SW TENET

Catalyst for success

ESG Digest News: December 2024

Tenet presents a selection of recent sustainability news

International scope

1. EFRAG released Voluntary Sustainability Reporting Standard for non-listed SMEs (VSME).

The standard aims to allow micro-, small-, and medium-sized companies to report on ESG issues in a simplified and uniform form. However, banks and investors are concerned about the reliability of analysis results under the simplified scheme: replacing the materiality analysis used in the Corporate Sustainability Reporting Directive (CSRD) with the "if applicable" principle.

2. China released First Corporate Sustainability Disclosure Standards based on ISSB IFRS S1/2. The Ministry of Finance unveiled the Basic Standards, which are aimed at standardising ESG disclosures nationwide. Starting in 2026, ESG reporting will become mandatory for large listed companies, with the full framework operational by 2030.

The Hong Kong government announced a roadmap on sustainability disclosure for large publicly accountable entities (PAEs), (defined as listed companies that are Hang Seng "Large Cap Issuers") and large non-listed financial institutions with a significant presence in Hong Kong. Earlier in 2024 the Stock Exchange of Hong Kong announced a sustainability disclosure enhancement by introducing IFRS S2 Climate-related Disclosures from 1 January 2025, also for Large Cap Issuers.

The full adaptation of ISSB IFRS S1/2 will require significant work from public entities and other obliged institutions, including in relation to climate risks, GHG emission assessments, and management systems to mitigate and adapt to identified risks, as well as the governance system they have in place.

GCC scope

1. A Cabinet Resolution Concerning the National Register for Carbon Credits came into effect on 28 Dec 2024 aimed at entities with very substantial carbon emissions (any entity releasing CO_2 emissions of 0.5 million metric tonnes or more annually). These include any public or private entity which voluntarily applies to be registered on the National Register For Carbon Credits and which get or trade in carbon credits. Participating entities must use a monitoring, reporting, and verification system.

A penalty of up to AED 1,000,000 will apply for non-compliance with GHG emission monitoring, annual reporting, and GHG emission verification.

2. Ajman Bank, a leading Islamic financial institution in the UAE, announced a strategic agreement which marks a significant milestone in its commitment to ESG principles. The agreement aims to develop and improve the bank's inaugural ESG work, roadmap, and long-term sustainability vision; perform a comprehensive assessment to establish its carbon footprint baseline;

GCC scope

2. identify strategic sustainability priorities; set achievable milestones; and create pathways towards a sustainable future for the bank, its clients, and the communities it serves.

The financial sector is at the heart of sustainability regulation in the UAE, as is the case in many jurisdictions. The regulator introduces certain sustainability laws for financial institutions, and then banks and insurers pass ESG metrics and obligations onto their clients, be they private or public companies, and also provide favourable conditions to companies that have developed a sustainability system.

3. Qatar threatened to stop exporting liquefied natural gas to the EU, due to fresh sanctions under the new corporate sustainability due diligence directive (CSDDD). Under the directive, exporters who do not disclose ESG-related information must pay a penalty of 5% of up to 5% of the company's net annual turnover.

Given the widespread development of the ESG agenda, the tightening of regulations and fines for companies with low ESG indicators will only increase. It is important for international corporations to comply with international ESG regulations now, since the agenda will only gather pace in the next few years.

4. Qatar officially launched the trading of its first green bonds on the London Stock Exchange (LSE), thus marking a milestone in the nation's commitment to financing environmentally friendly projects.

Qatar National Bank ("QNB Group") had already issued sustainable bonds in 2020 (USD 600 million 1.625% note due September 2025 on the LSE's main market). This move expands Qatari efforts to transition towards a low-carbon economy and bolsters the nation's position in the international financial landscape.

5. The Qatar Financial Centre Regulatory Authority announced proposed amendments to the General Rules 2005 (GENE) to enhance corporate sustainability reporting. These changes are aimed at aligning with International Sustainability Standards Board (ISSB) Standards **IFRS S1 and S2**.

5. The amendments will apply to all banks, insurers, and other smaller financial sector firms, as well as any firm designated by the Regulatory Authority for corporate sustainability reporting. The Regulatory Authority is proposing to develop and implement a corresponding assurance framework to the sustainability reporting framework based on **IAASB 5000**. GHG accounting will be introduced, with relief available in the first year. In terms of **Scope 3 GHG** emissions, firms will start reporting in the third year after the commencement of draft CSR Rules, i.e. in 2029 (see draft CSR Rule 9A.1.6). **Timing**: The Qatar Financial Centre ("QFC") Regulatory Authority ("Regulatory Authority") is seeking public comments on the proposed General (Corporate Sustainability Reporting) Amendments Rules 2025 and the guidance document on "How to start the journey in applying the ISSB Standards by 25 March 2025.

Qatar is the first Lower Gulf country to announce ISSB IFRS S1/2 reporting regulation at a national level. Although the introduction of new sustainability reporting will take some time, we expect many MENA countries to follow suit.

6. Climeworks AG (a Swiss company specialising in direct air capture technology) and the research institute KAPSARC (Saudi Arabia) will explore direct air capture solutions in Saudi Arabia. The collaboration will assess deploying DAC systems within the Kingdom, focusing on its large geological CO_2 storage capacity, low-carbon energy resources, and the economic and environmental benefits of DAC.

Saudi Arabia is actively diversifying its assets and investing capital, including in relation to innovative carbon capture and storage methods: DACCS. This technology entails direct carbon capture from air and storage in geological formations. Current estimates show spending at USD 200-500 / t CO2e, which can later be offset in carbon projects.

7. The 16th Conference of the Parties (COP16) to the UN Convention to Combat Desertification (UNCCD), held for the first time in Riyadh, raised USD12 billion in pledges to address global challenges related to land degradation, desertification, and drought.

GCC scope

7. The event, themed Our Land, Our Future, highlighted the urgent action needed to be taken to restore degraded lands and to support vulnerable communities.

Despite the funding challenges, the potential for returns is significant. Reclaiming over 1 billion hectares of degraded land could generate annual economic benefits of up to USD1.8 trillion, thereby underlining the financial viability of investing in land restoration.

8. OQ Alternative Energy (OQAE), Oman’s renewable energy company, signed agreements with France’s Total Energies to develop 300 MW of renewable energy projects. The electricity will be delivered through long-term power purchase agreements (PPA) to Oman's state-owned exploration and production company Petroleum Development Oman (PDO).

From the government’s perspective, there are a number of reasons for driving forward with solar and wind projects – greater competition, reducing Oman’s carbon footprint, and economic diversification are key catalysts in this regard.

Contacts:

info@tenetcons.com

Daria Goryachkina
Associate Director
Head of ESG

E: dgoryachkina@tenetcons.com

Vyacheslav Zavgorodniy
Associate Director
Consulting

E: vzavgorodniy@tenetcons.com