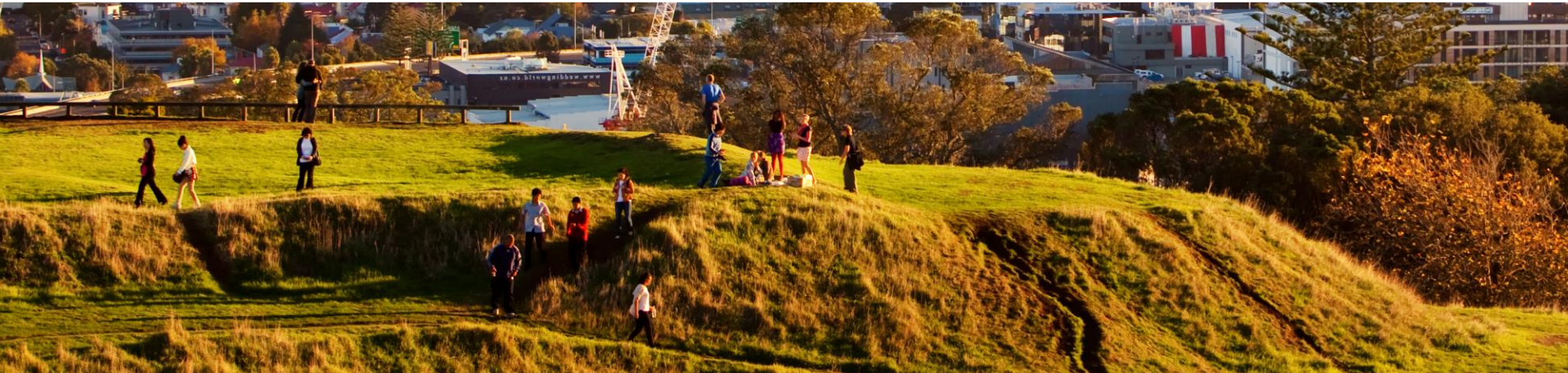




ESG Digest #9

March 2023



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PwC and London Business School Research: Nearly four out of five companies adopting carbon targets in executive pay

With ESG metrics increasingly being linked to executive pay, it's still unclear how well it works. Meanwhile climate has become an area of ESG with the strongest investor consensus. This report is focused on carbon targets in pay at Stoxx Europe 50 index, a group of the continent's most valuable companies.

Analysis shows that the vast majority (78%) of companies have now adopted some measure of carbon target in executive pay, with payouts in carbon targets disclosed in 2022 averaging at 86%, and over half paying out at 100%. The report also shows that the bigger carbon emitters are more likely to put carbon measures in executive pay, and are therefore more likely to score well against investor expectations.

The levels of maturity in carbon reduction strategies are similar in companies engaged in Climate Action 100+ (CA100+) initiative and those which are not engaged, with 68% using SBTi approved carbon reduction plans. The report also highlights that 80% of CA 100+ initiative companies that have an explicit carbon measure in pay have a broad statement linking this carbon measure to their long-term company plan (vs 72% of non-CA100+ companies). By contrast, only 10% of CA100+ companies provide a more comprehensive link (e.g. supported by numbers) versus 11% of non-CA100+ companies.

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PwC and Workiva Research: 98% of companies may not wait for SEC Climate Disclosure Rules to begin reporting

In March 2022, the U.S. Securities and Exchange Commission proposed sweeping changes for how U.S. companies disclose data and risks related to climate change. To get a sense of how businesses are thinking about—and preparing for—the final rule, Workiva and PwC commissioned a survey of 300 executives at U.S.-based public companies with at least \$500 million in annual revenue.

The study reveals that business executives plan to proactively comply with the SEC’s proposed climate disclosure rule and desire independent assurance as they do.

In the meantime, results shows that 39% of companies are not yet fully prepared to meet the new disclosure requirements and at least 7-in-10 business would prefer at least two more years to comply.

Business leaders also highlight three key challenges regarding compliance with the proposed SEC rule on climate disclosure: technology, resourcing, and budget.

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89%

of business executives say their companies have already been reporting some ESG data now

70%

of business leaders report their companies will “proceed with compliance” regardless of when the rule becomes U.S. law

96%

of executives say they will proceed with independent assurance, whether it’s required in the final rule or not

Government of Canada to require suppliers and construction projects to reduce and disclose emissions

Large suppliers to the Government of Canada will be compelled to disclose their greenhouse gas (GHG) emissions and set reduction targets, starting April 1, 2023.

The new Treasury Board Standard on the “Disclosure of Greenhouse Gas Emissions and the Setting of Reduction Targets” outlines that federal procurements greater than \$25M will incent suppliers to disclose their GHG emissions and set reduction targets. Suppliers can fulfill this requirement through participation in Canada’s Net-Zero Challenge or another approved internationally recognized and functionally equivalent standard or initiative.

Additionally, the government also announced the release of a new “Standard on Embodied Carbon in Construction”. This standard will require all new major government construction projects to report and reduce their embodied carbon footprint. The requirements begin with concrete, ensuring that total GHG emissions associated with the project’s concrete is at least 10% lower than the regional average.

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EU to establish Green Bond Standards

Lawmakers in the European Parliament and the European Council have reached an agreement on the creation of standards for European Green Bonds (EuGB). Following the initial proposal for EuGB regulation in 2021, and having failed to reach consensus in December 2022, the deal looks to tackle greenwashing and establish the first comprehensive set of rules for green bond issuance alongside the bloc's ambitious net-zero goals.

Under the proposed rules, issuers using the European green bond standard will be required to provide assurance that funds raised would be fully allocated to EU Taxonomy-aligned projects, provide full transparency through detailed reporting, and use external reviewers to ensure compliance.

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IEA Research: Global growth in energy-related emissions slows to less than 1% in 2022

Global energy-related carbon dioxide emissions rose by under 1% in 2022, marked a sharp slowdown from 2021's 6% emissions growth. The slowdown is caused by advances in clean energy generation and technologies which largely offset increased use of fossil energy sources, according to a new report by the International Energy Agency (IEA).

1.6% increase in CO2 emissions from coal, as the global energy crisis continued to spur a wave of gas-to-coal switching in Asia, and to a lesser degree in Europe.

2.5% increase in CO2 emissions from oil, around half of this increase came from aviation as air travel continued to rebound from pandemic lows.

2022 regional emissions statistics

- The European Union – 2.5% decrease in emissions due to record deployment of renewables.
- The United States – 0.8% increase in emissions as buildings increased their energy consumption to cope with extreme temperatures
- Asia (excluding China) – 4.2% increase in emissions, due to the rapid economic and energy demand growth
- China – flat emissions due to strict Covid-19 measures and declining construction activity.

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Australia Competition Regulator to probe businesses for potential “greenwashing”

The Australian Competition & Consumer Commission (ACCC) will investigate businesses for potential greenwashing, after it conducted a study that found concerning environmental or sustainability-related claims from over half of businesses reviewed.

The study involved an internet sweep by ACCC of 247 companies across a broad range of sectors including energy, vehicles, household products and appliances, food and drink packaging, cosmetics, clothing and footwear, aimed at identifying misleading environmental and sustainability marketing claims. The study revealed that 57% of companies were identified as having made unclear or misleading claims about their environmental credentials. By sector, the highest proportion of concerning claims were found in the cosmetic, clothing and footwear and food and drink sectors.

In addition to the investigations and potential enforcement action, the regulator said that it will conduct education activities with businesses and update guidance to help improve the integrity of environmental claims.

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Canada announces Climate Reporting Requirements for banks, insurers, beginning 2024

Canada's financial regulator, the Office of the Superintendent of Financial Institutions (OSFI) released guidelines to bolster transparency in the country's financial institutions' disclosures related to climate risks. The guidelines include expectations for Canada's major banks and insurance companies to begin climate-related reporting for fiscal year 2024, followed by smaller institutions the following year.

Banks will need to be prepared to maintain operations during climate-related disasters, include the impact of climate change on its liquidity risk profile, tie executive compensation with dealing with such risks, among other requirements.

The regulator, however, did not lay out any specific increases in capital buffers and said the onus was for institutions to self assess within their internal capital.

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USA announces \$6 bln in grants to decarbonize heavy industry

The Biden-Harris Administration unveiled a series of initiatives aimed at reducing greenhouse gas emissions from the industrial sector, including the announcement of a \$6 billion Industrial Demonstrations Program to accelerate decarbonization projects targeting hard-to-abate sectors.

Funded by President Biden's Bipartisan Infrastructure Law and Inflation Reduction Act, The Industrial Demonstrations Program will provide competitive grants to technology developers, industry, universities and others for up to 50% of the cost of projects that aim to cut emissions. The Program will focus on the highest emitting industries where decarbonization technologies will have the greatest impact, such as iron and steel, aluminum, cement and concrete, and other energy-intensive industrial processes. Decarbonization of these industries is key to achieving the President's goal of a net-zero economy by 2050.

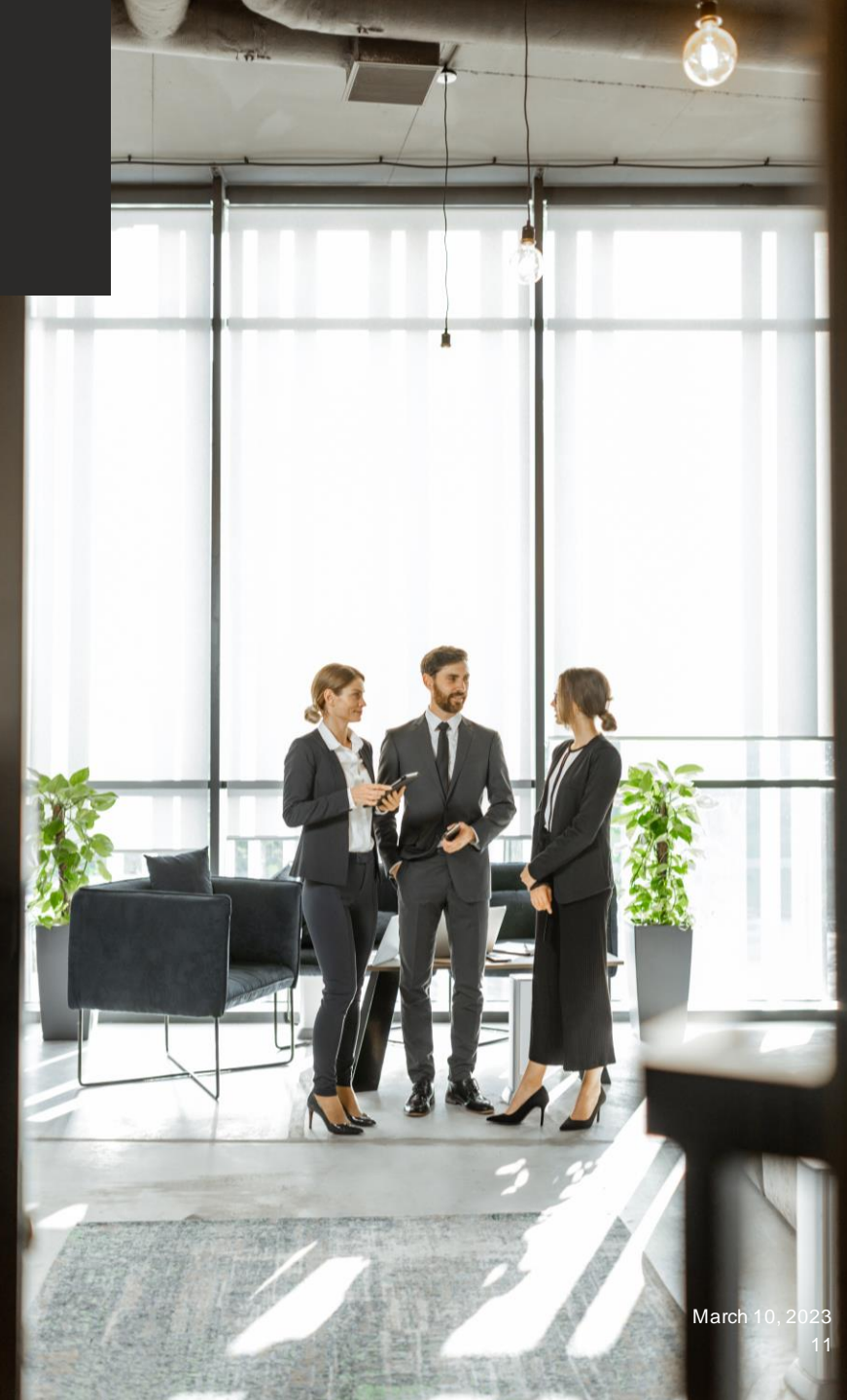
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EU Regulators to conduct financial system-wide climate stress test

The European Union's (EU) financial regulators will carry out a comprehensive system-wide analysis of the financial sector's resilience to climate-related risks, according to a letter by the European Commission.

The commission suggested in the letter that the EU's three primary financial regulatory bodies, namely the European Supervisory Authorities (ESAs), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA), collaborate with the European Central Bank (ECB) and the European Systemic Risk Board (ESRB) to conduct a one-off climate risk scenario analysis. The planned stress test is intended to provide a better understanding of any potential vulnerabilities in the financial sector and how stress in the financial system could affect the transition to the 2030 climate goals. The EU has targeted reducing greenhouse gas emissions by at least 55% by 2030 compared to 1990 level and reaching carbon neutrality by 2050.

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EU to introduce climate reporting requirements for structured finance products



The European Central Bank (ECB) and the European Supervisory Authorities (ESAs) plan to introduce new climate change-related disclosure requirements for structured finance products, aimed at enabling investors to better identify climate-related risks. Currently, there is a lack of climate-related data on the assets underlying structured finance products. This represents a challenge to identifying and managing climate-related risks and to properly classifying investment products under Europe's sustainable finance rules.

The regulators are now working on enhancing the disclosure standards for securitized assets with climate change-related information. The ECB and ESAs also called on originators to collect data needed by investors to assess the climate related risks of the products' underlying assets, even in the current absence of mandatory disclosure requirements.

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EU requires all member states to cut emissions by 2030

The European Parliament has adopted a revised Effort Sharing Regulation, including a first-ever requirement for all EU member states to reduce greenhouse gas emissions by 2030, and raising the EU's overall 2030 emissions reduction target to 40% compared to 2005 levels, up from its prior 30% goal. The revised regulation was passed in a 486 – 132 vote, with 10 abstentions.

The new law would for the first time require all member states to cut emissions by 2030 compared to 2005 levels, with targets ranging from 10% – 50%, with goals based on GDP per capita and cost-effectiveness. For example, richer countries face tougher targets, with Denmark, Finland, Germany, Luxembourg and Sweden facing 50% emission cuts, versus Bulgaria's 10% goal.

With the adoption in the EU Parliament, the regulation will now move for formal endorsement by the EU Council.

[Read more](#)



A first-ever requirement for all EU member states raising the EU's overall 2030 emissions reduction target to

40%

compared to 2005 levels



CDP Research: nearly 60% of companies not disclosing any supply chain emissions

According to a new report by CDP, an environmental disclosure platform, nearly 60% of companies have failed to report on at least one supply chain emissions category, despite approaching regulatory requirements for disclosure across the value chain. In 2022, only 41% of companies reported on at least one Scope 3 category, while over 70% reported on direct Scope 1 and 2 emissions.

The report indicates that companies are making progress towards addressing their Scope 3 emissions footprint, although many efforts remain early stage. While only 11% of respondents reported that they currently include climate-related requirements in their supplier contracts, 36% said that they plan to begin incorporating sustainability KPIs into their purchasing processes with contractual supplier requirements within the next two years.

The report highlights challenges that hinder Scope 3 reporting, such as limited data transparency and traceability, low quality and granularity of data, and a lack of automation tools for data extraction.

[Read more](#)

UK classifies nuclear as “Environmentally Sustainable” in Green Taxonomy

Nuclear power will be classified as “environmentally sustainable” under the UK’s upcoming green taxonomy, with access to the same investment incentives provided for renewable energy, in a move aimed at encouraging private investment, according to Chancellor of the Exchequer, Jeremy Hunt.

The initiative to develop a green taxonomy was initiated in 2020, in order to provide a common framework for determining which activities can be defined as environmentally sustainable, and to improve understanding of the impact of firms’ activities and investments on the environment while supporting the transition to a sustainable economy. The regulation was initially planned to be passed into law in late 2022, but has been delayed until at least later this year.

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US President vetoes anti-ESG legislation on retirement investment resolution

President Joe Biden issued the first veto of his presidency on March 20, 2023, rejecting a legislation that sought to void the Department of Labor rule allowing fund managers for ERISA plans to include ESG considerations in the investment process. The Republican-led resolution was brought using the Congressional Review Act, through which members of Congress may vote to disapprove rules within 60 days of their implementation, and prevent similar rules from being implemented in the future.

The Republican party claims that the rule would lead fund managers to sacrifice financial returns to pursue a political agenda. However, President Biden argues that there is extensive evidence showing that environmental, social, and governance factors can have a material impact on markets, industries, and businesses.

The Congress, however, still can overturn the veto, which would require a two-thirds majority in both the House and the Senate.

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EU launches Green Claims Rules to protect consumers from greenwashing

The European Commission unveiled the Directive on Green Claims, a new set of rules requiring companies to substantiate and verify their environmental claims and labels, as half of all green labels offer weak or non-existent verification. Ensuring that environmental labels and claims are credible and trustworthy will allow consumers to make better informed purchasing decisions. It will also boost the competitiveness of businesses who are striving to increase the environmental sustainability of their products and activities.

Following the ordinary legislative procedure, the Green Claims Directive proposal will now be subject to the approval of the European Parliament and the Council.

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EU announces deal to decarbonize maritime shipping

The European Parliament and the EU Council have reached an agreement on “FuelEU Maritime,” a new regulation mandating reductions in emissions in the maritime transport sector, with targets beginning in 2025.

Maritime transport generates around 3% – 4% of CO2 emissions in the EU. The regulation includes requirements to gradually reduce the greenhouse gas intensity of fuels used by the shipping sector, starting with a 2% reduction in 2025, and reaching as much as 80% by 2050. The targets include CO2, methane and nitrous oxide emissions over the full lifecycle of the fuels. The regulation also introduces a requirement for zero-emission at berth, mandating the use of on-shore power supply or other zero-emission technologies in ports by passenger ships and containerships.

The agreement marks another step towards the EU’s proposed strategy to cut greenhouse gas (GHG) emissions by 55% by 2030, compared to 1990 levels, following decarbonization deals for other sectors such as automotive, road transport, buildings and agriculture

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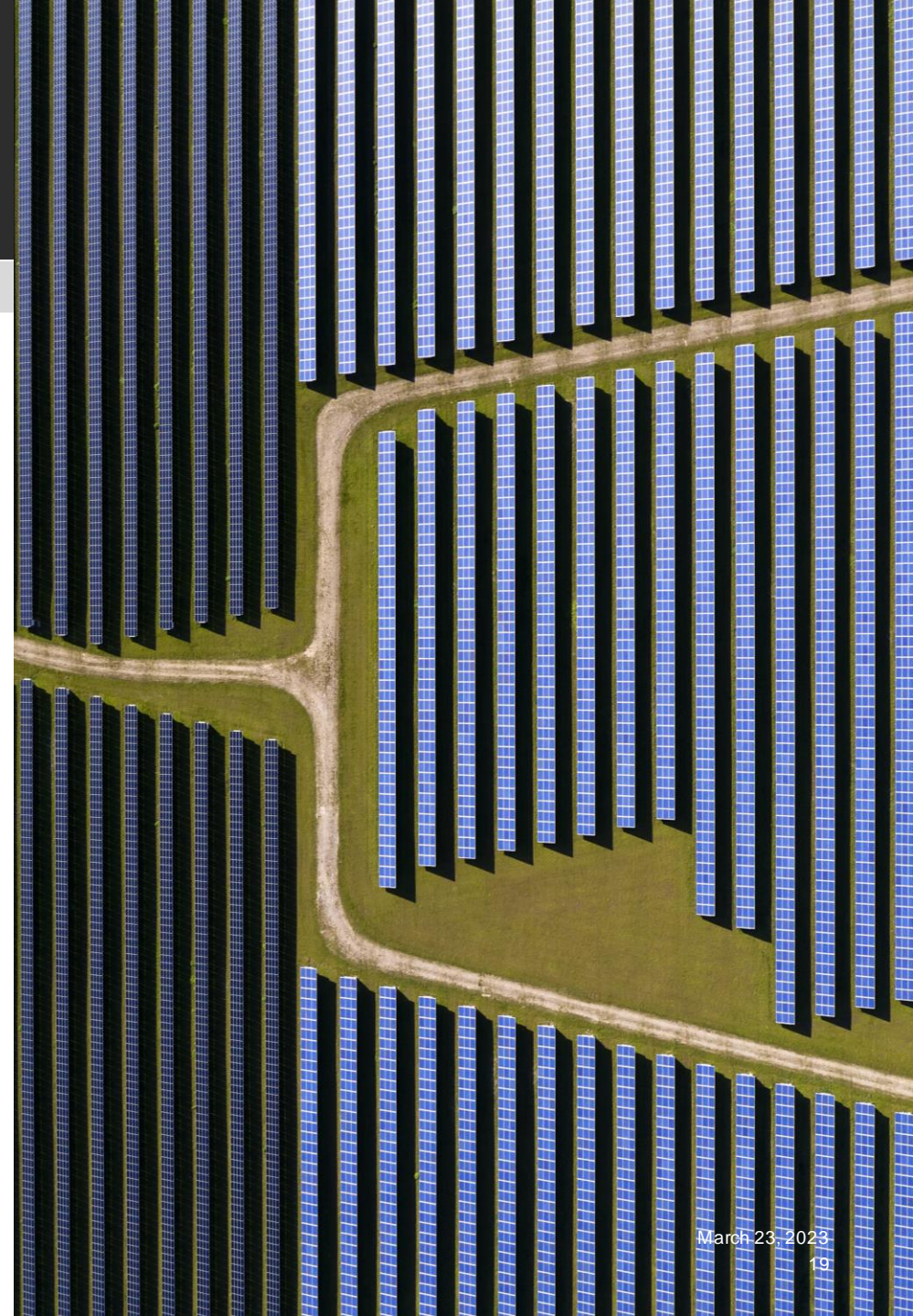
USA announces \$250 million funding to decarbonize federal buildings

The Biden-Harris Administration, through the U.S. Department of Energy (DOE), announced \$250 million in funding from President Biden's Bipartisan Infrastructure Law to help federal agencies implement net-zero building projects.

Buildings are a key source of global greenhouse gas (GHG) emissions, and also one of the hardest to replace, given their long-term nature. The U.S. federal government's portfolio spans 300,000 buildings.

The new funding will be provided through the Assisting Federal Facilities with Energy Conservation Technologies (AFFECT) program, managed by DOE's Federal Energy Management Program. AFFECT will provide funding for federal agencies for projects including energy and water efficiency upgrades to new and existing federal buildings, as well as for initiatives such as efficiency and conservation improvements, electrification, on-site clean energy generation, and sustainable design.

[Read more](#)



IASB initiates project to consider climate-related risks in financial statements

The International Accounting Standards Board (IASB), the accounting standards-setting body of the IFRS Foundation, has launched a new project aimed at exploring potential changes to the requirements by companies to disclose climate-related risks in financial statements.

While the current standards don't refer explicitly to climate-related matters, companies are required to consider climate-related issues in their financial statements if the effects of those matters are material to investors. Even though, climate-related risks are often perceived as remote and may not be appropriately considered in financial statements, investors need better information about the effect of climate-related risks on the carrying amounts of assets and liabilities.

The project will not be seeking to develop an IASB Standard on climate-related risks, but rather that its potential outcomes would be narrow in scope, such as minor amendments to the standards or new application guidance.

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EU delays sector-specific Sustainability Reporting Standards



The release of sector specific European Sustainability Reporting Standards (ESRS) will be delayed, according to European Financial Reporting Advisory Group (EFRAG), the body responsible for drafting the new standards.

EFRAG was requested to prioritize its work on helping companies to implement its first set of ESRS standards, which set out the rules and requirements for companies to report on sustainability-related impacts, opportunities and risks under the EU's upcoming Corporate Sustainable Reporting Directive (CSRD). The CSRD, on track to begin applying from the beginning of 2024 starting with large companies, will significantly expand the number of companies required to provide sustainability disclosures to over 50,000 from around 12,000 currently, and introduce more detailed reporting requirements on company impacts on the environment, human rights and social standards and sustainability-related risk.

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UK delays implementation of Sustainability Disclosure Requirements

The Financial Conduct Authority (FCA), the conduct regulator for financial services firms and financial markets in the UK, announced that it would push back the introduction of its anticipated sustainability disclosure requirements for asset managers and ESG labelling rules for investment products.

According to the FCA, the delay will enable it to consider the significant response to its consultation on the new rules, which received around 240 written responses. The regulator had planned to release its Policy Statement on the new requirements in the first half of this year, and now plans to publish in Q3, adding that “the proposed effective dates will be adjusted accordingly.”

In addition to the updated timeline, the FCA said that following the feedback, it would consider its approach in the new policy, including refining some of the criteria for the labels, and clarify how products and strategies can qualify for a label.

[Read more](#)



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