

Sustainability Bulletin

August 2023

JCR Eurasia Rating

Economic and Analytical Research



IFRS Published Sustainability Standards...

The International Sustainability Standards Board (ISSB) within the body of IFRS published the regulations on sustainability reporting on 26 June. The standard, which will come into effect as of January 1, 2024, consists of two parts. IFRS S1 regulates the reporting of Sustainability-related financial Disclosure, while IFRS S2 regulates the reporting of Climate-related Disclosures.



IFRS S1 will enable financial reports users to access information on companies' sustainability-related financial risks and their management in a consistent and complete manner, comparable, and verifiable between companies.

As regulations come into force, companies will apply IFRS S1 and IFRS S2 together. However, the ISSB also provides pass-through exemptions for some requirements in the first year a company applies IFRS S1 and IFRS S2. For example, information on climate-related risks and opportunities may be limited in the first year that IFRS S1 and IFRS S2 are implemented.

TFCD Hand on Regulation Role to ISSB...

The Task Force on Climate-related Financial Disclosure (TFCD), which was established under the Financial Stability Board (FSB) in 2017, transfers monitoring role of the publication of climate risks of companies to the ISSB, which is within the IFRS, after the standards published by IFRS. In the statement made by IFRS, it was stated that IFRS S1 and IFRS S2 contain all of the TFCD recommendations.



The FSB also referred to IFRS S1 and S2, stating that the standards are the culmination of climate-related reporting standards so far.

The TFCD will have handed over its mandate to the ISSB as of January 1, 2024, when the standards come into force.

European Steelmakers Worried About Carbon Leakage

In aluminum production, the Border Carbon Regulation Mechanism (CBAM) drew attention, which will be implemented by the EU. According to the International Energy Agency (IEA), 3% of industry-related carbon emissions stem from aluminum production. European aluminum producers stated that a malfunction in the mechanism could cause cheap products with high carbon intensity to come to the EU countries. It is thought that this situation may cause carbon leakage and loss of competitive advantage for aluminum producers in EU countries.



Financial Times reports that 6.8 kg of carbon emissions were realized for each kilogram of aluminum produced in EU countries, while the world average was 16.1 kg / CO₂. The article points out that a loophole in CBAM could render the entire regulation ineffective.

IMO Announces Its Climate Strategy

The United Nations International Maritime Organization (IMO) has announced its climate strategy on greenhouse gas emissions. In the plan, which aims to achieve net zero carbon emissions in 2050 compared to 2008 levels, the greenhouse gas reduction target for 2030 is 20% compared to the base year of 2008, while it is aimed to reduce by 70% in 2040.

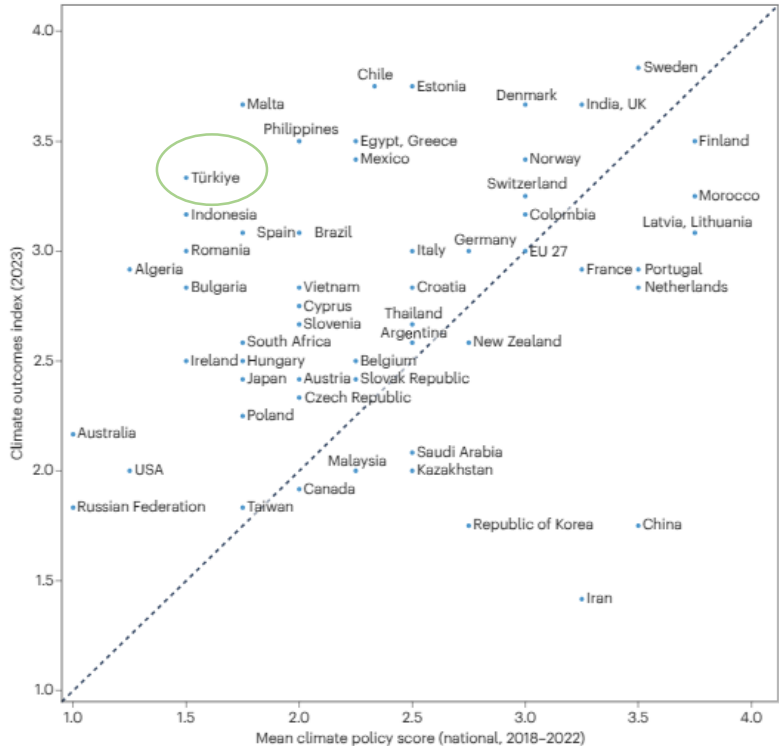


While more than **80% of world trade is carried out by sea vessel**, the share of greenhouse gas emissions from maritime transport in total human-caused greenhouse gas emissions is around 3%.

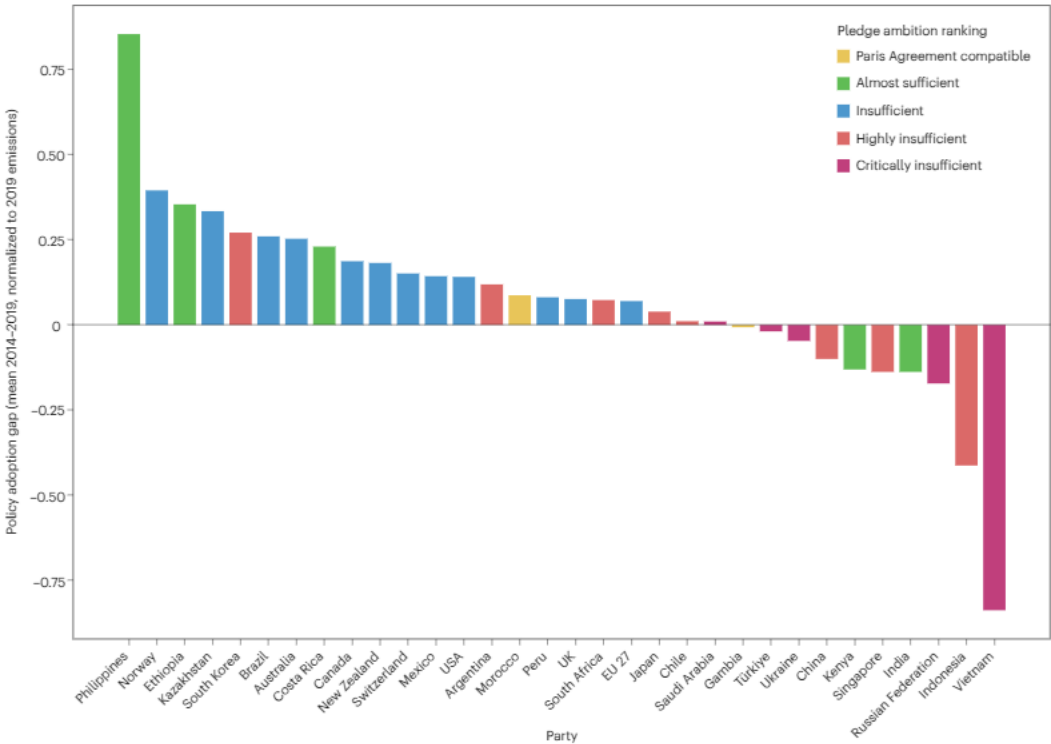
Implementation Gap in the Process of Adoption with the Paris Agreement

The article titled "Taking stock of the implementation gap in climate policy" published in Nature magazine, which evaluates the difference between policy adaptations and policy outputs, shows that there are implementation gaps between countries in compliance with the Paris Climate Agreement.

Policy Outcome Results



Policy Adoption Results



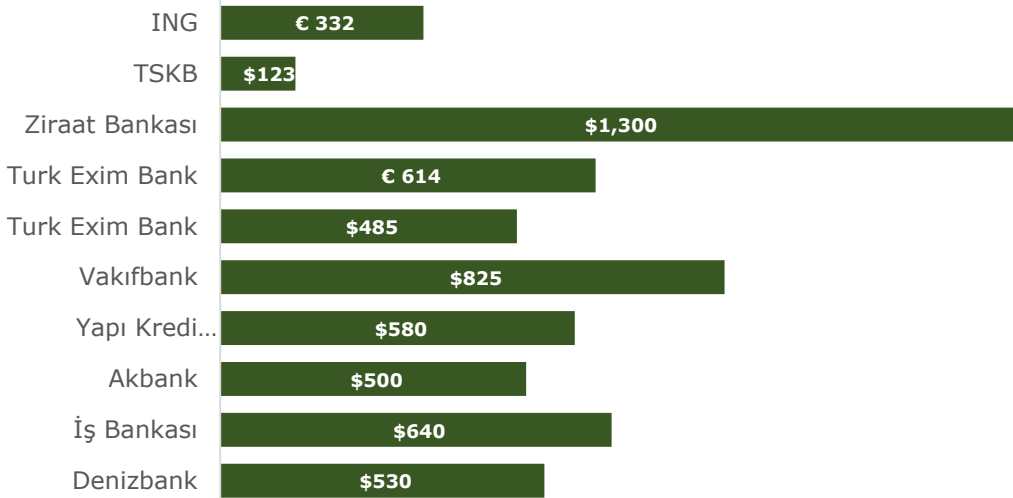
Türkiye follows a path in line with the Paris Agreement in terms of policy adoption, it is positively differentiated in the results where policy adoption and policy outcomes are followed together.

Source: JCR-ER, Nature

Turkish Banks Accelerated Sustainability Issuances

During the syndicated loan renewal period, banks launched a sustainability initiative. Since the beginning of 2023, banks residing in Turkey have obtained sustainable syndication loans of USD 6.3 billion from international markets. The sustainability loans are stated to be used for the needs of the companies in the earthquake zone. In this context, the banks indicate that the obtained resources will be used in supporting SMEs, women's employment, financing of businesses that will create social impact, and financing of foreign trade of companies in the earthquake region.

Turkish Banks Provided USD 6.3bn of Sustainable Syndication Loans in 2023.



The average cost of loans was **SFOR + 425bps** for USD loans, while the cost for Euro loans was **Euribor + 400bps**. In addition, as stated in the loan agreements, the costs may be lower according to the sustainability performance of the banks.

Source: JCR-ER, Refinitiv

The European Commission is Going to Regulate ESG Rating Business...



The European Commission introduced a series of regulations in June, including the framework for ESG rating service providers. The package also included new additions to the EU taxonomy for the transition to a sustainable economy.

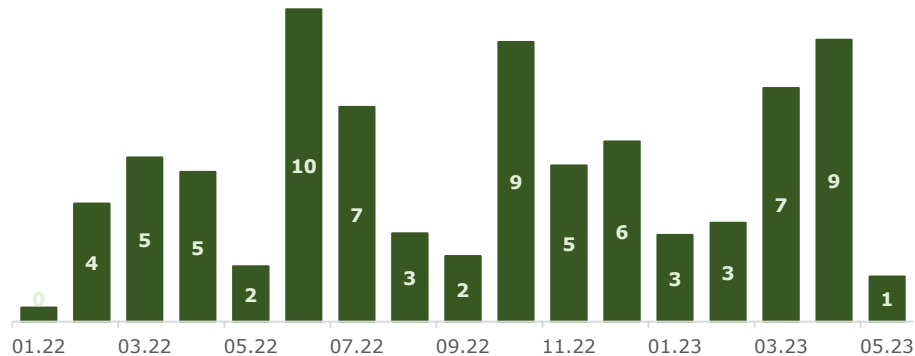
Underlining that the methodological confusions and regulatory deficiencies experienced in the ESG rating process can provide misleading information to users, the Commission mandated the European Securities and Markets Authority (ESMA) to supervise and regulate the ESG rating processes.

There is no regulation in the ESG rating scores for now, which are frequently used by investors and finance professionals recently. This prevents the ESG scores rated by different ESG rating company from providing users with a comparable, transparent and consistent usage opportunity. The European Commission also stated that the regulation of the ESG rating is a necessary step for the development of sustainable finance.

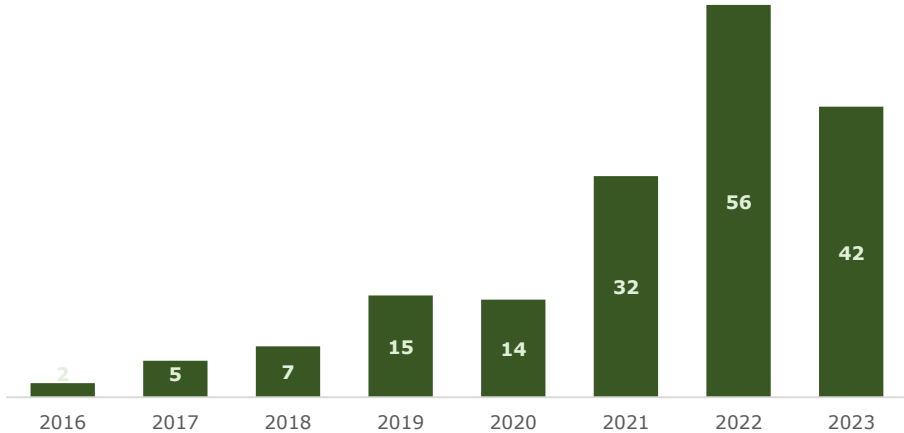
The Real Sector is also in Search of Sustainable Resources...

While the interest in sustainable finance sources in the world is increasing, demands from Turkish companies continue to come. Ülker, operating in the field of food products, reached a **EUR 75mn** loan agreement with the EBRD in March this year in line with its sustainability targets. In April, the company provided a sustainability-related syndication loan of **USD 248mn** with the participation of 5 banks. In April 2023, Kılıç Deniz Ürünleri obtained a green syndication loan of **EUR 60mn**. It was stated that the provided financing will be used in new capital investments and it will contribute to 4 of the Sustainable Development Goals.

Green loans are stepped on in the summer months.
Green Loan Amount (Billion USD)



In 2022, EUR 56bn green loan agreement was signed globally.
Green Loan Amount (Billion USD)



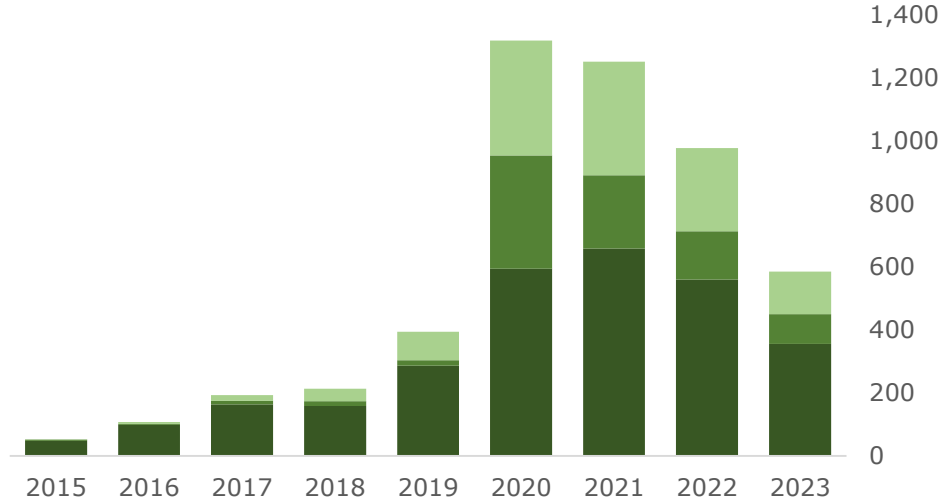
Another green loan agreement was made between Assan Aluminum and IFC. Assan obtained a **USD 90mn** green loan from IFC for the modernization of its existing facilities, renewable energy investments and capacity increase.

Source: JCR-ER, Refinitiv

Sustainable Bond Market

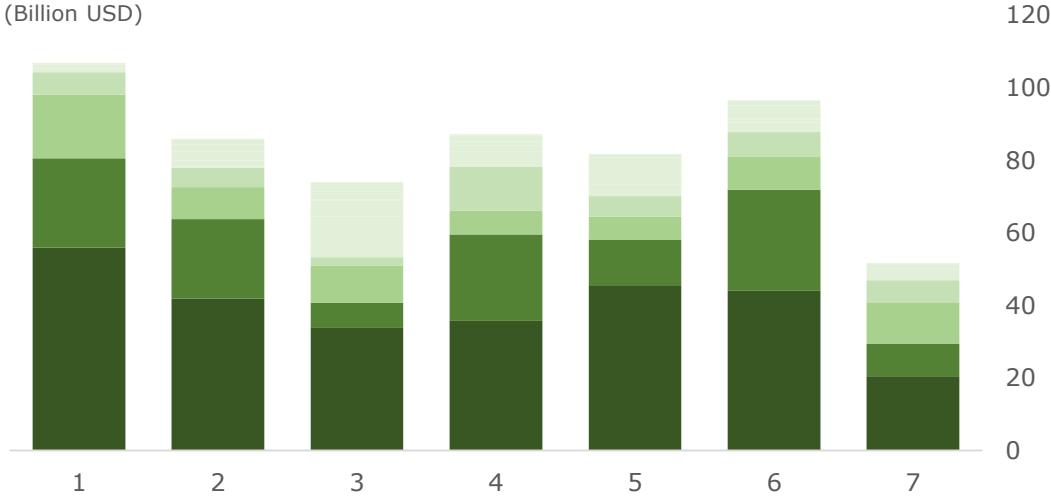
Sustainable bond issues

Green Social Sustainability (Billion USD)



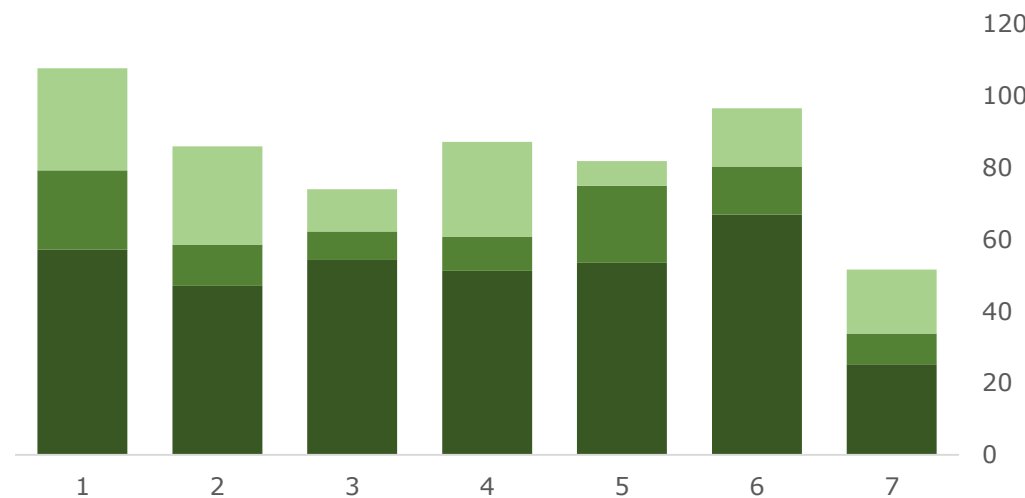
Sectoral Breakdown of Monthly Sustainable Bond Issues in 2023

Financials Government Activity Technology Industrials Others (Billion USD)



Monthly Sustainable Bond Issues in 2023

Green Social Sustainability (Billion USD)

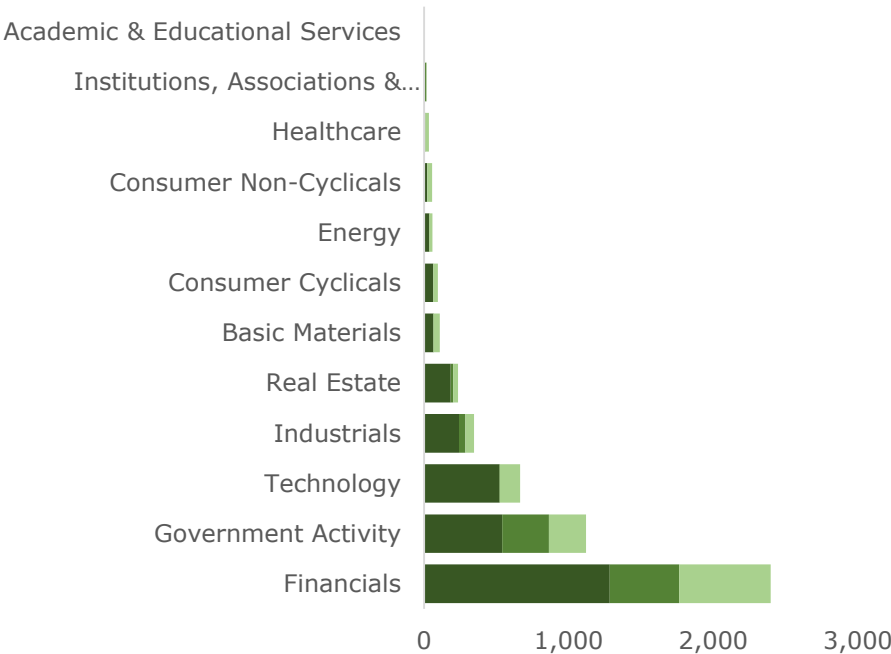


Source: JCR-ER, Refinitiv

Sustainable Bond Market

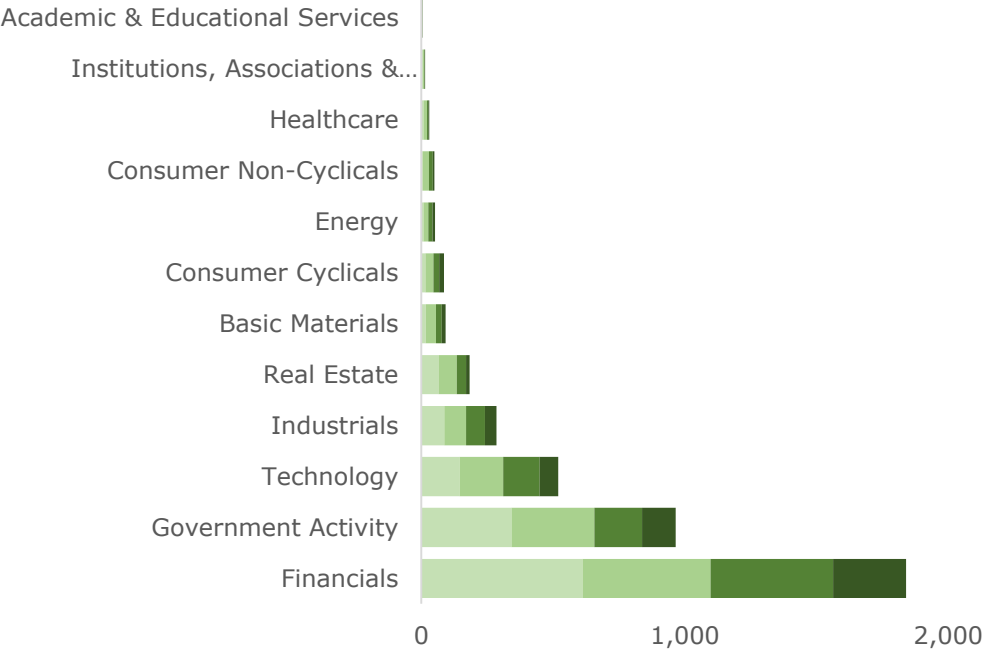
Sustainable Bond Issuance Sector-Bond Breakdown in 2006-2023 Period

Green Social Sustainability (Billion USD)



Sustainable Bond Issue Sector-Year Breakdown in 2020-2023 Period

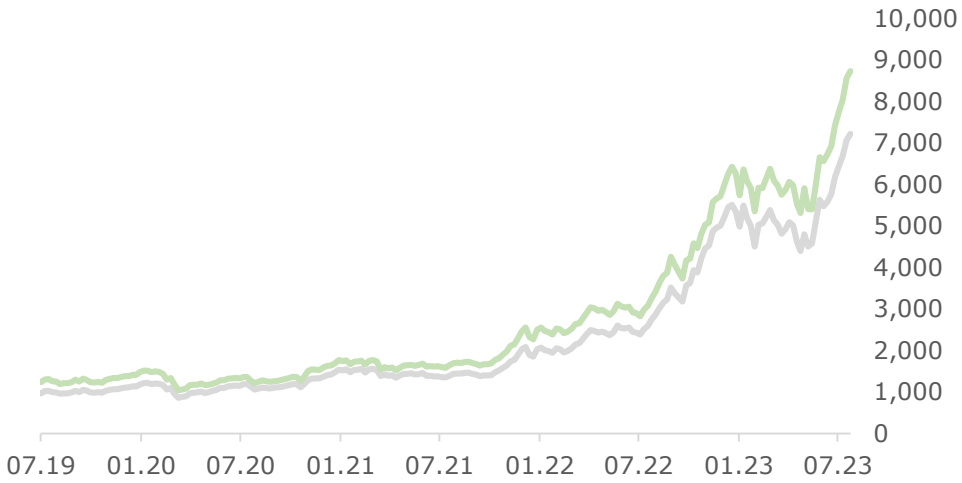
2023 2022 2021 2020 (Billion USD)



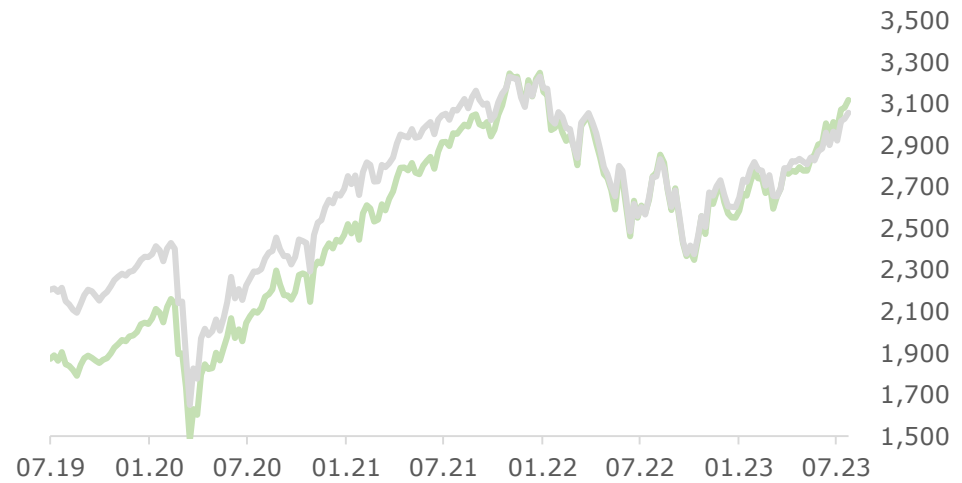
Source: JCR-ER, Refinitiv

Sustainability Indices

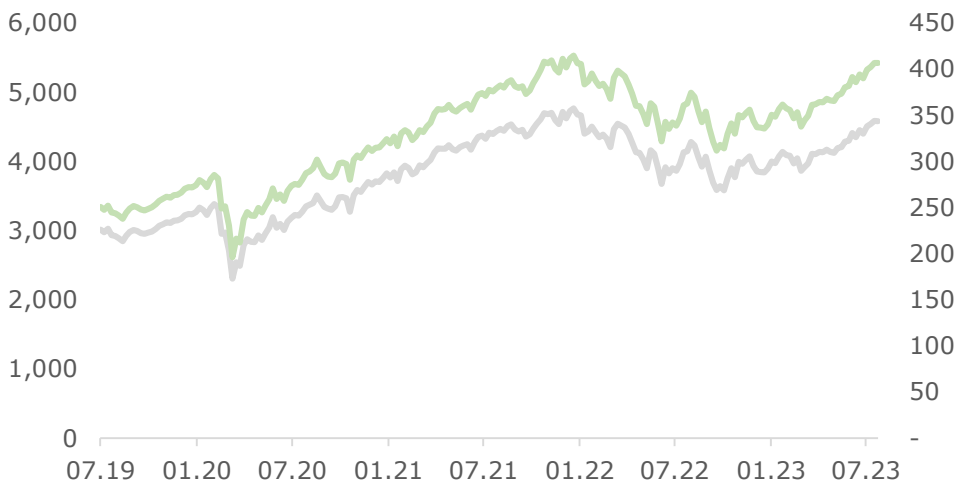
BIST Sustainability Index
BIST100



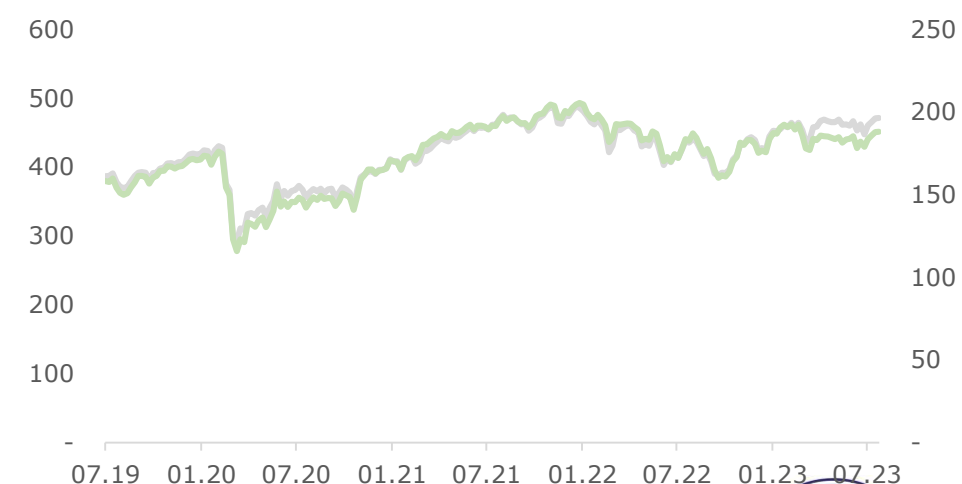
KLD400 Social Index
MSCI Global Index



SP500 Sustainability Index (Right Axis)
SP500 (Left Axis)



Stoxx Global ESG Leader Index (Right Axis)
STOXX600 i (Left Axis)

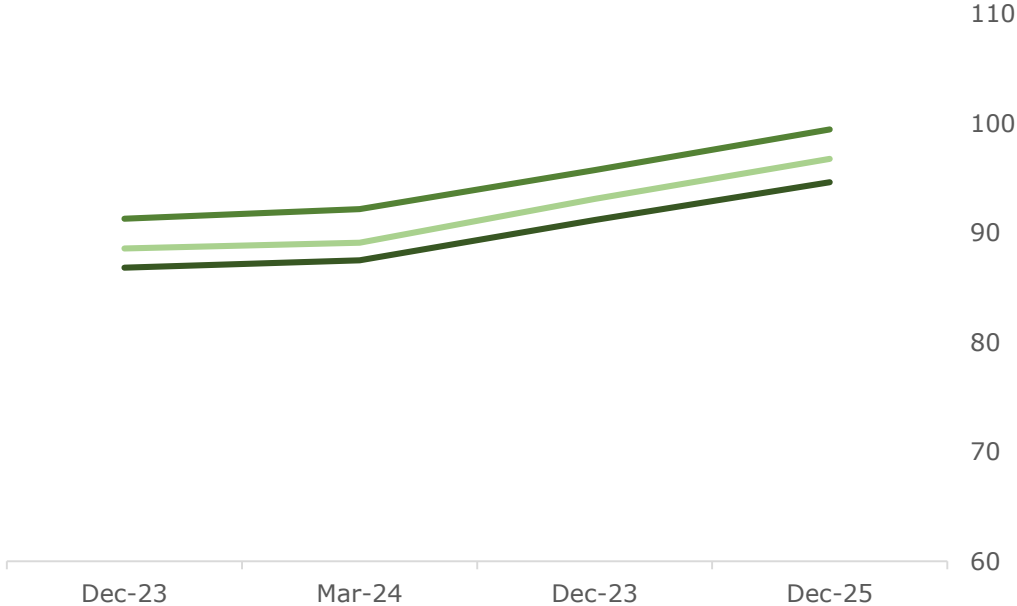


Source: JCR-ER, Refinitiv

Carbon Market

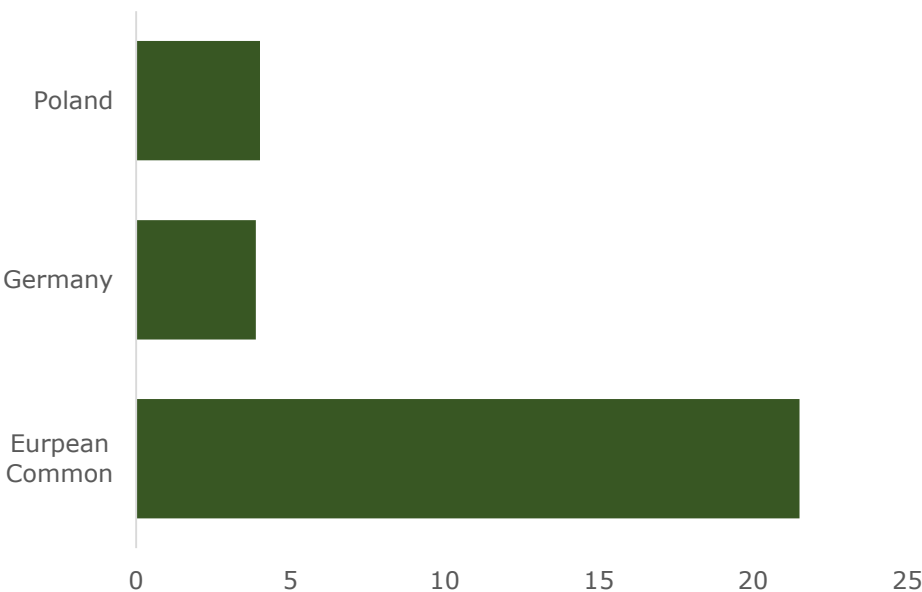
Carbon certificate prices hover above 90 EUR/t.

31 July 2023 24 July 2023 24 April 2023



The amount of carbon certificates to be auctioned in the next month is 30 million tons.

Auctioned Carbon Certificates (EUR/t)



Source: JCR-ER, Refinitiv



Economic and Analytical Research

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