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Climate and the Financial Sector

This weekly newsletter highlights climate-related regulatory, litigation and enforcement developments relevant to the financial sector.

General

30 January 2023 [UK] – **UK Financial Reporting Council notes challenges and best practices linked to sustainability disclosures**

The British Financial Reporting Council (FRC) updated its "Statement of Intent on ESG", which identifies underlying issues with the production, audit and assurance, distribution, consumption, supervision and regulation of ESG information. The report sets out areas where there remain ongoing challenges in ESG reporting. It also collects guidance and examples of best practices, including as to where to find, and how to use, ESG data, and how to determine whether an ESG issue is "material". [link]

3 February 2023 [International] – **Global ESG reporting rules could kick in from fiscal year 2024**

The International Sustainability Standards Board said Friday that its global sustainability reporting rules could be mandatory for companies starting in 2025 (*i.e.* with respect to fiscal year 2024), acknowledging that it was proposing an "aggressive" timetable. The ISSB justified its choice by acknowledging the urgent need for global sustainability-related standards, most notably on climate-related matters. [link]

3 February 2023 [EU] – **ECB clarifies approach to decarbonising its corporate bond holdings portfolio**

In October 2022, the Euro-system began tilting its corporate bonds reinvestment purchases towards issuers with a better climate performance, determined according to a climate score calculated by the ECB. In a letter to a member of the EU Parliament, the Central Bank clarified how such scores are based on *(i)* backward-looking climate metrics (combining best-in-class with a best-in-universe approach in the form of past GHG emissions, *(ii)* forward-looking climate metrics, such as decarbonisation targets and *(iii)* the quality (*i.e.* completeness and third-party verification) of issuers' climate disclosures. Individual scores won't be made public, and no industry sector will be excluded from the repurchases a priori. [link]

Banking

3 February 2023 [EU] – **ECB addresses climate risk assessment with respect to banks' real estate debt holdings**

In a letter to a member of the EU Parliament, the ECB clarified its working views with respect to the exposure of real estate lending activities to climate change-related risk. Overall, the ECB is of the view that improving energy efficiency and adapting to physical climate risks are crucial for the management of risks in banks' RE lending portfolios. Among possible risk mitigating actions the ECB mentions borrower-based measures (BBMs), whereby the maximum ratio between the loan and the value of the property used as collateral could be lowered when the property is at high exposure to physical risks such as extreme weather events. The ECB has also been investigating how renovation loans could act as a mitigating measure in helping to reduce transition risk on banks' balance sheet. [link]

Asset management

31 January 2023 [International] – **Net-Zero Asset Owner Alliance toughens stance on use of carbon credits towards net zero goals**

The NZAOA's "Target-Setting Protocol" creates a framework for reporting and delivery on short-term climate targets by asset management firms. The Protocol's new edition clarifies its expectations to members, ensuring they set short-term decarbonisation targets that put them on a pathway to reaching net-zero greenhouse gas (GHG) emissions in their investment portfolios by 2050. It also for the first time bars members from using carbon removals to hit their 2030 portfolio decarbonization targets. [link]

Insurance

1 February 2023 [EU] – **EIOPA prioritises ESG in 2023 supervisory convergence plan**

The implementation of the common supervisory approach and convergence tools with respect to sustainability risks will be among EIOPA's supervisory priorities for the current year. The common approach is expected to address *(i)* a revision of the EU Supervisory Handbook on climate-related risks under Solvency II's Pillar II (including as to what information firms should make public), *(ii)* the use of climate change risk scenarios in ORSA, *(iii)* materiality assessments regarding climate-related risks (including in particular natural catastrophes) and *(iv)* the monitoring of greenwashing. [link]

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