its voluntary carbon market (VCM) to facilitate financing into projects that mitigate climate change.

[Read more](#)

Later in October 2022, the *Hong Kong Exchanges and Clearing Limited (HKEX)* announced the launch of Core Climate, a new marketplace for trading of voluntary carbon credits and instruments, and aimed at connecting capital with climate-related products and opportunities in Asia and international markets.

[Read more](#)

At the end of November 2022, the *Singapore Exchange (SGX)* launched a Sustainable Fixed Income initiative, aimed at enabling investors to identify green, social and sustainability fixed income securities. Under the new program, issuers of the sustainable bonds will be able to use an “SGX Sustainable Fixed Income mark” for securities that meet requirements including alignment with recognized green, social or sustainability standards and disclosure.

[Read more](#)

Recent stock exchanges initiatives in green financing

ECB set deadlines for banks to deal with climate risks

At the beginning of November 2022, the European Central Bank (ECB) set a series of deadlines for banks to deal with climate and environmental risks, with full alignment with expectations to identify and manage risks required by the end of 2024.

The new deadlines were announced after the release of the results of ECS's thematic review of 186 European banks. The thematic review looked into banks' strategies and their governance and risk management frameworks, examining whether EU banks adequately identify and manage climate and environmental risks such as biodiversity loss.

The review concluded that, even if 85% of EU banks now have in place at least basic practices in most areas, they are still lacking more sophisticated methodologies and granular information on climate and environmental risks.

[Read more](#)

85%

of EU banks still lacking more sophisticated methodologies

EU adopted Corporate Sustainability Reporting Rules

On November 10, 2022, EU parliament announced the adoption of Corporate Sustainability Reporting Rules (CSRD). 525 MEPs voted in favor, while 60 voted against; 28 MEPS abstained. CSRD introduced more detailed reporting requirements on company impacts on the environment, human rights and social standards and sustainability-related risk.

To ensure companies are providing reliable information, they will be subject to independent auditing and certification. Financial and sustainability reporting will be on an equal footing and investors will have comparable and reliable data. Digital access to sustainability information will also have to be guaranteed.

The directive will be implemented in three stages:

1. financial years starting on or after 1 January 2024 for companies already subject to the NFRD (which are “public interest” entities, including large EU listed entities, credit institutions, insurance companies);
2. financial years starting on or after 1 January 2025 for large companies not currently subject to the NFRD; and
3. financial years starting on or after 1 January 2026 for listed SMEs, small and non-complex credit institutions and captive insurance undertakings, but SMEs can opt out until 2028.

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COP27: major takeaways



The UN Climate Change Conference COP27 took place on 6-20 November 2022 in Sharm el-Sheikh, Egypt. Here are the main takeaways

1. *Rebalancing of the energy trilemma.* COP27 signalled that the world's efforts on climate change are shifting from mitigation to adaptation. With fossil fuels still very much in the mix, more CCS or alternative carbon removal tech will be needed to achieve net zero by 2050.
2. *Loss and damage reparation.* Member countries agreed to set up a new framework for the adaptation fund in time for COP28 in 2023, and contributors and recipients will be determined then.
3. *Voluntary carbon markets.* There was little concrete action. Governments deferred into next year signing an agreement to improve regulation that would make carbon trades more transparent. Currently Governments introduces their own initiatives such as US Energy Transition Accelerator, Singapore Carbon Warehouse Initiative, national carbon registries and trading in India and Saudi Arabia.
4. *Methane pledges.* Only five more countries joined the Global Methane Pledge at COP27. Total country endorsements are now 151 .
5. *Role of finance.* COP27 underlined yet again that finance is crucial for a stable global economy. Even though access to finance has improved over the last year, climate change is competing with other global crises, from inflation and energy shortages to the rising cost of capital. Governments and global institutions such as the World Bank and IMF are to improve collaborations.

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Kazakhstan to introduce ESG disclosure requirements in financial sector

In November 2022, the Agency of the Republic of Kazakhstan for the regulation and development of the financial market and IFC experts introduced the Guidelines for ESG Information Disclosure.

The Agency proposes to disclose non-financial information within three blocks:

1. *essential ESG information*: environment, climate, employees, products and consumers, financial inclusion, ethics.
2. *ESG management*: ESG governance and management structure and processes, sustainability management, strategy, risk management and key performance indicators (KPIs).
3. *corporate governance*: commitment to ESG practices, board performance, control environment, shareholder rights and stakeholder engagement.

First, the Agency recommendations on disclosure will be voluntary, with a subsequent transition to mandatory disclosure. In the future, the Agency plans to conduct stress testing of climate risks for banks as part of supervisory stress testing. Stress test methodology and scenarios will be developed in 2023.

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The aviation industry has come under scrutiny as a significant source of greenhouse gas (GHG) emissions, responsible for 2-3% of global emissions. Several initiatives are being pursued in order to address the climate impact of the industry, typically involving efforts to improve aircraft efficiency, develop sustainable aviation fuels (SAF), or create aircraft utilizing low or zero carbon propulsion systems such as electric or hydrogen-based.

At the end of November 2022 Rolls-Royce and EasyJet completed a ground test on a converted regional aircraft engine using green hydrogen. Also, Airbus revealed that it was developing a hydrogen-powered fuel cell engine. Recent announcements demonstrated the potential of hydrogen to power a range of aircrafts from the mid-2030s.

[Read more 1](#)

[Read more 2](#)

Hydrogen-powered zero-emission engines in aviation



EU Border Adjustment Mechanism (CBAM): provisional agreement reached

In December 2022, the European Council and the European Parliament reached an agreement of a provisional and conditional nature on the Carbon Border Adjustment Mechanism (CBAM). The CBAM is a key part of EU climate action and aims to insure that goods imported to the EU by non-EU businesses meet the climate standards applicable in the 27 EU member states.

Concerning the products and sectors which fall within the scope of the new rules, CBAM will initially cover a number of specific products in some of the most carbon-intensive sectors: iron and steel, cement, fertilisers, aluminium, electricity and hydrogen, as well as some precursors and a limited number of downstream products. Indirect emissions would also be included in the regulation in a well-circumscribed manner.

Under the provisional agreement, CBAM will begin to operate from October 2023 onwards. Initially, a simplified CBAM would apply essentially with reporting obligations only. The aim is to collect data. From then onwards, the full CBAM will be phased in gradually.

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