



ACT

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ACT Middle East Breakfast Briefing 2022

16 June | Dubai, UAE

Hosted in partnership with Sustainable Fitch and Fitch Ratings



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TREASURERS.ORG/MEBREAKFAST22



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Chair's opening remarks

Caroline Stockmann

Chief Executive

Association of Corporate Treasurers

Building future
Connecting minds
Enhancing knowledge
Creating advanced
Shaping careers
Giving direction
[treasurers.org](https://www.treasurers.org)

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THE ACT – WHO WE ARE

The Association of Corporate Treasurers (ACT) sets the benchmark for international treasury excellence. As the Chartered body for treasury, we lead the profession through our internationally recognised suite of treasury qualifications, by defining standards and championing continuous professional development.

We educate

through **qualifications** and **training**

We grow networks

through **events** and **conferences**

We guide, inform and provide support

through **policy & technical**, **publications** and **membership services**



ESG RATINGS OVERVIEW

June 2022

Craig Gosnell, Senior Director,
Business and Relationship Management,
ESG/Sustainable Finance

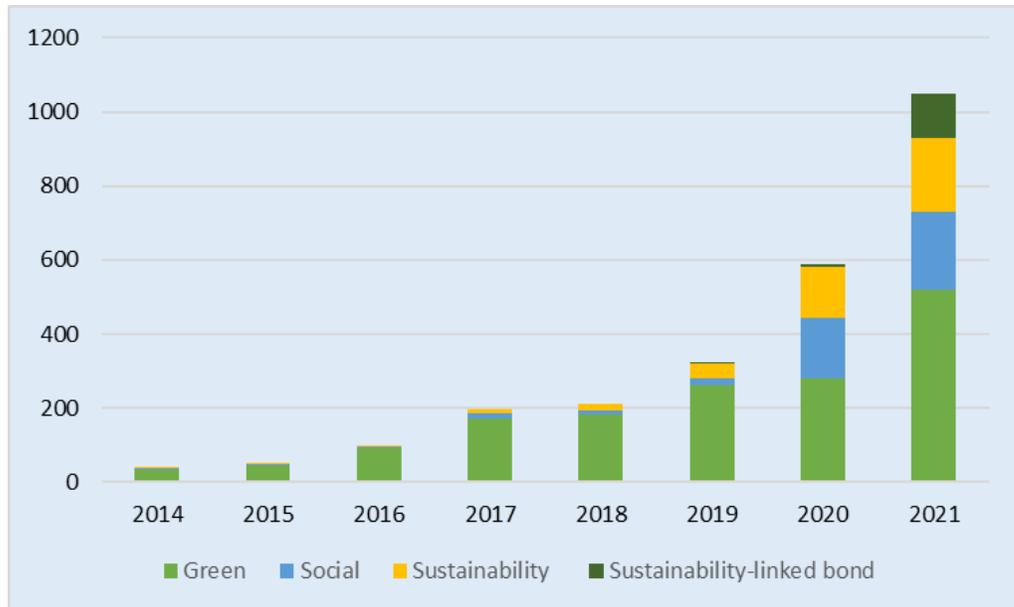
16 June 2022 – Dubai



INVESTORS WANT CONSISTENCY, GRANULARITY & ANALYTICS

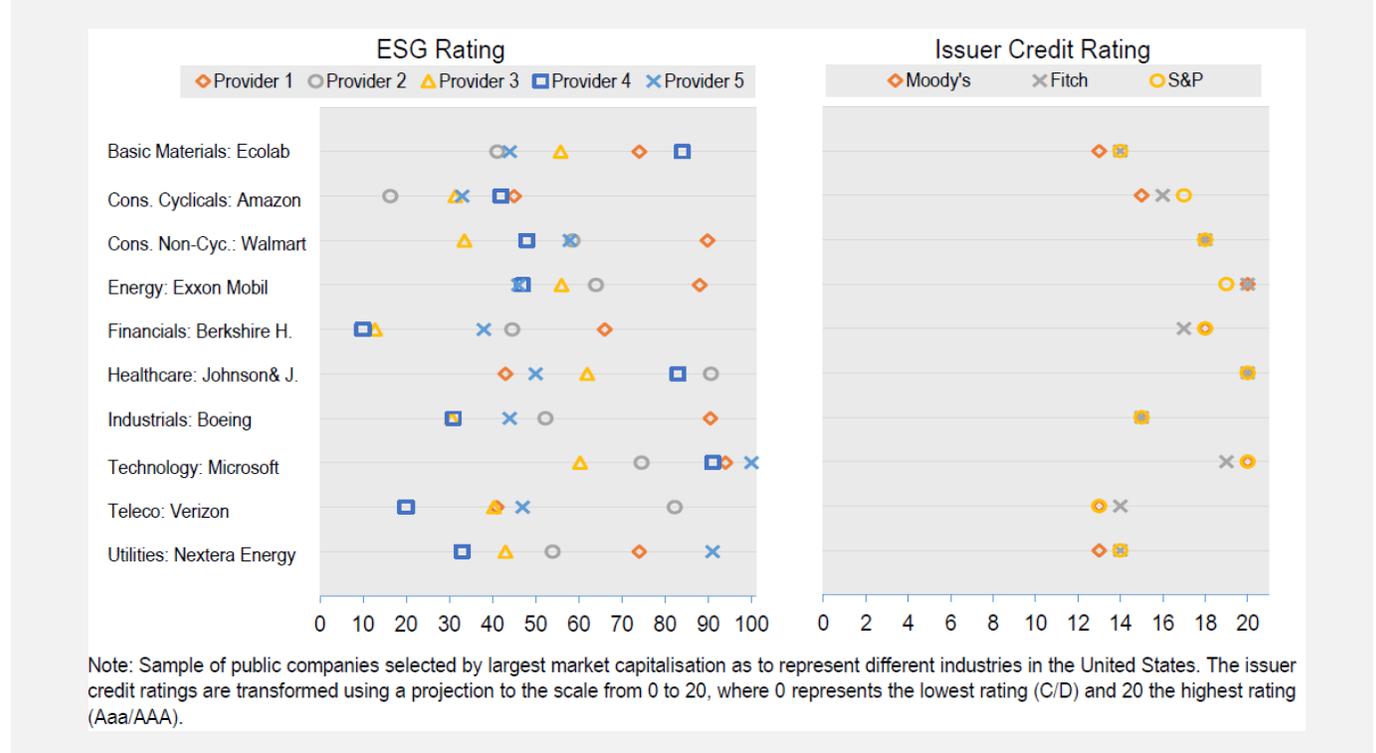
“Being a good ESG bond investor involves more than reading what’s written on the tin. There can be no substitute for the hard work that lies behind active investing.”

Growth of the Sustainable Bond Market



Source: ICMA based on Environmental Finance Database (in USD billion)

ESG Assessments Have Significant Variances Due to Different Emphasis



Source: Refinitive, Bloomberg, MSCI, Yahoo Finance, Moody's Fitch, S&P, OECD Calculations

High Level European Market Snapshot 2022

Focus Area/Theme	Snapshot
Big Picture	<ul style="list-style-type: none"> • Significant uptick in commitments to 1.5 degree challenge following COP26 • Huge capex challenge to achieve the transition • Developing a common language on what is Green • Greenwashing: by talking about it leads to greater transparency; positive circle is being built up
Taxonomies	<ul style="list-style-type: none"> • Defining what is green? • A taxonomy is a classification system, really helps as a standardisation tool. • EU taxonomy is a list of economic activities that have environmental contributions • Technical screening criteria – which will evolve and get stricter in terms of defining substantial contribution
Disclosure	<ul style="list-style-type: none"> • Disclosure is the bedrock of action • SFDR – harmonized rules. Article 6, Article 8 and Article 9 • TCFD - one global comparable data point. Leader and clear winner. TNFD underway • ISSB - formation of the International Sustainable Standards Board. Global standard akin to annual reporting
Emissions Climate & Social	<ul style="list-style-type: none"> • Challenge on climate: get there by 2050. Half-way there by 2030 and peak emissions by 2025 • Solid climate strategy = a solid transition/ESG strategy • Scope 3 – hardest to measure – hardest to define – easiest to get wrong • Social is more focused on target populations – environment effects everyone, social not so • A market finding its feet – lack of comparability
Data	<ul style="list-style-type: none"> • Data allows much richer conversation • Are ‘we’ collecting the right data to achieve the outcomes we want to achieve?
Regulation on ESG Ratings/Data Providers	<ul style="list-style-type: none"> • It’s coming... feedback due shortly. IOSCO/ESMA investigating greenwashing more closely • Important challenges lie ahead as regulators • Important to note the goal is comparability not consistency • The product(s) and associated objectives should be clear to the user and the methodology transparent • Including the ‘weightings’ of ‘E’, ‘S’ and ‘G’

Between 2005-2018 less than 1% of earnings calls mentioned “ESG”. In the past few years that has risen to 20%.

The Net Zero strategy is a label, not just about emissions. What is the strategy?

Regulation: whatever grows rapidly, should have scrutiny.

High Level European Market Snapshot 2022

Focus Area/Theme	Snapshot
Capital Markets/Finance	<ul style="list-style-type: none"> • Finance took a big step forward at COP26 • Finance sector is a key part/represents key actors in this space now • Make finance flows consistent with the pathways that people have signed up to • Sustainable bond market, 2% of total bond market. Impressive, but small • Investment Grade and Developed Market Bias – not a “just transition”?
Value of a Sustainability Instrument	<ul style="list-style-type: none"> • Access a wider pool of investors • Initiate & execute a transition strategy - what is the company doing in detail? • Asset management: satisfy the demand of investors of green story • Accelerate price discovery & facilitate capital (re)allocation • Buy and hold type, secondary pricing benefits
Framework	<ul style="list-style-type: none"> • Roadmap to investors • Core part of the framework is the sustainability strategy • How you do things when you do things in green format
SLBs (Sustainability-Linked Bonds)	<ul style="list-style-type: none"> • Assess alignment of KPIs/SPTs with sustainability strategy, rationale for KPI choice, ambition of SPTs (Sustainability Performance Targets), credibility of strategy to hit SPTs • Size and magnitude of coupon step-up really important • Benefits: include overall strategy (not just sub-set of strategy) • Biggest challenge: assessing how robust the target setting is
Engagement	<ul style="list-style-type: none"> • Dialogue between issuers and investors both pre- and post-issuance • Dual benefit – communication and collaboration – with investors and employees • Positive internal benefits. Improves risk management • Connects/engages with employees across organization; very unifying

Net Zero is going to trigger the largest reallocation of capital in history.

Policy makers recognise capital markets are the oxygen for reaching sustainability goals.

High Level European Market Snapshot 2022

Focus Area/Theme	Snapshot	
<p>Issuers & Transition Strategies</p>	<ul style="list-style-type: none"> • How exposed is a company and what is the company doing to mitigate that exposure? • Some form of a sustainable business transformation. Is it relevant, realistic, ambitious? • Can't think of financing strategy without transition strategy without company ESG strategy • Issuers (not issuance) sustainability strategy. Track record and targets • Accelerate the transition within the boundaries of the financial strategy and balance sheet strength • Transition plans > net zero. Disclose those transition plans. Underpin the framework with incremental milestones. Not Net Zero targets by 2050. What are your targets for 2025, 2030 etc? • Don't wait for perfection, or completion before reporting <p>Guidance and rules around issuers and strategies (not just labelled issuances: five hallmarks):</p> <ol style="list-style-type: none"> 1. Paris aligned targets 2. Robust plans. Practical and finance plans. What by when, and how? 3. Implementation plan 4. Internal reporting 5. External reporting. Show progress against targets 	<p>“Turning talk into action to hit ESG targets”.</p> <p>“Turning words into actions”.</p> <p>“Talk is cheap, actions!”</p> <p>“Moving from pledge to action”.</p> <p>“Is green finally going mainstream?”.</p> <p>“Better questions will come... so you need better answers”.</p> <p>“What do your employees want: climate changes, equality?”</p>

FROM EXCLUSION TO INTEGRATION AND IMPACT

	Screened exclusion or norms	ESG rebalancing	Thematic Focus	Impact
Objective	Remove specific companies w/ objectionable activities	Invest based on ESG scores and rating systems	Invest with focus on particular E, S, or G issues.	Target specific non-financial outcomes along with financial returns.
Key considerations	Definition / financial impact on screens.	ESG data sources, desired risk taken.	Broad vs specific exposures.	Report on progress of impact outcomes.
Examples	Screening out producers of weapons, fossil fuels, etc., or screening in those who comply with agreed international norms.	Optimise ESG benchmarks, active strategies, etc.	Environmental focus on low-emissions.	Specific green bond mandates.

Source: OECD, adapted from BlackRock Investment Institute and BlackRock Sustainability Investing, McKinsey and CFA Institute

Built from **scratch**.

Built with **purpose**.

Built to bring **clarity** to ESG analysis.

- **OBJECTIVITY**
- **RIGOUR**
- **TRUSTWORTHINESS**
- **INDEPENDENCE**
- **TRANSPARENCY**



ESG RATINGS: UNREGULATED AND DIVERSIFIED MARKET

- More than 100 different ESG rating providers according to estimates.
- The European Securities and Markets Authority (ESMA) called for regulation within the ESG rating market in January 2022.
- Smaller and unprepared agencies more likely to be absorbed or disappear.

How does Fitch assess ESG?



Assess financial risk and exposure to ESG factors
Influence the strategy to report on and minimise ESG risk factors
Benefits: investors can limit future cash-flow risk triggered by ESG. Issuers can demonstrate their oversight on ESG risks
Fitch Ratings product: ESG relevance score



Assess companies' contribution to ESG factors
Measure ESG performance and assess the sustainability profile to assist impact investors and issuers in their transition
Benefits: investors can invest in line with an impact investing mandate. Issuers can demonstrate how they align with and contribute to sustainability
Sustainable Fitch product: ESG ratings

ESG RATINGS: KEY FEATURES

QUALITY

- Deep analytical approach based on solid & transparent sources (not a fully automated model)
- Granular analysis rather than Y/N compliance check

COMPLETENESS

- Assessment covering instrument & entity in the same document
- Value-added info: UN SDGs, EU Green Bonds, and ICMA alignment
- Plus added-value info

MODULARITY

- Sub-component as well as overall grades and commentary
- High level of transparency
- Curatable by the user (report/grades/data, etc)

COVERAGE

- Entity, labelled & conventional debt
- Applicable to bonds & loans
- Phased approach targeting fully comparable data sets for market sectors

CREDIBLE

COST-EFFICIENT

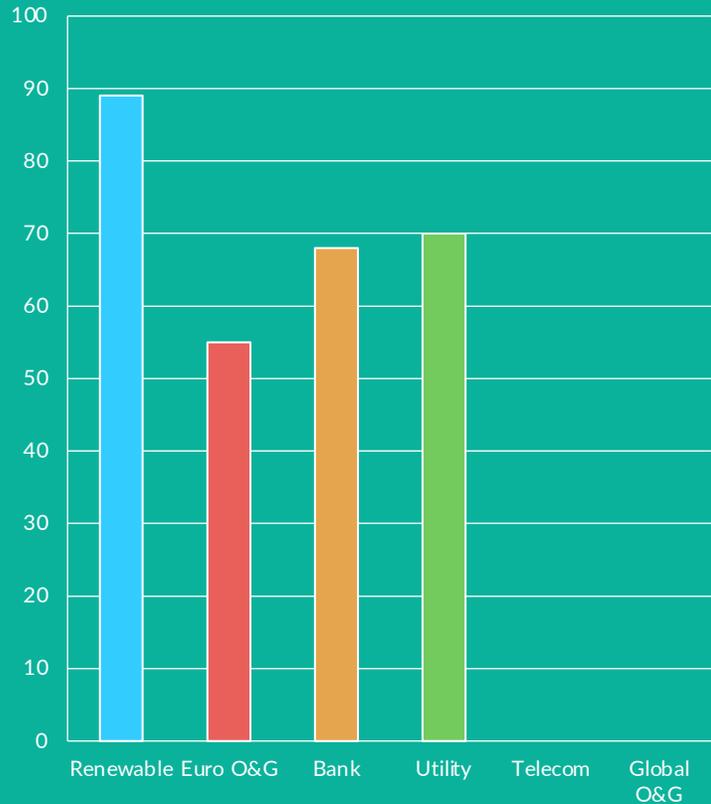
CUSTOMISABLE

COMPARABLE

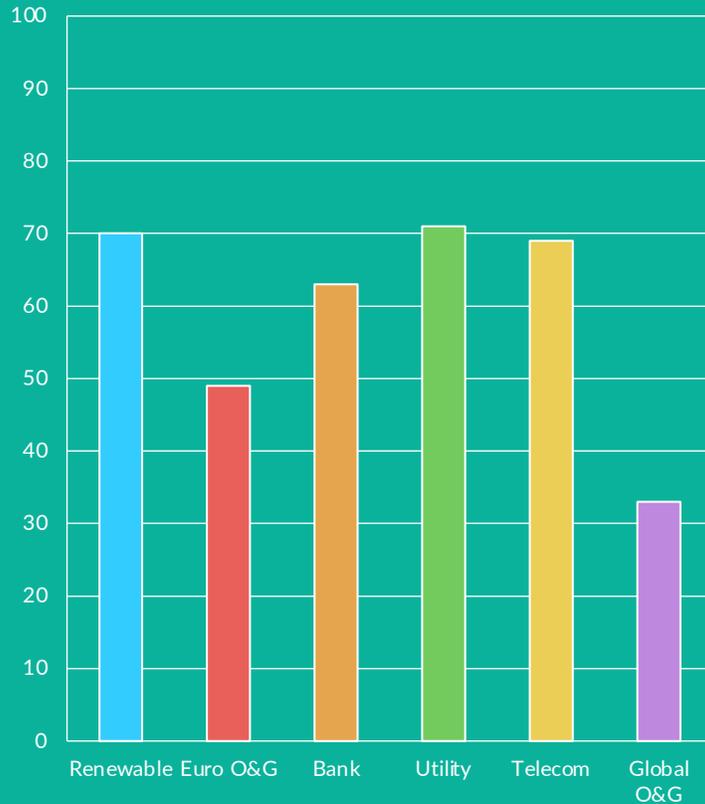
THE POWER OF AN INTEGRATED APPROACH IN ONE PLACE ON AN ABSOLUTE AND COMPARABLE SCALE

Renewable	Green Bond	Sample
Euro O&G	Green Bond	
Utility	Sust-linked	
Telecom	Conventional	
Bank	Social Bond	
Global O&G	Conventional	

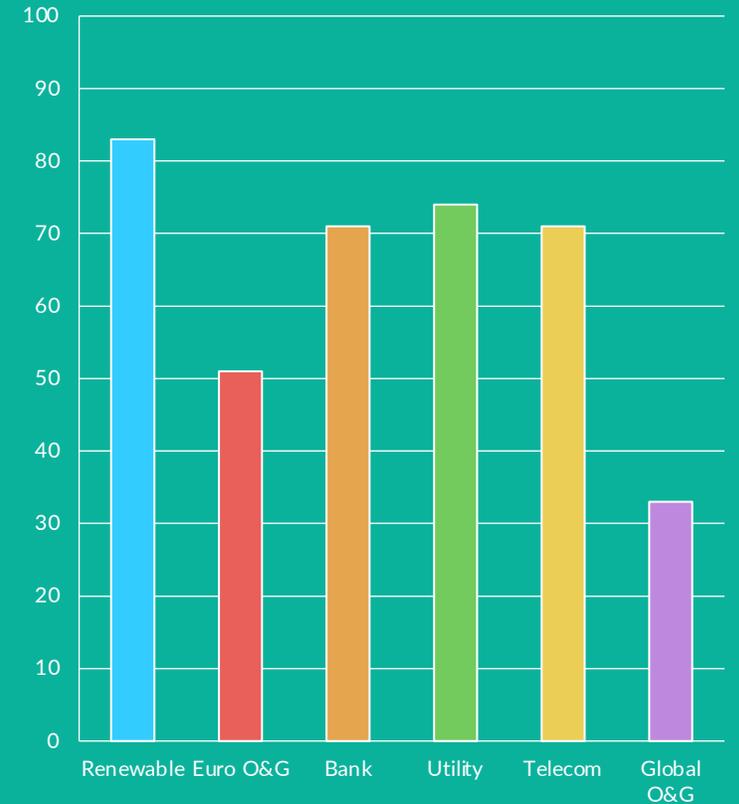
ESG FRAMEWORK RATING



ESG ENTITY RATING



ESG INSTRUMENT RATING



* GSS: Green, Social, Sustainability

PRODUCT OVERVIEW COMPARISON

FitchGroup

MSCI

SUSTAINALYTICS
a Morningstar company

S&P Global

ISS ESG

vege
eiris
Moody's

°CICERO

ecovadis

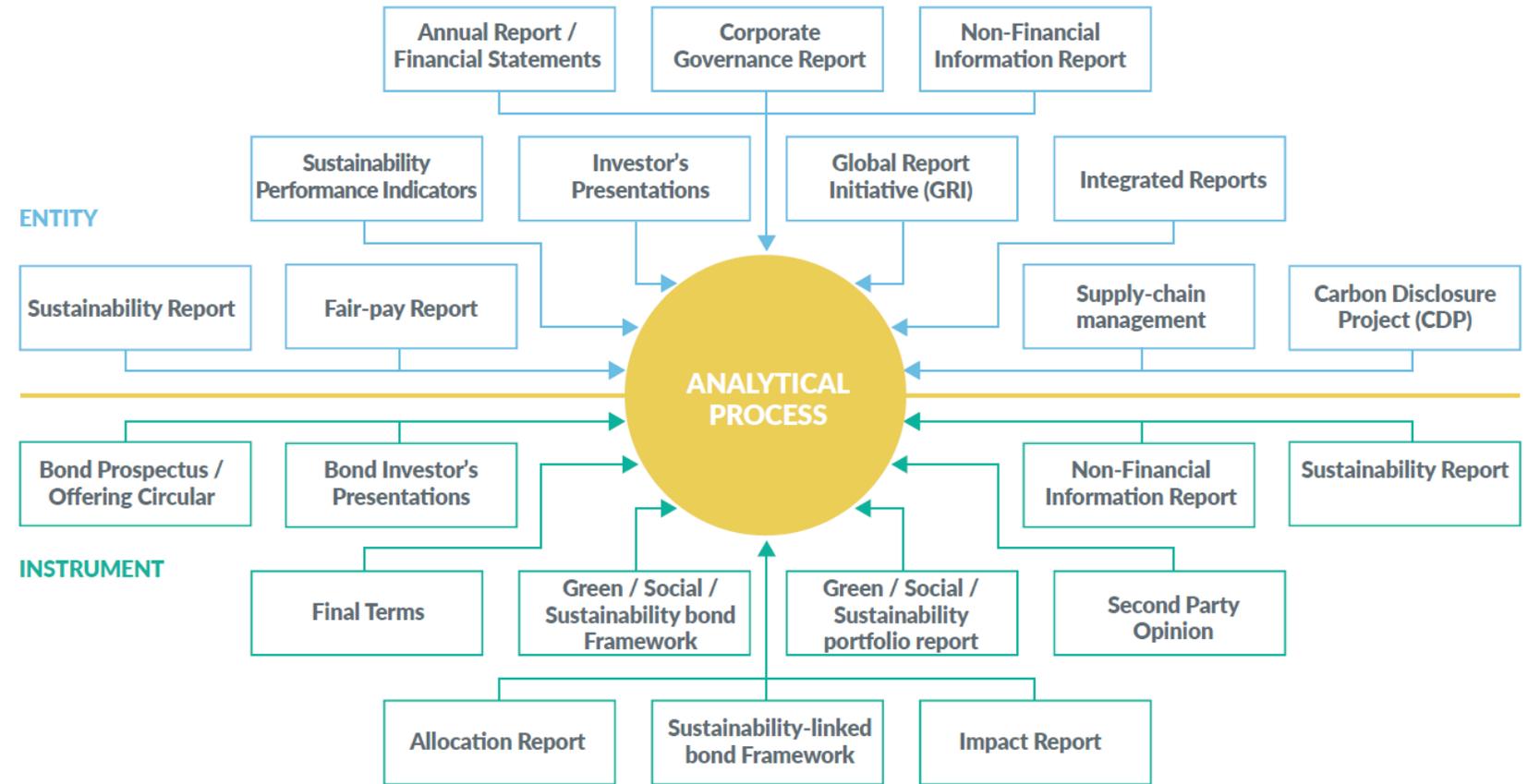
	FitchGroup	MSCI	SUSTAINALYTICS a Morningstar company	S&P Global	ISS ESG	vege eiris Moody's	°CICERO	ecovadis
Entity ESG Rating	✓	✓	✓	✓	✓	✓	✓	✓
Frameworks/SPOs	✓	✗	✓	✓	✓	✓	✓	✗
GSS/SLB instrument Rating	✓	✗	✗	✓	✗	✗	✗	✗
Conventional Instrument Rating	✓	✗	✗	✗	✗	✗	✗	✗

Fitch is the only player in the market offering the possibility to rate conventional bonds and one of the few offering an ESG rating for labelled bonds.

PROACTIVE PRELIMINARY ASSESSMENT & SOURCE OF INFORMATION

To streamline and increase the efficiency of the assessment process, there will be no questionnaire or survey delivered to issuers for all types of ESG ratings engagements.

- The analysis undertaken considers all the available relevant information (ESG and financial) at the time of the review. The ESG rating reports transparently display the sources of information that were analysed for each section and provide a line-by-line commentary on the sub-factors being analysed.
- Internal non-public information can be accepted and used in any analytical process.



FITCH'S ESG RATING VALUE PROPOSITION ADDRESSES MAIN PAIN POINTS

A high quality and comprehensive sustainability profile assessment (covers the three dimensions, E, S & G, equally):

- ✓ carried out by first class professionals who...
- ✓ ...apply a robust and transparent methodology developed by leveraging Fitch's extensive credit rating experience...
- ✓ ...resulting in credible and comparable ratings
- ✓ investors want analytical rigour, consistency, granularity and transparency in full ESG Ratings

		ISSUERS	INVESTORS
TRANSPARENCY & COMPARABILITY	<ul style="list-style-type: none"> ✓ The ESG rating methodology is public and available at Sustainable Fitch's website ✓ All data sources used are traceable and a lot of data granularity is provided ✓ Requestor (company) and user (investor) to understand the approach/methodology ✓ Ratings are comparable across companies and industries on an absolute scale 	✓	✓
HUMAN ENGAGEMENT	<ul style="list-style-type: none"> ✓ Human engagement is always granted: (i) unsolicited ratings are shared with the issuer and engagement with analysts is offered to receive feedback and solve methodology doubts; (ii) solicited ratings have similar engagement to solicited credit ratings 	✓	✓
ONE-STOP ESG RATING OFFERING	<ul style="list-style-type: none"> ✓ Fitch is the only player offering a one-stop multi-layered ESG rating offering (entity, framework, SPO, instrument) and is the only player able to rate conventional ESG instruments ✓ The ratings are derived from a granular score from zero to 100 	✓	✓
CREDIBILITY	<ul style="list-style-type: none"> ✓ ESG ratings built leveraging Fitch's extensive experience in credit ratings by incorporating best practices (committees, independence and avoidance of conflict of interests, etc) ✓ Fitch's reputation - value and credibility of the opinion and reach of the provider ✓ Anyone can come up with a number, but how good/credible is that number? 	✓	✓

ESG Focus for Corporate Treasurers in the Middle East

Victoria Munarriz, Associate Director,
ESG Ratings

16 June 2022 – Dubai



ESG Regulatory Requirements, Disclosures and Ratings

Main Sustainability Reporting Standards: Guidelines and Principles

	Task Force on Climate-related Financial Disclosures (TCFD)	Carbon Disclosure Project (CDP)	Global Reporting Initiative (GRI)	International Sustainability Standards Board (ISSB)
Description	<ul style="list-style-type: none"> Financial disclosures related to material climate risks and opportunities Establishes principles of effective disclosures across four thematic areas Provides both general and sector-specific guidance to support implementation 	<ul style="list-style-type: none"> Climate reporting, energy strategy & climate change, water and forests Questionnaire-based framework; CDP collects information issues scores (ranking) The data collected may be used as content for sustainability, annual or integrated reports 	<ul style="list-style-type: none"> Reporting standards helping organisations to report on their impact on the economy, environment and society using sustainability metrics to increase transparency The standards request information about an organisation's impacts and natural systems, including land, air, water and ecosystems Standards continuously updated and added to, including new standards on Tax (2019) and Waste (2020) 	<ul style="list-style-type: none"> Consolidation of Sustainability Accounting Standards Board (SASB) More than 1,100 companies reporting against it Focus on financial materiality of ESG; appeals to investors Sector-specific standards
Target Audiences	<ul style="list-style-type: none"> Entities with public debt or equity; asset managers; asset owners, incl. pension plans, endowments and foundations 	<ul style="list-style-type: none"> Main users: institutional investors, purchasing entities, policymakers 	<ul style="list-style-type: none"> Main users: businesses, investors, policymakers, civil society, labour organisations 	<ul style="list-style-type: none"> Main users: institutional investors, purchasing entities, policymakers
UAE Users	<ul style="list-style-type: none"> First Abu Dhabi Bank (FAB), UAE Insurance Authority, and Standard Chartered Bank 	<ul style="list-style-type: none"> First Abu Dhabi Bank (FAB) 	<ul style="list-style-type: none"> First Abu Dhabi Bank (FAB) 	

Source: Sustainable Fitch

Major Sustainability Disclosure Regulations: Increasingly Mandatory

	Rule	Type	Mandatory	Comply-or-Explain	Environment	Social	Governance
China	Rules for Listed Companies	Regulation	Environmental penalties and key polluting entities only	✓	✓	✓	×
EU	SFDR	Regulation	✓	×	✓	✓	✓
	CSRD	Regulation	×	✓	✓	✓	✓
Hong Kong	Corporate Governance Code	Listing Rule	✓	✓	✓	✓	✓
Japan	Corporate Governance Code	Listing Rule	×	✓	✓	✓	✓
Singapore	SGX Sustainability Reporting	Listing Rule	×	✓	✓	✓	✓
UK	Various (incl. Companies Act, Modern Slavery Act, Listing Rules)	Listing Rule/Regulation	×	✓	✓	✓	✓
US	SEC	Regulation (proposed)	✓	×	✓	×	×
Global	ISSB (IFRS)	Disclosure (voluntary)	×	×	✓	✓	✓

Source: Sustainable Fitch

Major Sustainability Disclosure Regulations for GCC Member States

	Rule	Type	Mandatory	Comply-or-Explain	Environment	Social	Governance
UAE	Rules for Listed Companies	Regulation	✓	✓	✓	✓	✓
	Dubai Stock Exchange 's ESG Reporting Guidelines	Disclosure (Voluntary)	x	x	✓	✓	✓
Bahrain	Bahrain Bourse's ESG Reporting Guidelines	Disclosure (Voluntary)	x	✓	✓	✓	x
Kuwait	Boursa Kuwait's ESG Reporting Guidelines	Disclosure (Voluntary)	x	✓	✓	✓	✓
Oman	CMA's commitment to introduce ESG Reporting Guidelines	Disclosure (Voluntary)	x	x	✓	✓	✓
Qatar	Rules for Listed Companies	Regulation	✓	✓	✓	✓	✓
	Qatar Stock Exchange's ESG Reporting Guidelines	Disclosure (Voluntary)	x	x	✓	✓	✓
Saudi Arabia	Saudi National Standards of Sustainability	Disclosure (Voluntary)	x	✓	✓	✓	✓

Source: Sustainable Fitch

UAE'S ESG Mandatory Reporting Requirements Leading the Way in the GCC

Existing Mandatory Reporting for Listed Companies in the UAE

Regulation	Risk Type	Detail
Governance Code Article (76) of the Chairman of SCA Board Decision No. (03 R.M.), 2020	Governance	The UAE Securities and Commodities Authority (SCA) requires UAE listed companies to adhere to specific ESG disclosure requirements.
January 2021, SCA issued a general clarification to Article (76)	Environmental Social Governance	<p>Listed companies must publish sustainability reports annually incorporating the company's long-term strategy and its impact on E, S and G:</p> <ul style="list-style-type: none"> • Environment: impact of the company's operations and decisions on the environment and the communities in which the company operates • Social: how the company's policies and operations contribute or could contribute to social justice, the well-being of workers and employees, and the surrounding community • Governance: how the company contributes to the economic benefit of society, and the impact of the company's operations on the local economy

Source: Sustainable Fitch

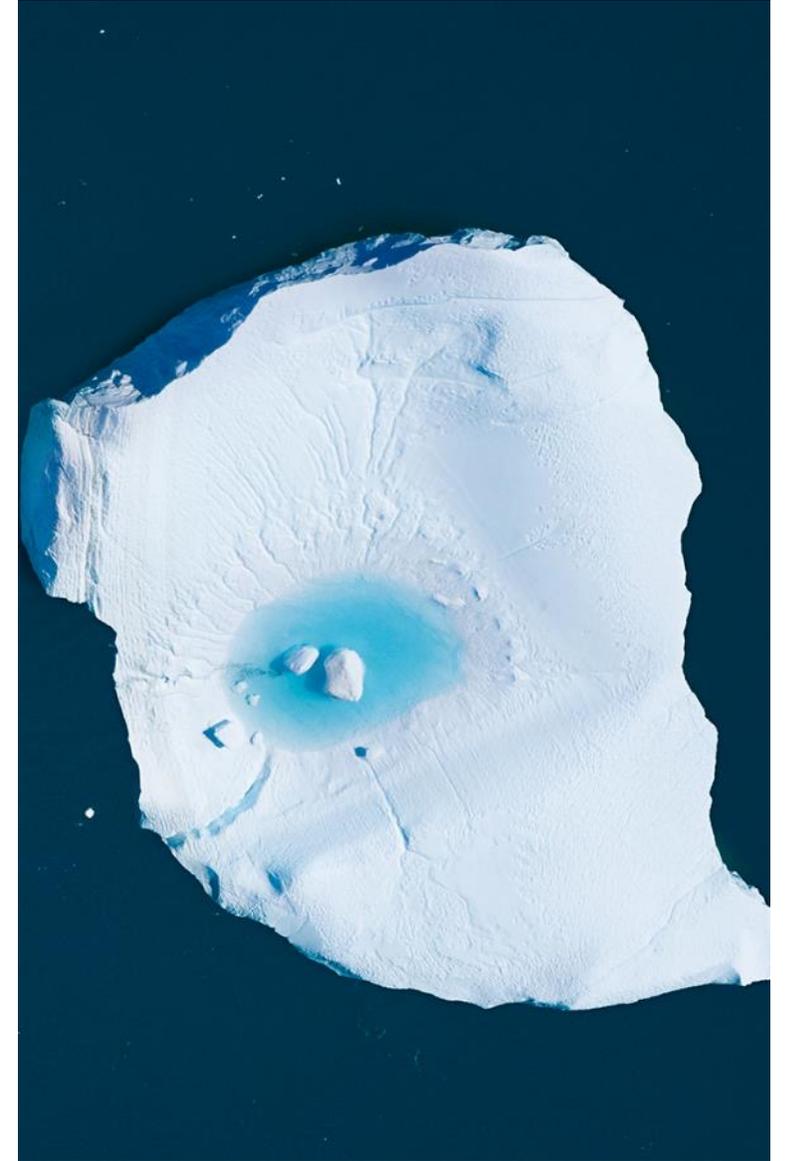
Number of ESG Reporting Provisions by Region, 2020



Source: Carrots and Sticks, EY

Climate Disclosures Increasingly Becoming Mandatory

- TCFD firmly established as global climate reporting framework
- UAE is the only GCC member with a Sustainable Finance Framework which is voluntary but in alignment with TCFD
- UAE environmental government strategies, Green Agenda 2015-2030, National Climate Change Plan 2017-2050, other sectoral green strategies and policies
- Bahrain Net Zero 2060 target
- Kuwait 2035 Vision for Sustainable Living
- Oman Climate Action Plan 2030
- Qatar Climate Action Plan 2030
- Saudi Arabia Net Zero 2060 target, Circular Carbon Economy Framework, environmental and waste management laws



Numerous Reporting Requirements and Disclosures: the Role of ESG Ratings

ESG Related Information

Principles and taxonomies



- ICMA
- UNSDGs
- EU Taxonomy/CBI Taxonomy/ASEAN Taxonomy/Chinese Taxonomy

Voluntary reporting



- On ESG metrics and materiality : GRI, ISSB, CDP

Mandatory reporting



- SFDR (asset managers & FIs, from 2022)
- CSRD (corporates >250 FTE, expected from 2024)
- TCFD (mandatory in the UK for large corporates and FIs, voluntary elsewhere)

Commitments and policies



- RE100 (100% renewable commitments by large corporations)
- Net-zero 2050, carbon-neutrality
- Sector specific objectives (end deforestation, recycling rate, etc)
- ISO series (14 and 50 series for E, 26 and 45 for S)

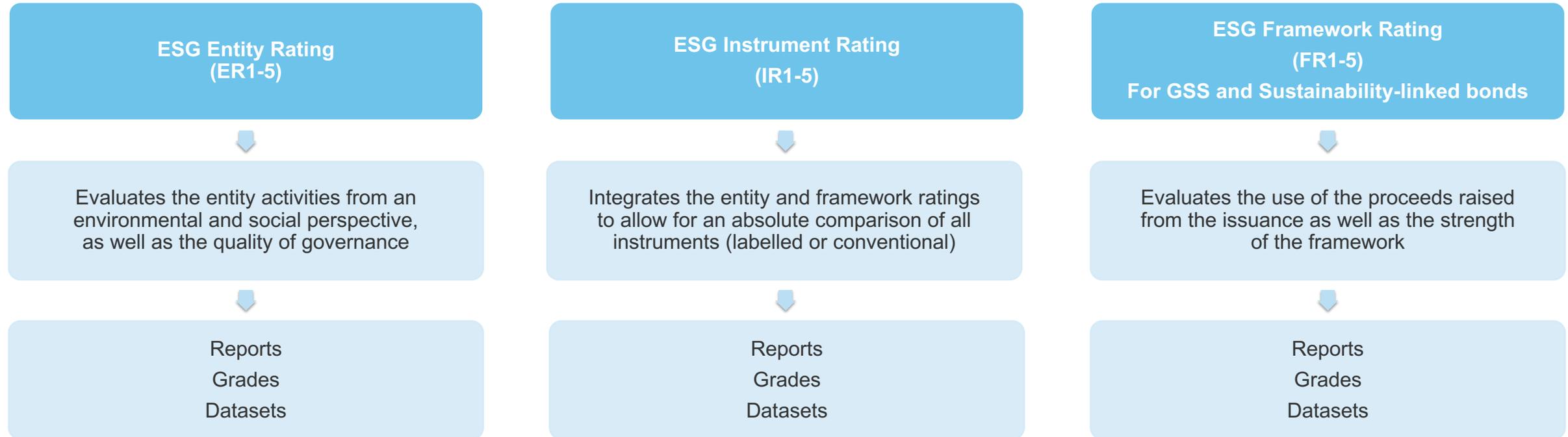
Source: Sustainable Fitch

Sustainable Fitch's Role

Holistic and comprehensive ESG assessments by:

- reviewing and analysing all the **relevant non-financial documentation**
- **monitoring** of ESG ratings by sector experts
- **exchanging** with the investors to **explain the assessment** and with the issuer to **bridge information gaps**
- **contextualising** targets' ambition levels and companies' trajectory within their specific sector.

ESG Ratings: Covering Labelled and Conventional Bonds

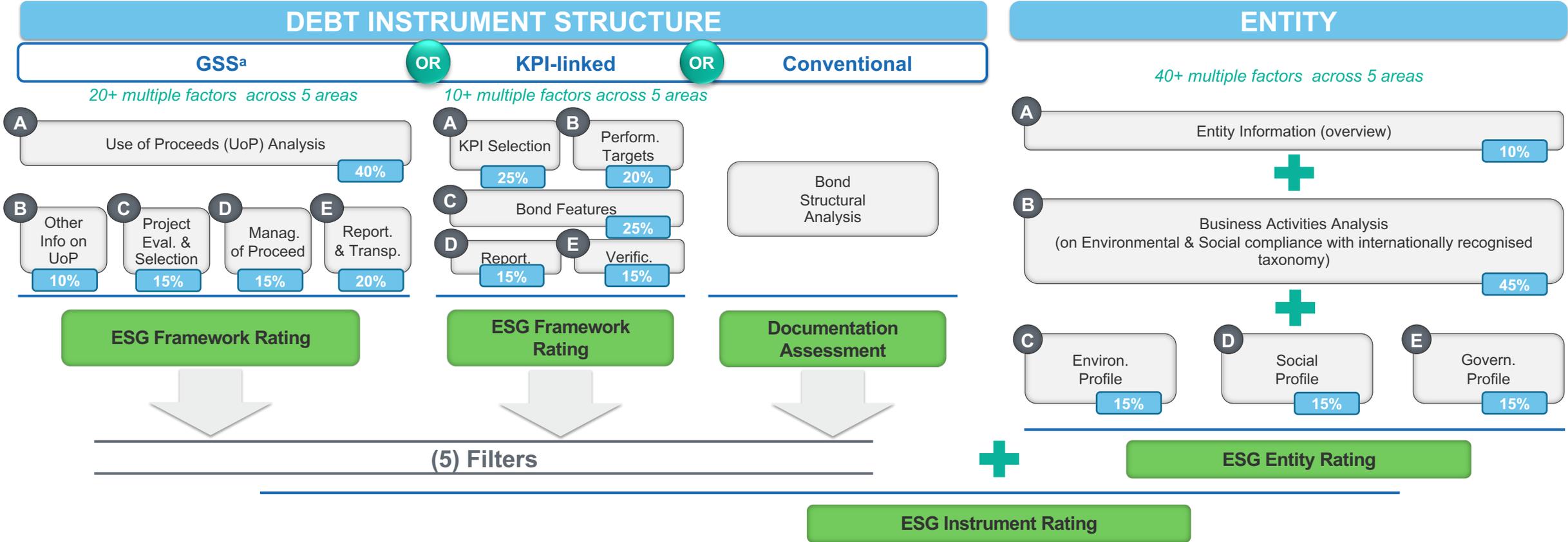


These ESG ratings enable an absolute comparison of GSS^a, sustainability-linked and conventional bonds, loans and entities on a single scale

^a GSS: Green, Social, Sustainability

ESG Rating Methodology: Overview

2 MAIN SECTIONS, EACH WITH MULTIPLE AREAS OF ANALYSIS



^a GSS: Green, Social, Sustainability



Best Practices Across Entities and Instruments Observed So Far

Best Market Practice for Entities

Environment

Net Zero 2050

- Aim for minimum reliance on offsets or new technologies
- Scopes included: credible ambitions need to include scope 3

Disclosure – GHG protocol

- Harmonisation of GHG emission reporting and transparency on categories reported, notably scope 3
- Sustainable Fitch assesses the number and relevance of scope 3 categories reported

SBTi

- Submission of targets to independent body in charge of supervising and monitoring performance
- Scopes 1 and 2 are bare minimum, scope 3 becomes expected by investors

Sustainability report auditing

- Third-party verifying of numbers, increasing scrutiny and enhancing accountability to investors

Social

Diversity and pay-gap reporting

- Increasing need for transparent and granular diversity reporting (gender, age, nationalities) across different seniorities
- Best practice would see diversity above 40% and pay gap below 10%
- Sustainable Fitch also assesses Gender Equality Index reporting

Supply chain policy and reporting

- Adherence to sector-wide initiatives (e.g. conflict minerals)
- Clear auditing and reporting on human rights compliance, transparently reported

Medium-term targets

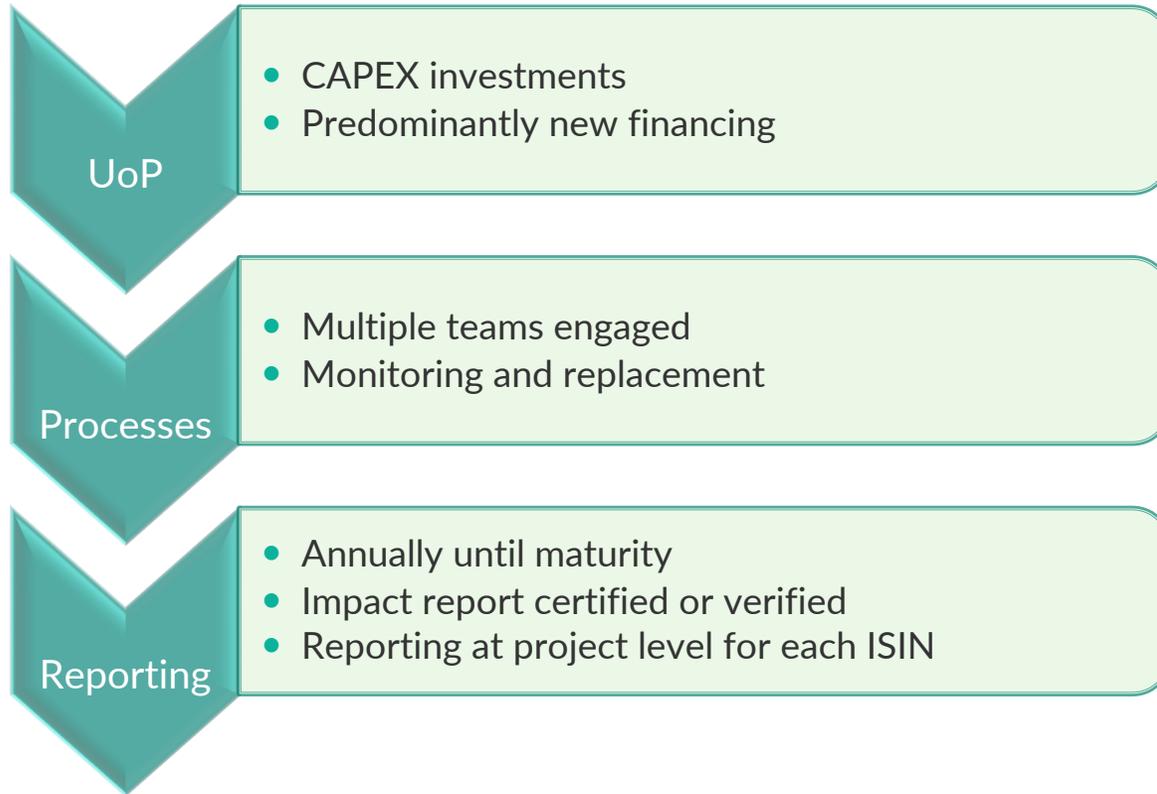
- Incident reduction, diversity, tangible community involvement

Human and labour rights

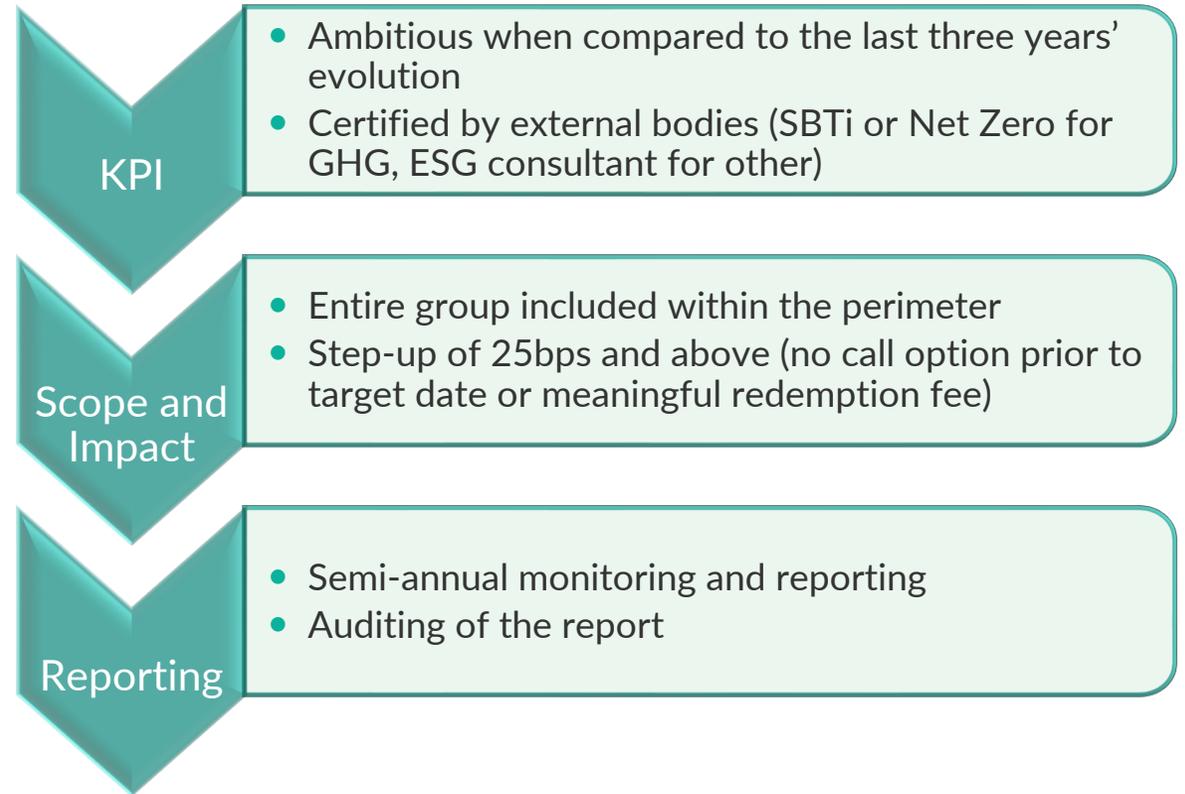
- Compliance and signatory to multilateral bodies and principles such as UN global compact or ILO

Best Market Practice for Bonds

Use of proceeds-based



KPI-linked







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Panel discussion: ESG for corporate treasurers in the Middle East



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James Finucane
Senior Vice
President, Group
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ALDAR Properties



Gianluca Spinetti
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**Association of
Corporate
Treasurers**



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Chair's closing remarks

Caroline Stockmann

Chief Executive

Association of Corporate Treasurers

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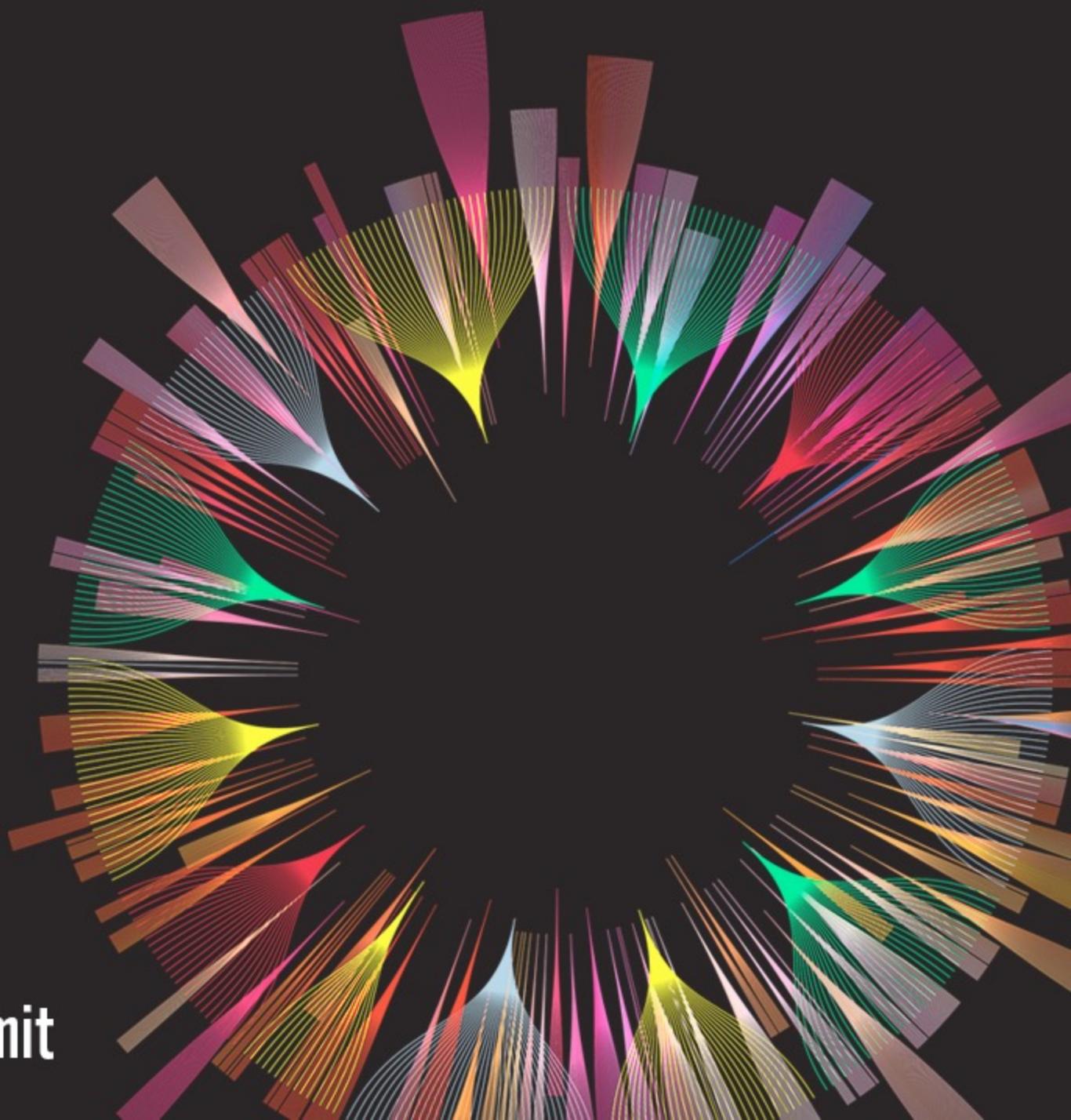


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Enter your nominations by 29 July at
treasurers.org/meawards22

ACT Middle East Treasury Awards

Winners announced on 27 September
at the ACT Middle East Treasury Summit



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Introducing ESG Ratings from Sustainable Fitch

Built from the ground up to exclusively
help the ESG focused financial community
make smarter decisions.



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