Climate Taxonomy Launch Conference

July 11, 2024

Hello everyone,

I'm happy and excited to be here today.

I will begin my remarks with a quote from Hillel the Elder from Tractate Avot chapter 1, Mishnah 14:

"If I am not for me, who is for me, if I'm for myself, what am I, and if not now, when."

In the short code words, Hillel the Elder outlined a person's responsibility to himself, to the society in which he lives, and the short time available to him.

A person must take responsibility for his own destiny, he must initiate and act with determination to improve his living conditions and his world. It is activity rather than passivity, initiative rather than reliance on others, that will lead to achievements.

However, the individual cannot reach his full potential without being assisted by, contributing to, and contributing to the society in which he lives, contributes and contributes to it at the same time.

If a person feels that he must do something right and proper, there is no reason for him to postpone doing it in the long term, but it is important to act here and now.

After this introduction I will note that I have the great privilege of choosing the places I want to be and the topics in which I would like to be involved.

Currently, among other things, I serve as Chairman of the Arison Center ESG Advisory Committee. The center, funded by the Arison Foundation, is the first university center in Israel to deal with ESG, with our goal being to work through research, teaching and connections with industry to integrate environmental, social and governance considerations into the core business of corporations.

And as a general theme – I choose to be in places and deal with issues of importance and potential so that we will live here in a better economy and society – mainly with a forward-looking view and thinking that is not motivated by short-term thinking and economic interests, but rather long-term thinking as much as possible.

And I will begin by saying that no issue can be less ideological than climate change and its human-caused consequences. No one has a rational or emotional reason to want man-made carbon and methane-based products to cause warming or other harm. Any socialist, liberal, conservative, independent, reactionary, or sane anarchist would be happy if we could use these products to keep warm or cool, depending on the season, or to help us move by car, train, or airplane, or countless other valuable causes and there would be no harm in them.

But wishes are not reality, and human-caused climate change is real and undeniable. Not only that, human-induced climate change is an objective economic problem, not just environmental and social, and poses a risk of a huge decline in economic output and huge damage to many industries.

One would think that the compelling implications of this objective reality would result in a concentrated global as well as public-private national commitment, including those representing here aspects of governance and a meaningful public service, devoid of ideology or party division, to address the fact of human-caused climate change.

And unfortunately, corporations and institutional investors do not give sufficient weight and attention to so-called ESG factors, especially climate change, as well as claim that their loyalty to their clients in terms of the so-called "fiduciary duty" requires focusing solely on the appropriate return. In so doing, they largely ignore or obscure the factual question of whether these investments, on the return received, have a negative impact on climate change and this could pose a danger to our economy, to investors, to the stability of the world order and to the planet itself, and certainly to future generations. Is loyalty only for the short term? Should externalities be considered alongside returns? I would like to leave you with these questions. In my view, a combination of values-based, thoughtful, forward-looking leadership alongside economic understanding are basic necessities.

All this while there is a consensus that the climate crisis is the defining challenge facing humanity. This risk assessment is supported by many studies, the most prominent of which is the study conducted by the World Economic Forum, in which climate risks and social and governance risks were noted extensively, in the group of ten significant risks with which the world must cope.

The World Meteorological Organization's "State of the Global Climate Report" confirms that 2023 has broken every climate measure. It was by far the hottest year on record. We have never been so close – albeit temporarily – to the lower limit of 1.5 degrees Celsius of the Paris Agreement on climate change. Heat waves, floods, droughts, fires and intense tropical cyclones have wreaked havoc on every continent and caused enormous socio-economic losses. Greenhouse gas concentrations continued to rise. Ocean heat content and sea level reach record highs observed, and the rate of increase is accelerating. The extent of ice in the Antarctic Sea broke low records observed. The damage to biodiversity can jeopardize food security and more.

In this context, see also the State Comptroller's report, which states that the climate crisis must be recognized as a strategic threat. Climate change and the need to build climate resilience should be defined as a national strategic goal and part of the national threat map. Planning and implementing the climate change preparedness plan are critical steps for properly dealing with the expected scenarios, and therefore this strategy must be translated into policy, legislation, and allocation of designated budgets.

If there's one certainty in the climate world, it's change. The year 2024 and the coming years will bring with them predictable and unexpected events, some of which will surely change the climate landscape permanently.

To successfully navigate this complex and diverse space, companies should consider steps such as adopting more integrated and diverse approaches to managing climate risk and prospects, including by identifying internal ownership of the issue, building internal controls, setting budgets for external expertise, and mapping regulatory requirements across jurisdictions.

The environmental risks are not confined only to the "E" of ESG and affect social, health, demographic and human rights issues (and we can note in this connection the decision of the European Court of Human Rights that discussed the connection between human rights and the climate crisis and noted that lax climate policies by governments are a fundamental violation of human rights).

Alongside looking at the climate risks side, the challenge can also be seen as a challenge that holds many opportunities to find innovative and profitable solutions to social and environmental problems, and thus may also sharpen the question of the purpose of any business company, when it is intended to find profitable solutions to the problems of humans and the planet vs. the scenario of maximizing profit by creating potential damage to environmental and social infrastructures.

As the discourse on the subject continues to evolve, organizations that approach environmental and social risks and opportunities while balancing creativity, curiosity and strategic focus, while listening to a variety of stakeholder perspectives, may best navigate the challenges and questions it poses, bring about the value of corporations and act to promote the existence of a sustainable economy, environment, economy and society. And this is not about Compliance. It's a world where you expect to be Beyond Compliance.

In order to work towards a sustainable future, it is necessary to act at a higher intensity to transition industry to green industry, inter alia, by developing incentive mechanisms that accelerate the adoption of sustainable technologies, creating partnerships between industry leaders, policy makers and research institutions in order to foster innovation and work methods for implementing green technologies, setting the binding regulatory frameworks and adopting circular economy principles for waste reduction, promoting resource efficiency and minimizing environmental impact.

Indeed, as I have noted so far, like governments, the business community and the institutional investor community are moving too slowly to deal with climate change, while maintaining the fear of catastrophic consequences.

Given the awareness in Israel and abroad of the existence and scope of financial risks deriving from the potential damage of events and processes related to climate change, the realization of these risks may be expressed as the realization of classic financial risks, including credit, market, liquidity, operations and reputational risks, and in extreme cases even have implications for the stability of a banking corporation, acquirer, insurer corporation, financial system or real economy.

Corporations are exposed to these risks both directly and indirectly. Direct damage may be caused to a corporation, for example, in the event of an extreme climate event hitting its physical infrastructures, which are necessary for its business continuity. Indirect damage may be caused by harm to the corporation's customers, the value of the collateral it holds, the value of its investment portfolio, etc.

The process of internalizing the financial risks related to climate is reflected in a significant increase in the scope of climate regulation worldwide. Financial regulators invest efforts in developing principles for the financial systems to adequately deal with climate risks and measures to reduce risks. Among other things, the development of tools and methodologies for identifying and assessing climate risks is expanding, principles for risk management are being formulated, requirements for disclosure of information on environmental issues are established, and steps are being taken to encourage the transition to "green funding".

Therefore, alongside the risks and opportunities inherent in the climate world, it is of great importance that boards of directors today should look at and examine environmental and social impacts no less than financial performance and make decisions from this broad perspective. Climate risks should be considered core business risks and should be assessed as part of business strategy. Because the impacts of climate change – and the risks it poses – are constantly changing, risk analysis should be carried out regularly.

In practice, this means that boards of directors and management need to vastly increase their observation and engagement, and in addition to the more traditional tasks, they should expand their knowledge and discussion into issues such as land use, energy, water and emissions; human rights, equal opportunity and diversity; as well as ethics and other internal standards that apply not only within the organization, but also to the organization's supply chain.

And since we live in a globalized world, it is right to note that Israel lags when it comes to ESG regulation and we will be required as much as we desire to live, to adapt to what is accepted in the economies with which we trade, otherwise we may become a Robinson Crusoe farm. The adjustment is broad, relevant to the worlds of regulation, accounting reporting, disclosures and, of course, the worlds of finance and more.

Globally, in recent years, we have witnessed a trend of publishing uniform and comparable ESG reports. This is reinforced by the publication of significant ESG reporting regulations in the EU and the US over the past year, and at the same time with the publication of ISSB standards that complement the process and are expected to become a leading international ESG reporting standard in the coming years. These significant developments create a gap between the quality and uniformity of existing reports in Israel on the subject and the emerging global standard, which is liable to lead to significant harm to the investing public in Israel.

In Israel, public awareness and discourse regarding ESG and as a derivative of investments in the field are at very early stages of development relative to Western countries. In recent years, a number of steps have been taken by regulators to encourage the field,

But there is still a significant way to go in order to close the gap with the rest of the Western world, so that Israel's competitiveness in the global investment arena will not be harmed. ESG reporting in Israel is also partial, uneven, and lacking, especially since the number of companies reporting on the subject today is only a few dozen.

It certainly seems that the time is ripe for a comprehensive regulatory process in Israel that will apply ESG reporting obligations in accordance with ISSB standards, which are expected to become a leading global reporting standard, when it is right to act based on the materiality test, gradual implementation and coordinated with the accounting reporting aspects and with the ESG reporting framework. In addition, it is certainly right to examine the obligation to implement ISSB standards and the ESG reporting obligation not necessarily to public companies only, but also to private companies according to sectoral criteria and substantiveness tests. Of course, these will require the creation of standardization, applicability and enforcement respectively.

This will provide a significant boost to strengthen Israel's position in the global investment arena and will bear fruit in the form of a more attractive and developed capital market that stands in the front row with the world's leading countries, while at the same time making a real contribution to improving the impact of businesses on the environment and society in Israel.

In an era in which ESG norms are becoming an inseparable part of the discourse and business practices around the world regarding recent global developments in the field of reporting, regulators must act and join the trend so that Israel is not left behind and labeled as disconnected from the main trends in the world of finance and the implications the potential of attracting and reducing investments from Israel alongside charging a risk premium for non-compliance with accepted international rules.

Alongside accelerating the promotion of financial regulation and the aspects of reporting and transparency required as per the practices implemented around the world, due to the challenges that exist due to the differences between different authorities around the world, it is right to continue to promote climate legislation and carbon taxation, and it is correct to act to strengthen and strengthen legislation in aspects that will set significant climate goals that correspond with the Paris Convention, as well as setting carbon taxation at prices that match the cost in the world's advanced countries on the subject. Also, It is important to act at a higher intensity and promote preparations for adaptation as a derivative of climate change, both at the state level and no less important at the level of the authorities, when it is important to involve the state in providing incentives for climate innovation initiatives through the Innovation Authority, as well as to take an active part in helping to create a continuous financing platform throughout the entire process from the initial venture until the date when the scale can be reached.

Opening significant gaps from the developing world in the field with markets with which we trade and/or are part of the supply chain and/or who are part of the stakeholders of the Israeli industry in the existing and developing regulation around the world (and we will mention only the SFDR, CSDDD, the legislative processes passed by the SEC, the CSRD and the European taxonomy), may lead to significant damage to Israeli industry, and hence to the economy and economy.

The quality of life, as well as the quality of life, may lead to harm and increase the financial risk of the State of Israel, with all the implications inherent in this. To some extent, this risk may increase the risk of the financial corporations operating here.

And at this event where the Israeli taxonomy is launched, I will mention a few words about its importance. The Israeli taxonomy is based on the European green taxonomy, and is adapted to the Israeli economy. The taxonomy creates a basis of common and uniform definitions, which will enable an efficient and simple examination of the environmental and climate value of certain economic activities. The adoption of this tool by financial institutions and real companies is expected to encourage investments that make a significant contribution to the environment and climate, thereby assisting in the transition to a low-carbon economy of the Israeli economy.

The uniqueness of the taxonomy in the European Union is that beyond the existing disclosure obligation on financial institutions and some real companies, the taxonomy produces measurable criteria that define sustainable activities. The taxonomy enables the creation of a uniform standard for activities that make a significant contribution to the environment and climate, thereby helping to prevent greenwash. As such, it is very important that financial institutions and real companies implement the Israeli taxonomy in order to promote their transition to a sustainable economy, a promotion that will of course affect the market and the economy as a whole.

Successful implementation of the proper taxonomy will be accompanied by supporting tools that will make it possible to ensure that the activities and projects meet the taxonomy, as well as the importance of monitoring and enforcement by the Ministry of Environmental Protection.

And a few words and insights to summarize:

1. Although we as a state and society are in a complex situation, and perhaps precisely because of this, now is the time to deal with environmental, social and governance issues, when these should become an essential component in the conduct of the government, businesses, investors, business corporations, stakeholders and civil society.
2. There is broad agreement that there is a significant opportunity here and it is right to create the appropriate roadmap and turn the threat into an opportunity.
3. Leading, implementing and assimilating the issue constitutes a leadership and moral agenda, requires personal and collective leadership, and constitutes an inseparable part of moral leadership.
4. It is important to make the environmental, social and governance worlds part of the leadership and DNA in the state and corporations, as well as to carry them out and maintain them at the level of Beyond Compliance.
5. It is important to implement ESG at the core of corporate activity, from the level of vision, moving to strategy, business policy, work plan, risk management, monitoring and control.
6. There is great importance to intensive activity to close the gaps vis-à-vis the world, mainly regarding countries with which we have significant trade ties. Failure to close the gap is liable to lead us to isolation and harm competitiveness and business corporations on the economic effects.
7. There is great importance to the existence of standards and standardization, by the way there is variation in these also in the leading countries in the field in the world, by way of the lag in which Israel finds itself. It is true that this will be adopted on the basis of the developing regulation in the world and that we will not "invent the wheel."
8. There is importance to the existence of expansive, contemporary and forward-looking legislation both in terms of the climate law and in terms of the carbon tax law.
9. It is important to act in order to incentivize firms to implement and implement the ESG (carrot and stick) worlds.
10. Alongside the advantages that may arise in the application, there will surely be prices for those who choose not to implement.
11. This is our shift. Passivity on the subject is not a relevant alternative.

12. The cost of "not acting" can be significantly higher than the cost of "acting."

And it is important that we ask ourselves, where does our responsibility begin and end on our watch regarding future generations and the creation of a sustainable environment, economy, economy and society?

And we must not forget what is written in the book of Jeremiah and Ezekiel: "The fathers have eaten sour grapes, and the children's teeth are set on edge."

Successful implementation of these processes may have a positive impact on the country, economy, society and quality of life for all of us.

Our job is to spread health, not prevent illness. We must turn the burden into an asset and turn the threat into an opportunity.

Come together, let's build a sustainable future.

Thank you.

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