ESG NEWS YOU CAN USE

December 17, 2023

Environmental

After two weeks of negotiations at COP28, world leaders agreed to a new climate deal that includes an unprecedented call to transition away from fossil fuels. The agreement, known as the Global Stocktake, “calls on” countries to “contribute” to global efforts to reduce carbon pollution to achieve net zero by 2050 in ways they see fit. However, the agreement falls short of requiring the phase-out of coal, gas, and oil (which had been included in an earlier draft) and, according to critics, contains numerous loopholes and insufficient funding for developing countries.

Regulation and Reporting

The EU reached a provisional agreement on the Corporate Sustainability Due Diligence Directive (CSDDD), which aims to strengthen the protection of the environment and human rights. Under the directive, which is expected to come into force around 2027, large companies in the EU will have to identify and take remedial action if they find their supply chains employ child labor or damage the environment. Currently, financial firms are excluded from external due diligence of clients who take out loans or make investments, but that exclusion will be reviewed in the future. The deal also toughened obligations to implement time-bound climate mitigation transition plans.

SEC Chair Gary Gensler emphasized the importance of establishing climate reporting rules in the U.S., stating that the lack of a U.S. rule could force many companies to comply with foreign reporting rules such as those in the EU's Corporate Sustainable Reporting Directive (CSRD). The SEC released its proposed climate disclosure rules in March 2022; the rules would require U.S. companies to disclose information on climate risks facing their businesses, plans to address those risks, and metrics of the company's carbon footprint and (in some cases) emissions across their value chains. Although the SEC's proposed rules are not as comprehensive as the EU's CSRD, Gensler said that finalizing a set of rules would allow the SEC to talk with the EU about "substituted compliance".

The Australian Competition and Consumer Commission (ACCC) published eight principles to guide businesses when making environmental marketing and advertising claims to avoid greenwashing. These principles focus on: (1) making accurate and truthful claims, (2) having evidence to support the claims, (3) not omitting important information, (4) explaining any conditions/qualifications, (5) avoiding broad and unqualified claims, (6) using clear language, (7) ensuring that visuals do not give the wrong impression, and (8) being direct and open about one's sustainability transition. In 2024, the ACCC plans to release more guidance for businesses and consumers on emission claims, offset claims, and trust marks. The official guide can be found here.

The Monetary Authority of Singapore (MAS) announced the launch of the Singapore-Asia Taxonomy for Sustainable Finance. It is aimed at defining green and transition economic activities and reducing green or transition washing risk by enabling financial institutions to identify and disclose the alignment of their financed activities and investment products. The taxonomy includes activities across eight sectors that constitute 90% of the region's emissions. The Singapore-Asia Taxonomy will be the first to introduce a transition category with a "traffic light" system to distinguish between activities that are on a 1.5°C pathway, moving towards a transition with a defined timeframe, or reducing emissions significantly in the short term. Access the Singapore-Asia Taxonomy here.

The Canadian government published a draft protocol, "Reducing Enteric Methane Emissions from Beef Cattle" (REME), to incentivize farmers to implement changes to reduce their methane emissions and an opportunity to generate offset credits that they can sell. The REME protocol will encourage farms to improve cattle diets, management, and other strategies that support animal growth but reduce methane emissions. Credits, representing one ton of emissions reductions, could then be sold to other businesses. Canada is taking a number of measures to decarbonize the agricultural sector; last month, it announced a $12 million investment in the Agricultural Methane Reduction Challenge, which awards funding to innovators working to advance low-cost and scalable solutions to reduce cattle methane emissions.

Investing

In its 2024 Private Markets Outlook, BlackRock identified the low-carbon transition as a key "mega force" for driving major investment opportunities next year, highlighting infrastructure-related areas like clean energy and electrification. BlackRock also noted investment opportunities in climate resilience (preparing and adapting to climate hazards) and in rebuilding after climate disasters. The firm predicts that capital investment in the global energy system could double to $4 trillion annually through 2050 to adopt low-carbon energy sources, which could constitute 70% of the world's energy by 2050.

According to a report by Moody's Investor Service, the amount of debt associated with exposure to environmental risks has doubled to over $4 trillion in less than ten years. In 2015, nine sectors faced "high or very high environmental risk," compared to 16 today (with the oil and gas, mining, and chemical sectors being among the most exposed). Although banks face low credit risk from environmental factors, they are facing increased pressure from investors, customers, and regulators to meet carbon transition targets. Access the report here.

50 of the biggest oil and gas companies pledged at COP28 to reach near-zero methane emissions by 2030 and net-zero carbon emissions in their energy use and production by 2050. Critics, however, point out that the pledge does not address the Scope 3 emissions caused by the fuels the companies produce, which account for 85% of the total emissions associated with the companies, with one stating that "[t]he transition to a low-carbon world does not mean producing the same volume of oil and gas in a more carbon efficient manner."

Resources & Membership

In the most recent **episode of Armchair ESG**, Finpublica's Adam Wasserman sat down with Owl ESG's Rob Yates to discuss current trends in ESG and how Finpublica works to empower leaders to focus on sustainable finance from both a value and values perspective. Listen on either **YouTube** or **Spotify**.

Finpublica's **membership portal** is live. If you are interested in joining a community more than 250 finance leaders focused on sustainable finance and ways to implement initiatives inside their organizations and across the industry, we invite you to apply.

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