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Commentary

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ESG and Sustainable Finance in the GCC Region

The rapid growth of ESG and sustainable finance in the GCC region offers substantial opportunities, but also entails significant associated risks.

Introduction

The Gulf Cooperation Council[1] region (GCC Region) is particularly vulnerable to the challenges of sustainability and the impact of climate change.[2] Various GCC Region member states have announced ambitious public commitments to achieve sustainability targets and reorientate their economies away from hydrocarbons towards renewables, clean energy, and sustainable technology.[3] ESG and sustainable finance are critical to attract and facilitate the investments required to meet these targets. These investments will ultimately help the GCC Region to achieve its long-term economic and sustainability goals.

Key Themes

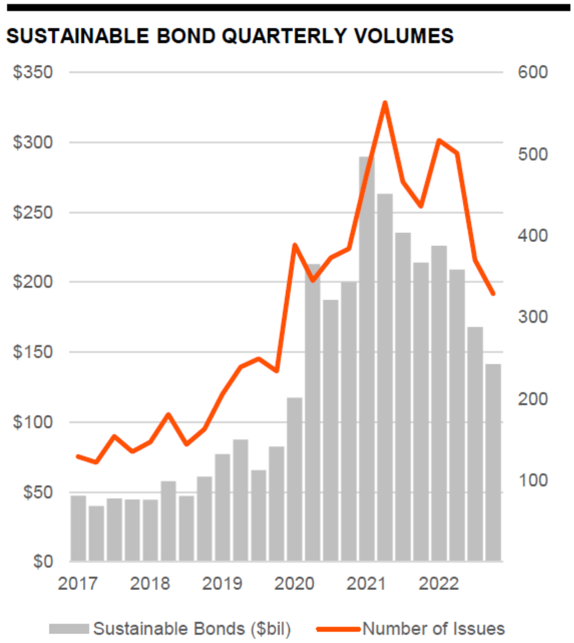
While the scope and extent of ESG can seem overwhelming, this article will summarise recent developments in ESG and sustainable finance across the following four key themes, before considering anticipated future trends and their consequence for the GCC Region:

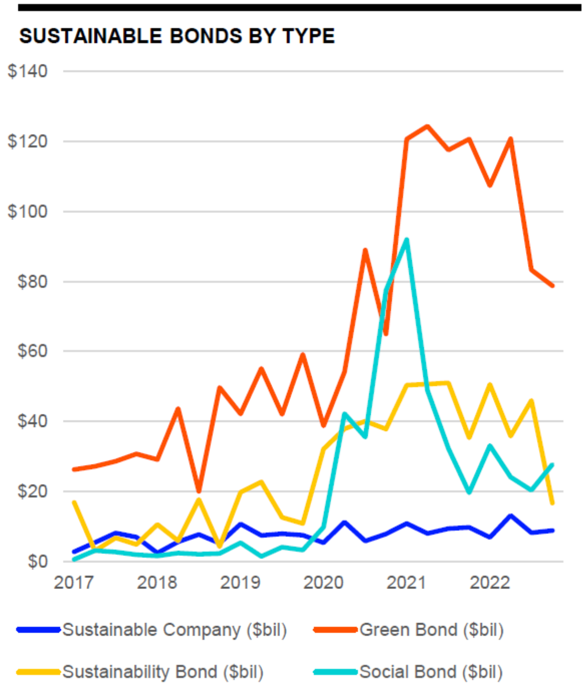
- Sustainable Finance
- ESG Regulatory Landscape
- ESG-related Transactions and Projects
- ESG Litigation

Sustainable Finance

Sustainable finance is the practice of redirecting public and private capital towards investments that support ESG goals and outcomes. The market dynamics of sustainable finance are driven by the need for enormous investments to support sustainable transitions and meet net zero targets.[4] According to McKinsey[5], an estimated US$9 trillion of green investment is required annually to reach this goal, while the EU Commission's 2030 climate target plan calls for an additional €350 billion of investment per year to 2030.[6] Further estimations predict that the Arab world will need to raise US$230 billion of annual expenditure to achieve the United Nations Sustainable Development Goals (SDGs).[7] To address this funding gap, institutional investors and financial institutions with more than US$130 trillion in assets under management have announced sustainable finance commitments.[8]

As illustrated below, sustainable finance has experienced rapid growth in recent years[9]:





Higher interest rates and deteriorating global economic conditions adversely impacted the sustainable finance market in 2022. However, the positive macro-trend in adoption is expected to continue in the years ahead, with global issuances of sustainable instruments expected to reach US$3.8 trillion per year in 2025.[10]

The pace of growth is particularly pronounced in the GCC Region. While sustainable finance remains relatively underdeveloped in the GCC Region, it increased significantly from approximately US$600 million in aggregate in 2021 (or only 0.3% of global green bond issuances) to approximately US$8.5 billion in 2022[11], supported by relatively favourable regional economic conditions and strong demand for sustainable investment opportunities. Further, over time, it is anticipated that demographics will prove to be fundamentally supportive of sustainable finance as younger generations tend to prioritise "green" and "social" considerations above financial return on investment.[12]

Sustainable Finance Instruments

While issuers can use various of types of sustainable finance instruments and structures, there is a fundamental distinction between "use of proceeds" instruments and "target-linked" instruments.

Use of Proceeds Instruments

Use of proceeds instruments are designed to raise capital for projects with a positive environmental or social impact, and the net proceeds are used to finance or refinance eligible projects or assets. The ICMA Green Bond Principles 2021 (GBPs), the LMA Green Loan Principles, the ICMA Social Bond Principles, the ICMA Sustainability Bond Guidelines, and the Climate Transition Finance Handbook (CTFH) provide guidelines and recommendations for issuing, managing, and reporting on these sustainable finance instruments.

Green Bonds

Green bonds are a common form of use of proceeds instrument, raising capital for environmentally beneficial projects and structured in accordance with voluntary industry guidelines such as the GBPs, the EU Green Bond Standard (EU GBS),[13] and the CBI Climate Bond Standard (CBI). Issuers most commonly use the GBPs.

The focus of green bonds is on the use of proceeds, not necessarily on the issuer's green credentials or corporate-level targets. An issuer (i) must use the net proceeds of a green bond for eligible green projects (i.e., green bonds constrain the use of proceeds), and therefore, (ii) must have sufficient green expenditure within a relevant time period (usually up to three years from the date of issue of the bond). However, these requirements may be challenging for certain issuers given the commercial limitations on the minimum viable size of a public bond (and, therefore, the quantum of proceeds).

The GBPs require compliance with the following four core components:

1. The issuer must use 100% of the net proceeds (or an equivalent amount thereof) for "Eligible Green Projects"[14].

2. The issuer must clearly communicate the process for evaluating and selecting eligible green projects.

3. The issuer must manage the proceeds in a transparent manner and should use reasonable endeavours to apply all proceeds within a specific period of time (typically up to a maximum of three years from the date of issuance of the bond).

4. The issuer must carry out annual "allocation" and "impact" reporting until all of the proceeds are allocated.

The GBPs also contain two key recommendations:

1. The issuer should publish a Green Bond Framework (GBF) which (i) summarises the issuer's sustainability strategy, which should be aligned with the CTFH (in the case of green projects earmarked for climate change mitigation), and (ii) explains how the GBF (and/or green bond issued in accordance therewith) will be aligned with the requirements of the GBPs.

2. The issuer should obtain (i) a pre-issuance external review confirming alignment of the bonds or the applicable GBF with the requirements of the GBPs — typically in the form of a Second Party Opinion (SPO); and (ii) a post-issuance verification of the allocation report.

A green bond can be structured in different ways: as a conventional (guaranteed) bond or sukuk, a revenue bond (with recourse only to specific revenues), a project bond (with recourse only to the relevant green project), or a secured green bond (including green securitisation and asset-backed structures). Green bonds (and sustainable finance instruments generally) are used in all markets, and can feature in high yield, investment grade, private credit, bank finance, and project finance. A green bond (and other sustainable finance instruments generally) will typically share the standard features of a conventional (non-green) bond (or other equivalent sustainable finance instrument), and, as such, issuers also need to address such other standard structuring considerations (i.e., securities law, tax, covenants, clearing and settlement, etc.).

The GBPs are voluntary and, therefore, there should be no default under a green bond if an issuer fails to align with the GBPs. However, if the proceeds of a green bond are not used for eligible green purposes, or if the green bond is otherwise not aligned with the GBPs, the issuer may suffer significant reputational damage, the bond's SPO may be revoked, and the bond may lose its characterisation as a green bond. In such circumstances, the bond would lose any green or sustainable listing it may have and many investors may be forced to sell their holdings (as the bond would likely no longer be consistent with their investment mandate or preference). Further, in addition to reputational damage, the issuer may face claims of "greenwashing" and/or misrepresentation or fraud (see "ESG Litigation" below).

Although the issuance of a green bond involves additional costs and reporting requirements, issuers increasingly view this as an acceptable price for gaining access to sustainable finance markets. Further, many such requirements either complement or will helpfully supplement issuers' broader sustainability strategies and internal ESG capabilities.

Target-Linked Instruments

Target-linked sustainable finance instruments are directly linked to specific sustainability targets, such as reducing greenhouse gas emissions or increasing access to clean water.

Sustainability-Linked Bonds

SLBs are target-linked instruments structured in accordance with the ICMA Sustainability-Linked Bond Principles (2020) (SLBPs)). SLBs focus on the key performance indicator(s) (KPIs) and SPTs set by the issuer, rather than the use of proceeds of the bond or the green credentials of the issuer. Issuers therefore do not need to have any green expenditure and can general use the proceeds for general corporate purposes. Consequently, SLBs may be more suitable than green bonds for issuers which are seeking to finance a transition strategy but which do not have anticipated pure green expenditures sufficient to justify a public green bond.

SLBPs consist of five core components:

1. **Selection of KPIs.** The SLBPs require that KPIs should be (i) "relevant, core and material" to the issuer's overall business and of high strategic significance; (ii) measurable; (iii) externally verifiable; and (iv) able to be benchmarked, ideally based on historically, externally verified KPI values for at least the last three years. Importantly, the relevance and materiality of KPIs will vary by sector and business model. There can be any number of KPIs and they can relate to a variety of (environmental-, social- and/or governance-related) sustainability factors, although most KPIs currently relate to greenhouse gas reductions. ICMA is undertaking significant work to provide guidance on KPIs on a sector-by-sector basis.[15]

2. **SPT calibration.** SPTs should be "ambitious", i.e., (i) represent a material improvement and avoid a "business as usual" trajectory; (ii) referenced to a benchmark or external reference, such as the issuer's historic performance, peers, and/or science-based targets; and (iii) be consistent with the issuer's sustainability strategy. The SLBPs explicitly acknowledge that the SPTs' level of "ambition" may vary by jurisdiction and market. Calibration also requires identification of an SPT test date and disclosure of a verified baseline against which the SPTs are set in the bond offering documentation. Additionally, the issuer should disclose any recalculation policy (under which the KPIs and/or SPTs and/or the underlying baseline may be recalculated during the term of the SLB, e.g., in the event of a significant change to the bond group perimeter, including as a result of an acquisition or divestiture). The issuer should also disclose an explanation of how the issuer intends to achieve the SPTs. As

with the KPI guidance, ICMA is undertaking significant work to provide guidance on SPTs on a sector-by-sector basis.

3. **Bond characteristic(s).** A key characteristic of the bond must vary depending on whether the issuer achieves the SPTs. A step-up in the coupon is the most commonly used bond characteristic, in which case the quantum of the step-up should be "meaningful", although alternatives to the coupon step-up may include a redemption premium/penalty, dividend basket availability, optional/mandatory redemption, and additional ESG information and disclosure requirements.

4. **Reporting.** The issuer should prepare and publish an annual assurance report disclosing performance against the SPTs.

5. **Verification.** The issuer must obtain a post-issuance verification of its performance level against the SPTs on an annual basis.

Similar to the GBPs, the SLBPs also recommend that the issuer obtain a pre-issuance external review (i.e., an SPO) confirming the alignment of the SLB or the Sustainability-Linked Financing Framework with the requirements of the SLBPs (as part of which the external reviewer should opine on the materiality and the level of ambition of the KPI(s) and the SPT(s)). The SPO should be updated in the event of any material changes to the perimeter / KPIs / SPTs per the recalculation policy. In alignment with the GBPs, it is recommended that the issuer publish an SLB Financing Framework (SLBF) which (i) summarises the issuer's sustainability strategy that should be aligned with the CFTH (to the extent climate-change-related), and (ii) explains how the SLBF is aligned with the requirements of the SLBP and, most importantly, how KPIs and SPTs are calibrated.

The SLBPs are voluntary and, therefore, there should be no default under an SLB if an issuer fails to align with the SLBPs. However, failure to achieve any SPT would trigger the applicable bond characteristic (normally an interest rate step-up). Similar to a green bond, the issuer may also face significant adverse reputational consequence and potential greenwashing allegations (see "ESG Litigation" below).

Key Issues for Sustainable Finance

Investor Demand and Cost of Capital

Issuers of sustainable finance instruments, such as green bonds, use sustainable finance to diversify and expand their investor base. A report[16] concluded that 65% of green bonds were allocated to investors describing themselves as holding green or responsible investment mandates. Green bonds also tend to be significantly oversubscribed, which can result in tighter pricing. A report concluded that the average oversubscription for green bonds was higher than vanilla equivalents — average oversubscription for euro and US dollar denominated green bonds was 3.1 times and 3.8 times, respectively, compared to 2.4 times and 2.7, respectively, for vanilla bond equivalents.[17] For example, a leading GCC region issuer's debut US$3 billion green bond was more than eight times oversubscribed. Green bonds can also price inside the spread of comparable conventional bonds, producing what is known as a "greenium", which means the bond is issued with a relatively higher price and a lower yield. One report[18] showed that 20% of green bonds and 38% of SLBs priced inside their yield curve in H1 2022. Indeed, according to reports[19], a particular US dollar denominated SLB issued in December 2021 achieved a "greenium" of 31 bps. Further, another report[20] concluded that euro denominated green bonds for utilities and real estate issuers that priced during 2021 achieved better liquidity in the secondary market than vanilla bonds. The report suggests that better liquidity may apply to green bonds more broadly.

Greenwashing

Increased scrutiny and allegations of "greenwashing" have prompted a strong emphasis on ensuring that sustainable finance instruments use "best-in-class" structures. Certain green bonds have attracted criticism for financing projects that do not align with their intended environmental impact (and/or that may cause social damage or inequity). For example, the US Securities and Exchange Commission (SEC) received a complaint against an Asian quasi-sovereign issuer that proceeds from its green bond were (or may have been) used to finance its ongoing financial support for a coal-fired power station project in Bangladesh. The issuer of a US$1billion green bond issued in January 2022 received criticism for directing proceeds towards projects relating to the construction of a third runway which allegedly would increase air travel (and related carbon emissions) and adversely impact biodiversity (including on endangered local wildlife).

To address these concerns, issuers should focus on ensuring that they have sufficient (and timely) green expenditure based on a robust sustainability strategy/business plan. Additionally, issuers should consider whether to align the green expenditure with the EU Green Taxonomy (or with a similar taxonomy), clearly segregate "green" proceeds from non-green expenditure, and accurately disclose the distinction between the use of green proceeds and the financing of any continuing brown or transitional investments and the issuer's operations. Importantly, the issuer should also consider, address, and/or disclose (as appropriate) how any such green expenditure will impact social and biodiversity factors.

Various high-profile SLB issuers have attracted criticism for the perceived lack of ambition of their SPTs or transition strategy. In January 2023, a complaint by an NGO to the SEC accused a Brazilian issuer of misleading investors by issuing SLBs without disclosing the full scope of its environmental footprint. The NGO accused the issuer of greenwashing by not including a Scope 3 GHG Emissions reduction SPT, thereby disregarding close to 90% of its GHG emissions footprint. Indeed, the bond SPO stated that the KPI "is not material to the issuer's scope of impact" and that it "cannot verify whether the SPT is ambitious and in line with the Paris Agreement and well below a 2° Celsius warming scenario, based on a lack of information provided by the issuer".

Other common SLB features that attract significant criticism are: (i) the SPT test date does not fall prior to the bond's par-call date (which means that even if the SPT was not achieved, the issuer could call the SLB at par before any coupon step-up could come into effect), (ii) SPTs are not benchmarked against international targets, (iii) the issuer does not use a Scope 3 KPI or (iv) the SPTs generally lack ambition.[21] Issuers can mitigate these risks by:

- optimising the structure of their SLBs, including by ensuring the materiality and sufficiency of their KPI(s) and SPT(s);
- considering including a most-favoured-nation clause to ensure that the SPTs in all of the issuer's sustainability-linked instruments are automatically updated in the event of any increase in the level of ambition of the issuer's relevant ESG targets;
- focusing on the scope and disclosure of any KPI/SPT recalculation policy; and
- considering the frequency and timing of the SPT test date(s) (particularly versus the no-call period) and the type and materiality of the applicable bond characteristics (i.e., the quantum of the coupon step-up etc.).

Irrespective of whether they use a sustainable finance instrument or a conventional bond, issuers should also ensure adequate disclosure of their sustainability strategy in the bond offering materials.

ESG Diligence, Disclosure and "Materiality"

ESG diligence and disclosure is critical for any offering — and particularly so for sustainable finance transactions — due to the increasing importance of ESG factors and risks. The nature and extent of appropriate ESG diligence will depend on the sector, jurisdiction, business model, and risk profile of the issuer. Transaction participants should conduct appropriate diligence, which may be in the form of diligence calls, written Q&As, site visits, etc., and may contribute to a broader transaction diligence exercise. The focus of the diligence must be bespoke to the issuer and its operating environment, but any diligence exercise should consider:

- the issuer's sustainability strategy (including any existing ESG targets);
- any applicable ESG complaints and litigation;
- any applicable ESG compliance and regulatory investigations or concerns;
- the extent of the issuer's internal ESG capabilities and training; and
- the extent of the issuer's internal ESG governance and policies.

The transaction disclosure should reflect material diligence findings, as appropriate. The Association for Financial Markets in Europe (AFME) recently published an ESG Due Diligence Questionnaire for High Yield Bond Issuers.[22]

Certain ESG risks and factors are now more likely to be considered "material" for investors and investment decision-making, so the appropriate scope and extent of ESG disclosure must be carefully considered. However, it is critical to ensure that this disclosure is consistent with the issuer's existing public disclosure — whether contained in an announcement, an annual report, a sustainability strategy document, etc. — and does not include inaccuracies, misrepresentations, unsupported assertions, and/or exaggerations with respect to ESG facts or targets (which could otherwise amount to "greenwashing"). Bespoke risk factors should be included in the relevant offering documentation highlighting key risks associated with the relevant sustainable finance instrument. Further, an issuer must carefully consider the implications of including (or incorporating by reference) its GBF/SLBF and/or SPO in its offering document, particularly for SEC-registered deals, out of a concern that the issuer may assume liability for such disclosure, and/or, in respect of an SEC-registered transaction, that the SEC may deem the SPO provider to be an "expert" for the purposes of the US Securities Act of 1933 (as amended) and, therefore, require the SPO provider to agree to the inclusion of the SPO in the offering document, which an SPO provider may be unwilling to do.

More generally, issuers/borrowers may face pressure to include specific ESG information covenants in their transaction documentation, which require the disclosure of ESG information on an ongoing basis, including to enable their investors (i.e., investment funds and other institutional investors) to understand and classify their investments and satisfy their disclosure obligations under applicable ESG regulations. Issuer may also be asked to give ESG representations, including to the effect that applicable issuer's GBF/SLBF is true and accurate and/or that all information provided to its SPO provider was accurate and properly prepared.

ESG Regulatory Landscape

The global ESG regulatory landscape is developing rapidly, with the introduction (or anticipated introduction) of various regulations covering issues such as ESG due diligence, climate and sustainability disclosure requirements, and the classification of investment funds in terms of their sustainability. Recent regulations include the EU Sustainable Finance Disclosure Regulation, the EU Green Taxonomy, the EU Corporate Sustainability Reporting Directive, the EU Corporate Sustainability Due Diligence Directive, EU MiFID II Product Governance rules, UK Sustainability Disclosure Requirements, and the SEC Climate Disclosure Rules.

Even though such regulations may not directly apply in the GCC Region, they do apply in many of the jurisdictions in which GCC Region organisations have investments and operations (including the US, the UK, and the EU), and the measures they contain are increasingly regarded as "best practice" globally.

In the GCC Region, the Abu Dhabi Global Market (ADGM) recently published its proposals[23] for a sustainable finance regulatory framework. The ADGM proposes to create three different types of sustainable investment funds, including an ADGM Green Fund designation (for investments and assets that align with an international Green Taxonomy or a Paris-Aligned Benchmark) and a Climate Transition Fund designation (for transitioning (or "greening") assets and investments, including green bonds and SLBs. Further, the ADGM has proposed sustainable finance designations for green bonds, SLBs, and sukuks to the extent they are aligned with the GBPs or SLBPs and are subject to third-party review and verification. The ADGM has proposed to implement an ESG disclosure regime on a "comply or explain" basis, with disclosures aligned with the disclosure frameworks established by the International Sustainability Standards Board (ISSB), the Taskforce on Climate-related Financial Disclosures (TCFD), or other applicable international standards. The ADGM's ESG regulatory initiative is an important statement of intent in the GCC Region and is consistent with the general expansion of ESG regulation globally.

In response to the expansion of ESG regulation, organisations increasingly focus on the following ESG-related workstreams:

- identifying and analysing all applicable ESG compliance obligations based on the scope, extent, and location of their operations, assets, and investments;
- developing and embedding appropriate ESG internal controls and policies (including ESG risk management policies, ESG disclosure policies, sustainable investment taxonomies, sustainability strategies, etc.) in their corporate governance functions, including appropriate board and management oversight functions;
- facilitating and overseeing whistleblowing investigations;
- obtaining and improving ESG ratings;
- coordinating supply chain management;
- identifying and mitigating risks associated with forced labour;
- classifying and calculating Scope 3 emissions; and
- structuring and implementing diversity, equity, and inclusion (DE&I) initiatives.

ESG-Related Transactions and Projects

Whether or not funded with sustainable finance, the scope and extent of ESG-related projects and transactions have rapidly proliferated in recent years, particularly in the GCC Region, including:

- lithium and lithium-battery technologies and projects;
- energy storage projects;
- solar and wind power projects;
- biofuel projects;
- carbon capture and sequestration projects;
- LNG projects and infrastructure;
- carbon credits / offsets programs and trading; and
- green hydrogen projects.

The level of focus on ESG considerations and factors in such projects and transactions is ever expanding. Key trends and areas of scrutiny include:

- the availability and cost of sustainable finance to fund such projects and investment;
- the increasing focus on ESG diligence, particularly regarding the social and biodiversity impact (in additional to the environmental impact) of such projects;
- the role of venture capital and startups in the development of clean energy and climate related investments opportunities;
- the role of private credit to finance clean energy investment; and
- the development of innovative measures to improve the bankability of clean energy projects relying on often (relatively) unproven technology.

ESG Litigation and Liability

ESG-related litigation, complaints, shareholder activism, claims under relevant "soft law" (such as the OECD Guidelines), and enforcement actions have grown rapidly in recent months. One key area of focus is "greenwashing", which is seen as undermining the integrity of sustainable finance and sustainability disclosures. In Europe, the EU Commission has requested the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA) to research and produce a comprehensive report on greenwashing.[24] In the UK, the Financial Conduct Authority (FCA) aims to publish new anti-greenwashing rules in 2023.[25]

Regulatory authorities in the US have also increased their ESG-related enforcement efforts. In March 2021, the SEC launched the "Climate and ESG Task Force" within its Division of Enforcement. The SEC subsequently charged a multinational mining company with securities fraud related to false and misleading statements about the safety and stability of its dams as well as the veracity of the associated dam safety audits that the company claimed to have carried out. Further, certain leading US financial institutions received fines for misstatement and omissions relating to ESG considerations in investment decisions for certain mutual funds and for mis-categorising sustainable investments.

ESG-related litigation is also on the rise, particularly in the US. These cases demonstrate the increasing focus on companies' ESG performance, impact and disclosure, and the potential legal liabilities that companies may face for false or misleading statements about their ESG performance. Companies that are located and/or operate in particular jurisdictions and/or sectors may be at higher risk of ESG litigation. For example, companies operating in sectors with high carbon footprints (such as oil and gas, energy, and metal and mining), financial institutions and investment funds/advisers, consumer-facing businesses, and companies with operations/supply chains in emerging market jurisdictions.

Therefore, ESG litigation and liability is particularly relevant to GCC Region organisations with operations or investments in other jurisdictions. However, even if ESG litigation has not yet reached the GCC Region itself, given the scepticism of many in the international community that the GCC Region is truly willing and able to tackle its ESG challenges, ESG-related complaints, criticism, and "greenwashing" allegations can cause significant reputational damage and destroy stakeholder value. Accordingly, organisations should consider developing and implementing ESG risk management measures and strategies.

Future Trends

Rapid Expansion in the GCC Region

In the GCC Region, market participants should expect continued, significant growth in ESG and sustainable finance, driven by the strong regional market momentum in 2022 and preparation for the 28th session of the Conference of the Parties (COP28) to the United Nations Framework Convention on Climate Change to be held in the UAE in November 2023. In particular, there may be a greater focus on SLBs, transition finance and social finance as issuers with higher carbon footprints and less requirement for pure green expenditure seek to finance their sustainable transition activities, and organisations place more emphasis on social and biodiversity projects and initiatives. Further, it is expected that there will be an increasing focus on ESG risk mitigation strategies as regional regulatory frameworks develop and outbound investment from the GCC Region into the US, the UK, and the EU continues.

Increase in ESG Projects and Investments

Globally, demand for more (and more accurately classified/disclosed) "green" projects and investments will increase. The US Inflation Reduction Act will act as a catalyst for additional sustainable investment in the US, and will encourage similar commitments and measures from governments across the world. Further, many of the headwinds faced by ESG and sustainable finance in 2022 — including deteriorating global economic conditions, an increased focus on energy security in Europe, and political pushback in the US — may diminish as economic conditions stabilise and Europe completes its reorientation from Russian hydrocarbons. Accordingly, we expect to see a significant increase in the use of sustainable finance to fund clean energy and other sustainable projects and investments, including in carbon capture and sequestration, carbon credit programs and markets, green hydrogen, nuclear, biofuels, carbon capture, solar, and renewables, etc.

Focus on ESG Liability

ESG litigation and liability will increase in tandem with the growth of ESG and sustainable finance. ESG disclosures and perceived "greenwashing" will come under more scrutiny and, accordingly, developing and implementing effective ESG risk mitigation measures and strategies will become increasingly important to avoid ESG liability, reputational damage, and the destruction of stakeholder value.

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Endnotes

1 Member States of the GCC include: UAE, Kingdom of Bahrain, Kingdom of Saudi Arabia, Sultanate of Oman, State of Qatar, and State of Kuwait.

2 The region is already arid and semi-arid, with low levels of natural rainfall and high temperatures. Climate change will likely exacerbate this condition by increasing temperatures and decreasing rainfall, leading to more droughts and water scarcity. In addition, the region heavily depends on oil and gas for economic growth, and these industries are also major contributors to greenhouse gas emissions.

3 GCC countries which have committed to "net zero" emissions include the UAE (through the UAE Net Zero Initiative, which includes a plan to achieve net zero emissions by 2050), Sultanate of Oman (through a royal degree of Sultan Haitham, which includes a plan to achieve net zero emissions by 2050), Saudi Arabia (through the Saudi Green Initiative, which includes a plan to achieve net zero emissions by 2060), and Bahrain (where the government has set a target of achieving net zero emissions by 2060).

4 International Energy Agency, 2021, "Global Energy & Climate Model - Net-zero emissions by 2050 scenario (NZE).", retrieved from https://www.iea.org/reports/global-energy-and-climate-model/net-zero-emissions-by-2050-scenario-nze.

5 McKinsey & Company, 2021, "The net-zero transition: What it would cost, what it could bring." (p. viii, xi, 5, 13, 16, 17, 75, 78), retrieved from https://www.mckinsey.com/~/media/mckinsey/business%20functions/sustainability/our%20insights/the%20net%20zero%20transition%20what%20it%20would%20cost%20what%20it%20could%20bring/the-net-zero-transition-what-it-would-cost-and-what-it-could-bring-final.pdf.

6 Volker Brühl, Intereconomics, 2021, "Green finance in Europe: Strategy, Regulation, and Instruments." (p. 323), retrieved from https://www.intereconomics.eu/contents/year/2021/number/6/article/green-finance-in-europe-strategy-regulation-and-instruments.html.

7 Oman Observer, November 26, 2018, "Arab World Needs $230bn to Achieve Goals", retrieved from https://www.omanobserver.om/article/42804/Main/arab-world-needs-230bn-to-achieve-goals on January 26, 2023.

8 McKinsey & Company, 2021, "The net-zero transition: What it would cost, what it could bring." (p. 178), retrieved from https://www.mckinsey.com/~/media/mckinsey/business%20functions/sustainability/our%20insights/the%20net%20zero%20transition%20what%20it%20would%20cost%20what%20it%20could%20bring/the-net-zero-transition-what-it-would-cost-and-what-it-could-bring-final.pdf.

9 Refinitiv Deals Intelligence, Sustainable Finance Review, Full Year 2022.

10 Institute of International Finance, January 27, 2022, "Sustainable Debt Monitor: Boom Time!", retrieved from https://www.iif.com/Publications/ID/4762/Sustainable-Debt-Monitor-Boom-time.

11 The National News, January 4, 2023, "GCC Green Bond and Sukuk Issuances Hit a Record in 2022.", retrieved from https://www.thenationalnews.com/business/markets/2023/01/04/gcc-green-bond-and-sukuk-issuances-hit-a-record-in-2022/.

12 Charles Schwab, 2020, "Charles Schwab Survey: Generation Investor"; Hoover Institution, November 2, 2022, "ESG Investing: What Shareholders Do Fund Managers Represent?", retrieved from https://www.hoover.org/research/esg-investing-what-shareholders-do-fund-managers-represent; and Sustainable Fitch, December 12, 2022, "ESG Credit Trends 2023".

13 The EU GBS is expected to pass the legislative process in the course of this year and requires, amongst other criteria, the EU Taxonomy-compliant use of bond proceeds.

14 The GBPs provide an indicative high-level list of eligible green projects (e.g., renewable energy, energy efficiency, pollution prevention and control, sustainable living and land use, biodiversity, clean transportation, water management, circular economy, green buildings, and climate change adaption). Alternatively, issuers may also follow the criteria of the EU Taxonomy Regulation ("EU Taxonomy") and invest the bond proceeds towards EU Taxonomy-compliant green projects so that the bond can be labelled as a "EU Green Bond" under the EU GBS (subject to further requirements). Issuers may use proceeds to acquire assets, to make investments, for capex, and/or to refinance relevant indebtedness.

15 See, for example, ICMA's KPI registry, outlining sector-based KPIs/SPTs (https://www.icmagroup.org/News/news-in-brief/the-principles-announce-key-publications-and-resources-in-support-of-market-transparency-and-development/).

16 Climate Bonds Initiative, 2022, "Green Bond Pricing in the Primary Market H1 2022.", retrieved from https://www.climatebonds.net/resources/reports/green-bond-pricing-primary-market-h1-2022.

17 As for endnote 15.

18 As for endnote 15.

19 As for endnote 15.

20 As for endnote 15.

21 See, for example: a large UK food retailer issued an SLB with Scope 1 and 2 emissions reduction targets only, which constituted approximately 2% of its GHG emissions footprint and, further, its 2021 sustainability report showed that it had already met 90% of its 2025 SPT; and (ii) a large French food retailer issued SLBs without any GHG emissions-related KPIs, even though its financing framework did contain GHG reduction KPIs.

22 AFME, December 15, 2022, "High Yield ESG Due Diligence Questionnaire", retrieved from https://www.afme.eu/News/Press-Releases/Details/Unprecedented-sustainability-linked-financing-and-changing-regulatory-policy-mean-European-High-Yield-market-is-fast-evolving.

23 Consultation Paper No. 6 of 2022.

24 European Banking Authority, September 2022, "Call for Advice: Report on request to ESAs on greenwashing monitoring and supervision.", retrieved from https://www.eba.europa.eu/sites/default/documents/files/document_library/About%20Us/Missions%20and%20tasks/Call%20for%20Advice/2022/CfA%20on%20greenwashing/1036482/Report%20request%20to%20ESAs_greenwashing%20monitoring%20and%20supervision.pdf.

25 Financial Conduct Authority, October 25, 2022, "FCA Proposes New Rules to Tackle Greenwashing.", retrieved from https://www.fca.org.uk/news/press-releases/fca-proposes-new-rules-tackle-greenwashing.