ESG Corner

Our Monthly Newsletter

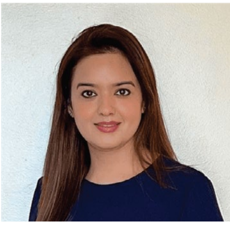
May 2024

Foreword

Welcome to Uniqus' inaugural ESG newsletter, where we bring you insights from the ever-evolving world of Environmental, Social and Governance practices. While ESG considerations are nothing new in many regions, we know that the landscape is rapidly changing and can sometimes be hard to keep pace with. Through this newsletter, we aim not just to consolidate this news for you but also to provide our point of view on the topics that help distill the application and relevance for companies.

From regulatory requirements to customer demands, sustainable business practices are more critical than ever. That is why we have created this newsletter—to keep you in the loop on regulatory changes, news, best practices, and critical topics and themes shaping the sustainable business landscape.

We are excited to invite you to join us on this journey of discovery and learning. Our newsletter will provide valuable insights and practical knowledge to help you confidently navigate the evolving ESG landscape. We are eagerly looking forward to you reading it—happy reading!



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In the News

This section focuses on key developments in the US, India, and the Middle East, dissecting the most recent news and analyzing its potential to influence regional landscapes, businesses, and consumers. Uniqus provides our insights into how these developments may shape current market dynamics and set the stage for future opportunities and challenges.

US

01 ISSB Explores Developing New Disclosure Standards for Biodiversity, Human Capital

The IFRS Foundation launched the International Sustainability Standards Board (ISSB) in 2021 at the COP26 Climate Conference. The ISSB was created to develop IFRS Sustainability Disclosure Standards while ensuring consistent disclosure requirements and building a global baseline for stakeholders. Following the launch of the general sustainability and climate reporting standards, IFRS S1 and S2, ISSB has determined its next focus areas — nature and human capital. According to market feedback, as investors continue to demand improved disclosures to enhance decision-making, nature and human capital are among the key topics that highlight the value of a company. The ISSB's research into these topics will focus on assessing any current limitations on nature and human capital disclosures while identifying potential solutions to determine if there is a requirement for formal standard setting. ISSB will work closely alongside the Task Force on Nature-related Financial Disclosures (TNFD) and build on any pre-existing work or initiatives.

Uniqus' POV

While significant focus has been recently on climate-related disclosures, it is important to remember the other topics that fall under ESG. In addition to climate, ESG encompasses broader issues including, biodiversity, human capital, and beyond. Although the ISSB is in the early stages of researching nature and human capital, companies can begin to assess their impacts on these topics, identify any gaps in information or disclosures, and factor them into their business decisions. While the ESG reporting landscape is constantly changing, companies should not wait for disclosures to be mandated and instead should take proactive steps and focus on leading disclosure practices.

02 SEC Climate-related Disclosure Rules Face Legal Challenges

On 6 March 2024, the SEC introduced rules for public companies to report on climate-related information. The implementation of the rules was stayed in April due to ongoing legal challenges, as some believe the SEC overstepped its statutory authority and "placed an undue burden on affected companies". The duration of the litigation and the ultimate outcome of the rules are currently unclear; however, the SEC is aiming for a swift resolution.

Uniqus' POV

Companies should still align their climate-related data and reporting with the SEC's requirements and other global reporting obligations, which broadly align with best practices such as the recommendations from the Task Force on Climate-Related Financial Disclosures (TCFD). Aligning with established disclosure frameworks helps companies provide more consistent climate-related information to stakeholders, especially investors, while helping to shape business strategies and operational plans in response to climate-related risks and opportunities.

03 What the SEC's Climate Rules Mean for Emerging Growth Companies

Early-stage companies should start gathering relevant data and reporting on climate-related information externally to demonstrate their commitment to sustainability while helping identify potential intersections with their overall business strategies. Despite some anti-ESG sentiment in the US, investors globally continue to integrate climate matters into decision-making as part of efforts to evaluate risk-adjusted returns.

Uniqus' POV

Pre-IPO companies should develop ESG and climate change strategies to enhance their appeal to investors and proactively align with forthcoming climate disclosure regulations. Steps include establishing ESG oversight mechanisms, fostering cross-functional collaboration, and integrating ESG matters into risk management.

04 US Sustainable Funds Navigate Challenges with Resilience

In 2023, US sustainable funds saw outflows of USD 13 billion, their first year of net withdrawals. However, sustainable fund assets reached USD 323 billion by year-end, marking an 18% increase from a low point in 2022. Passive sustainable funds, except for one, would have recorded net inflows if not for a change in BlackRock's portfolio allocation. Sustainable funds rebounded in 2023 with the median sustainable large-blend equity fund posting a respectable 24.4% gain.

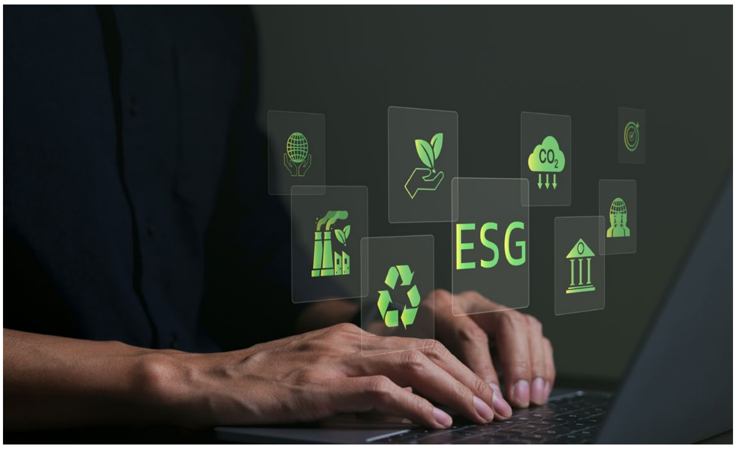
Uniqus' POV

According to Morningstar's data, there have been challenges faced by sustainable funds in the US in 2023. Despite market fluctuations and regulatory changes, sustainable fund assets have shown resilience. Although there were net outflows for the first time, investors remained interested in sustainable investing. Passive sustainable funds demonstrated resilience, rebounding returns, and contributed to overall asset growth. Asset managers continue to integrate ESG factors into their investment processes.

India

01 CRISIL ESG Ratings & Analytics Ltd Gets SEBI Nod to Offer ESG Ratings

CRISIL ESG Ratings & Analytics Ltd. has been approved as a category 1 provider of ESG Ratings by the Securities and Exchange Board of India (SEBI). As ESG disclosures become increasingly important, especially in the financial market, this proprietary India-specific framework will allow for enhanced decision-making across all stakeholders and support the growth of the Indian economy.



Uniqus' POV

The importance of ESG ratings in investment decisions is growing, reflecting their role in aligning investments with values and risk management. These ratings not only promote corporate accountability but also better corporate practices. However, different providers' inconsistent ratings for the same entity raise concerns about their transparency and methodology.

In response to these concerns, several global regulatory actions have been taken. India was one of the first to implement regulatory measures in 2022 following the IOSCO recommendations on sustainability practices and disclosures in asset management. The SEBI introduced regulations to enhance trust, prevent greenwashing, and ensure methodological transparency and independence of the rating agency.

Similarly, in February 2024, the European Union (EU) finalized its first ESG rating regulations to ensure corporate sustainability. The UK has also moved in this direction, with its financial watchdog urging raters to adopt a new voluntary code of conduct from the International Capital Market Association.

These steps signify a global move towards more regulated and transparent ESG ratings, which is essential for building investor confidence and promoting a sustainable future. The alignment of international regulatory frameworks can significantly enhance the reliability and effectiveness of ESG ratings.

02 Forging a Greener Future: Indian Steelmakers' Bold Stride Towards Global Emission Standards by 2030

Credit rating agency Crisil's recent report revealed that Indian steelmakers are making significant progress in reducing carbon emissions. They have achieved a 65% reduction since 2005, with a target of meeting their reduction goals by 2030. They can further accelerate their efforts by adopting renewable energy, expanding Electric Arc Furnace capacity, and adopting carbon capture technologies. These proactive steps positively impact the environment and improve the ESG profiles of these companies, opening funding opportunities with more favorable terms and expanding their competitiveness in the export market.

Uniqus' POV

Setting ESG goals and targets can lead to positive outcomes. Indian steelmakers have shown that achieving ESG goals in all markets is possible. Objectives help companies and workers measure progress and work towards goals. Investors value ESG data when making investment decisions, and therefore communicating goals, targets, and progress enhances a company's attractiveness to investors and creates greater opportunities. Steel is a hard-to-abate sector that must deal with the CBAM regulations set by the EU.

03 ESG Ratings' Heisenberg Dilemma: How to Achieve Accuracy and Quality

ESG ratings are becoming increasingly popular as companies enhance their focus on sustainability efforts and initiatives. However, data accuracy and quality remain an ongoing concern. Investors are driving the demand for ESG ratings, using the ratings and associated data to assist them in incorporating ESG factors into investment strategies. Data accuracy is essential to build trust in ESG ratings, and more accurate data would also promote consistency and comparability amongst the companies being rated.

Uniqus' POV

Each ESG rating agency uses a unique methodology. Companies should evaluate the relevance of various ESG ratings to determine which rating agencies are most important to stakeholders (e.g., understanding which ratings are utilized by specific investors). A unified ESG data and reporting process can streamline how companies disclose data incorporated into ESG ratings.

Middle East

01 Shaping Skylines: How ESG is Transforming Middle East's Real Estate Landscape

The Middle East real estate sector is changing due to sustainability-related considerations. ESG principles initially emerged in response to environmental and social concerns and demands from investors and consumers. Regulatory and financial catalysts, such as green building standards, also contribute to this change.

Integrating ESG practices into procurement procedures can be challenging but essential for long-term sustainability. Digitalization in construction can help address environmental concerns, such as measuring carbon impact and reducing emissions during project execution. Prioritizing sustainable development in the region's rapid economic growth is crucial.

Uniqus' POV

ESG principles are gaining importance in the real estate and construction industries. It is recommended that Middle Eastern real estate companies prioritize ESG integration and adopt digitalization in construction for operational efficiency and sustainability. Sustainable urban planning and real estate development are essential for the region's rapid economic growth. Improving data quality and engaging stakeholders can ensure accurate ESG reporting.

02 Dubai's Leap Towards Environmental Resilience

Dubai is establishing the Dubai Environment and Climate Change Authority to build a solid foundation for a green economy and enhance the city's role in combating climate change. This initiative sets a worldwide benchmark in environmental stewardship and is expected to boost business and job opportunities while ensuring a sustainable future.

Strategically designed cities, communities, and buildings can reduce overall impact on the environment. Regulatory change and support from the business community can help promote this. Companies can contribute to transforming the Emirate into a leading hub for sustainable urban development by adopting green strategies and supporting the city's net zero carbon emissions targets.

Uniqus' POV

Dubai is recognized as a global model for environmental stewardship, highlighting the economic advantages of sustainable practices. The city advocates for collaborative efforts between regulators and businesses to foster green initiatives and sustainable development, emphasizing job creation and reduced environmental impact.

03

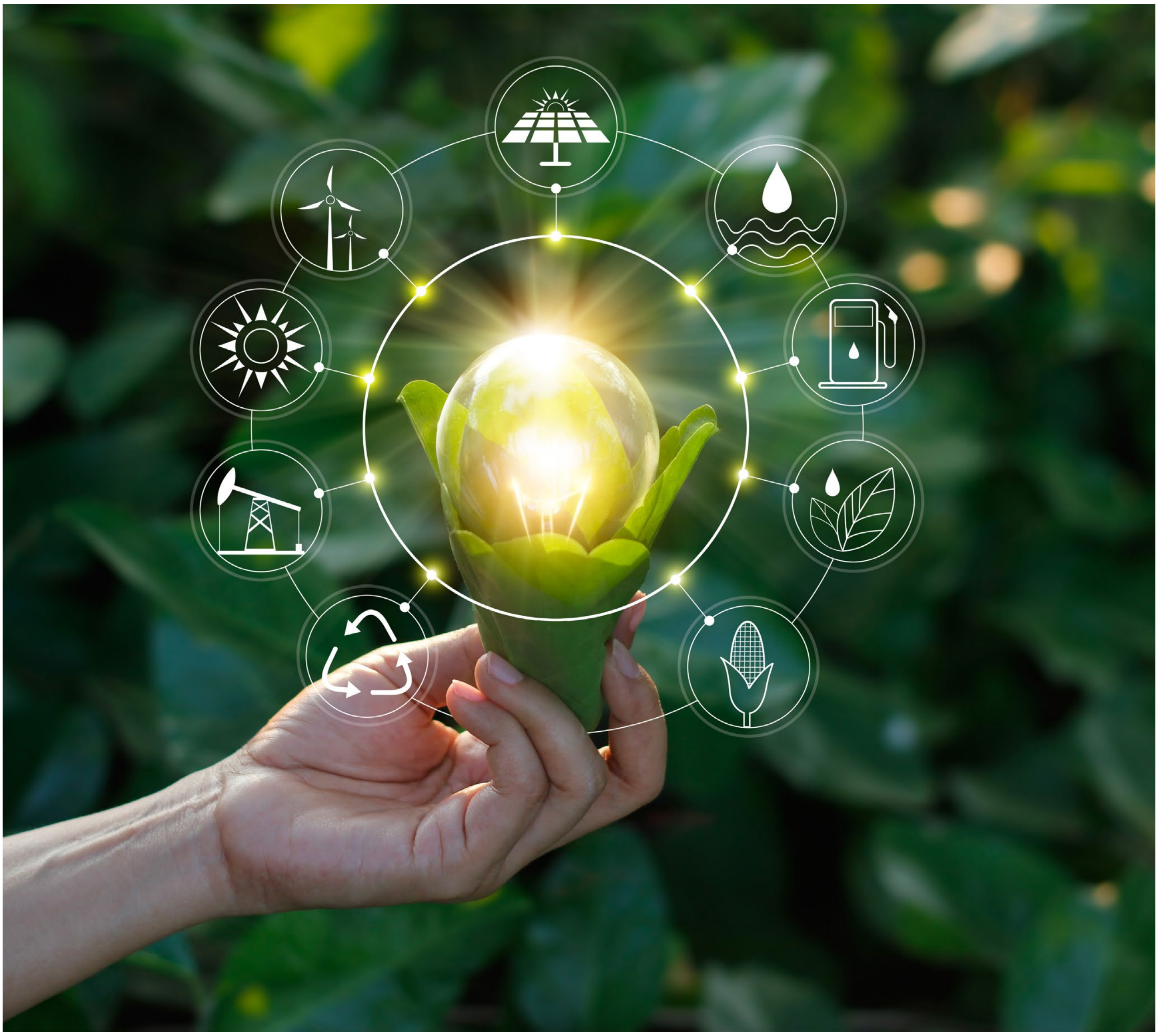
Revolutionizing Travel: Saudi Red Sea Authority's Vision for Eco-Conscious Tourism

Red Sea Global, a subsidiary of Saudi Arabia's Public Investment Fund, plans to develop megaprojects along the Red Sea coast as part of its Vision 2030. These projects, prioritizing sustainability, will encompass tourism, real estate, and infrastructure.

The Saudi Red Sea Authority promotes cleaner and greener tourism, setting new benchmarks for environmental stewardship. The Authority aims for regenerative tourism, safeguarding the natural beauty of the Red Sea, and advocating for sustainable practices. The Kingdom is a premier destination for conscientious travelers through sustainable initiatives and eco-friendly tourism infrastructure.

Uniqus' POV

Saudi Arabia's plans along the Red Sea coast aim to create jobs, attract foreign investment, and position itself as a leading destination for green tourism and investments. The Saudi Red Sea Authority will prioritize regenerative tourism practices to protect the natural beauty of the Red Sea through strategic partnerships and eco-friendly tourism infrastructure while advocating for sustainable practices.



In-depth Analysis

This section delves deep into a significant ESG development, offering comprehensive insights and a nuanced perspective. We break down the critical facets of this development, analyzing its implications for businesses, investors, and regulators. Our in-depth analysis clarifies the potential impact on global markets and how this change may influence strategic decisions across sectors. Join us as we explore this development, shedding light on the opportunities and challenges in the evolving ESG landscape.

The ISSB: In Pursuit of a Global Baseline for Sustainability Reporting

The emergence of the International Sustainability Standards Board (ISSB) and its initial two standards, IFRS S1 and IFRS S2, are a significant step towards establishing a global framework for sustainability disclosures. These standards create a cohesive platform for sustainability reporting, emphasizing climate-related risks and opportunities that align with the needs of capital markets.

IFRS S1 outlines a general sustainability disclosure requirement, focusing on material risks and opportunities related to sustainability. IFRS S2 is the first topic-based standard from ISSB centered on climate-related disclosures and based on TCFD recommendations. Together, these standards provide comprehensive information to capital markets, laying the groundwork for securities regulators worldwide to adopt them as a global baseline.

The primary goal of ISSB standards is to mandate that entities disclose critical climate and sustainability-related risks and opportunities. By focusing on material impacts that could affect an entity's cash flows, access to financing, or cost of capital in the short, medium, and long term, the standards align closely with the decision-making needs of primary users of financial reports.

The mandatory application of IFRS S1 and IFRS S2 depends on the regulatory processes of each jurisdiction, creating flexibility in adoption. The ISSB has provided transition relief to give companies time to align their sustainability reporting with financial statements. One critical relief is not requiring comparative information during the first year of application.

Uniqus' POV

Despite differences in jurisdictional approaches, the ISSB standards have garnered strong interest from the corporate and investor community worldwide. They aim to be interoperable with existing regulatory frameworks, filling the gaps to provide a cohesive baseline.

The ISSB was established in response to market demand for a unified sustainability reporting standard. Investors and companies recognize the benefits of having a consistent global baseline, especially given the challenges of Scope 3 and supply chain emissions. A common language and taxonomy reduce compliance costs and foster investment in emerging economies, sending the message that they are serious about sustainability. The ISSB's approach is a promising pathway to a unified global framework.

In conclusion, the ISSB's standards represent a significant leap towards standardizing sustainability reporting. By providing a robust framework that could become a global benchmark, these standards have the potential to reshape how companies disclose sustainability-related information, making them more comparable, transparent, and decision-useful.

Regulatory Watch

Regulation around ESG continues to evolve rapidly. This section summarizes some of the latest regulatory developments across key global markets, including the US, EU, UK, India, and the Middle East. Our analysis captures the nature of the legislative changes or updates, along with our high-level assessment of broader implications on business practices and compliance strategies.

Global

Governing Body	Update	Uniqus' Impression
UN-convened Net-Zero Banking Alliance (NZBA)	Adopted updated guidelines that now include targets for banks' capital markets activities, a first-time inclusion.	Aids banks in updating their guidelines for climate targets to address risks and opportunities.
International Association of Insurance Supervisors	Launched the third in a series of four consultations on climate risk.	Aims to establish a uniform approach worldwide and fill in any missing pieces in the global insurance supervision structure.

US

Governing Body	Update	Uniqus' Impression
Securities and Exchange Commission (SEC)	Adopted rules to enhance and standardize climate-related disclosures by public companies and in public offerings.	The rules will facilitate greater transparency for investors and provide listed companies enhanced understanding and management of their own climate-related risks and opportunities.
US Environmental Protection Agency (EPA)	Announced a final rule that sets more robust standards to reduce GHG emissions from heavy-duty vehicles beginning in model year 2027.	Provides flexibility to automotive manufacturers to choose a set of emissions control technologies that suit their customers.

India

Governing Body	Update	Uniqus' Impression
Reserve Bank of India	Issued a draft disclosure framework for banks to address climate risks – banks and non-bank financial firms are required to highlight the impact of climate-related risks and opportunities on their business, strategy, and financial planning, considering different climate scenarios.	Including sustainability considerations in banking regulations will prevent asset mispricing and capital misallocation and thereby catalyze a shift towards sustainable business.

UAE

Governing Body	Update	Uniqus' Impression
Abu Dhabi Global Market (ADGM)	Published a Consultation Paper on a proposed whistleblowing framework.	Will lead to better governance and transparency by virtue of the vigil mechanism put in place. Several frameworks under ESG require reporting on whistle-blower complaints.

EU

Governing Body	Update	Uniqus' Impression
EU's Director-General for Energy	Issued new rules to empower consumers for the green transition i.e. before buying a product, consumers will receive better and more harmonized information on its durability and reparability; applicable from 27 September 2026, EU countries must transpose these into their national law by 26 March 2026.	Informs and empowers consumers toward sustainable choices while preventing greenwashing and early obsolescence in the market.

Governing Body	Update	Uniqus' Impression
European Council	Adopted a revised regulation to reduce problematic waste shipments outside the EU, update procedures to align with circular economy and climate neutrality objectives, use electronic submission of information, and enhance enforcement against illegal shipments.	Implements the provisions of the Basel Convention on the control of transboundary movements of hazardous waste and their disposal into EU law.
European Council	Reached an agreement on the Corporate Sustainability Due Diligence Directive to address forced labor worldwide and ensure large EU companies promote social rights and good working conditions across operations. This will be applicable for companies with net turnover above EUR 450 million and will work together with the regulation banning products made with forced labor.	Offers a level playing field to corporates based on a standard set of rules, which could be further strengthened by bringing even smaller organizations into the ambit of this Directive.
European Parliament	Adopted proposals to better prevent and reduce waste from food and textiles across the EU; food waste – higher binding waste reduction targets to be met nationally by 31 December 2030 & textile waste – extend producer responsibility to cover the costs of collecting, sorting, and recycling waste textiles.	Bolsters the EU's ambitions to adopt circular economy principles and promote measures against food waste.
European Parliament	Adopted plans to help reduce energy consumption and GHG emissions from the buildings sector; all new buildings must be zero-emission from 2030, public authorities' buildings must be zero-emission from 2028, residential buildings must reduce energy usage by 16% by 2030 and 20-22% by 2035.	Integrates climate policy with socio-economic benefits, reducing energy costs, combating energy poverty, creating jobs, and significantly cutting carbon emissions as a critical component of the European Green Deal, which Parliament supports for its fairness and ambition.

UK

Governing Body	Update	Uniqus' Impression
HM Treasury and HM Revenue & Customs	Announced a consultation seeking views on proposals for the design and administration of the UK carbon border adjustment mechanism (CBAM) from 01 January 2027; consultation closes on 13 June 2024.	Enables UK's Government to implement CBAM from 01 January 2024 on imports of certain carbon-intensive imported goods from sectors including aluminum, cement, ceramics, fertilizers, glass, hydrogen, and iron and steel.

ESG Best Practices Around the Globe

Uniqus has observed and summarized leading ESG practices worldwide, aiming to inspire governments, businesses, and individuals alike. We highlight exemplary initiatives and strategies that set environmental stewardship, social responsibility, and governance excellence standards. Learn how these best practices achieve sustainable outcomes and drive meaningful change across various sectors and communities.

Amsterdam's Commitment to Becoming the World's First City with a Circular Economy

Envisaged in 2020, Amsterdam's strategy intends to halve the city's use of new raw materials by 2030, becoming a fully circular economy by 2050.

The city's authorities, citizens, and residents have focused on cutting waste in three areas – food consumed, products used, and construction in the built environment. Highlights include:

- The Circular Monitor built in the city tracks all the material streams and assists in making the right material-use choices, as well as fostering reuse and redesigns.
- Opportunities are identified in the most unlikely places; for instance, Amsterdam has begun recycling its artificial grass and redesigning new green pitches to increase their longevity. The municipality regularly reuses building materials and reserves the ordering of fresh supplies as a last resort.

An Indian Pilgrimage Adopts a Digital Deposit Refund System (DRS)

India's diversity is evident from its many cultures and religions, each with its important sites. One such site for Hindus is Kedarnath in India's northern state of Uttarakhand. To address environmental concerns associated with these sites, the Government of Uttarakhand, in collaboration with a startup, has implemented a digital Deposit Refund System (DRS) initiative. Under this innovative system, pilgrims are digitally reimbursed a deposit amount when they return used plastic packaging to designated deposit refund centers. These deposit refund centers are conveniently located along pilgrimage routes.

ESG Encyclopedia

Dive into the essentials of ESG with our monthly spotlight on key topics, themes, and concepts shaping the landscape of sustainable business practices. In each issue of our newsletter, we select a new focal area to give you an in-depth understanding of its significance and application.

The Carbon Sink

In essence, a carbon sink operates by absorbing more carbon from the atmosphere than it releases, effectively acting as a storage mechanism for carbon. This process is exemplified by natural entities such as plants, oceans, and soil. On the other hand, a carbon source functions by releasing more carbon into the atmosphere than it absorbs, contributing to the accumulation of greenhouse gases. Examples of carbon sources include the combustion of fossil fuels and volcanic eruptions. Carbon sinks can exist in both natural and human-made forms, each playing a crucial role in the global carbon cycle.

Carbon serves as a fundamental building block for life on our planet. It constitutes the fats and carbohydrates in our food as well as the molecules, such as DNA and proteins, in our bodies. Aside from being a crucial component of the air we breathe, carbon is also stored in various reservoirs, including the oceans, rocks, fossil fuels, and plant matter.

The carbon cycle describes the flow of carbon among these diverse reservoirs. A harmonious interaction between carbon sinks and carbon sources is vital for maintaining the balance of carbon concentrations on our planet.

About Uniqus

Uniqus Consultech is a global tech-enabled consulting company that specializes in ESG and Accounting & Reporting Consulting. The Company is co-founded by consulting veterans Jamil Khatri and Sandip Khetan and backed by marquee investors such as Nexus Venture Partners, Sorin Investments, and other angel investors. Anu Chaudhary, a global ESG specialist with over 20 years of experience, serves as the Global Head of ESG.

With operations in the US, India, and the Middle East, Uniqus is committed to leveraging technology and an integrated global delivery model to provide best-in-class consulting services that drive measurable results and create long-term value for its clients.

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Saudi Arabia's Red Sea Global to develop megaprojects and add $8.8bn to kingdom's economy (thenationalnews.com)

How will ISSB IFRS S2 impact freight forwarders? (pledge.io)

Pro Take: Forget the SEC, International Climate Reporting Standards Could Become the Global Baseline - WSJ

Feedback

We encourage you to share this newsletter with your colleagues and networks, and to provide us with feedback on topics that you would like to see covered in future issues. Uniqus is here to support you in navigating this evolving landscape. Contact us to learn more about how we can help you on your ESG journey.

To know more about us, please visit *www.uniqus.com*