The Chartered Banker Institute Response to FCA Discussion Paper 18/8: Climate Change and Green Finance

We welcome the opportunity to share our views on this important issue with the FCA and others. We have reflected on how climate-related issues might be viewed by our members and below provide our responses to the questions posed within the paper.

For our part, we take the education of our members and future bankers very seriously in this regard. We are raising the prominence of the subject matter and related issues throughout our learning programmes, and particularly within our modules covering strategy and risk management. Our Green Finance Certificate™, launched in 2018, is the world's first benchmark qualification for Green Finance. This encourages financial services professionals to enhance their knowledge of Green Finance; develops the pool of Green Finance professionals; and helps position the UK as the global hub for Green Finance.

<u>Our comments to your questions regarding '*Disclosures in capital markets*'</u>

Q1. What, if any, difficulties do issuers face in determining materiality? We are also interested in exploring how investors consider materiality in this context.

It is clear that there are difficulties for issuers [and preparers] in considering how best to inform customers of the financial implications of climate change: as noted in the DP, the projected impact and timing of climate risk on a business will vary depending on the forward-looking scenarios used, and the assumptions underpinning those scenarios. The DP proposes consulting on guidance to issuers on reporting the implications of climate-change on a business where it is material to the company's prospects. The Task-force for Climate-related Financial Disclosures [TCFD] is already emerging as the global, voluntary standard in this area.

The TCFD recommendations are straightforward, proposing that organisations should determine materiality for climate-related issues consistent with how they determine the materiality of other information included in their financial filings. However, as the TCFD recommendations are quite general in their nature, there may be aspects where the UK regulators may wish to ensure further guidance is available to firms to support consistency of approach, such has been the case with materiality where the Climate Disclosure Standards Board [CDSB] have proposed more detailed guidance which could be highlighted, or even adapted/ adopted for use in the UK[1]. As in many other areas of regulation, this would benefit through the sharing of best, and worst practice examples.

Q2. We are interested in understanding whether greater comparability of disclosures would help investors in their decision-making more generally. If so, what framework would be most useful?

[1] CDSB Position Paper: https://www.cdsb.net/sites/default/files/materiality_and_tcfd_paper.pdf

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As referenced above, the TCFD recommendations are emerging as the "global standard" in this area, supported by more detailed guidance in key areas such as the CDSB. The role for the UK regulators should be in supporting consistency both within the UK and, where possible, internationally with these standards to make meaningful comparison more achievable.

Q3. Would exploring a 'comply or explain' approach, or other avenues to encourage more consistent disclosures, be an effective way of facilitating more effective markets*?*

The 'comply or explain', with market pressure and regulatory guidance/encouragement embedding climate risk disclosures over time, is the most appropriate approach. There is a possible role here, for the UK regulators, perhaps working through the Climate-Risk Forum and with new Green Finance Institute, to highlight and share good practice into disclosure.

Our comments to your questions regarding public reporting requirements

Q1. Do you think that a requirement for firms to report on climate risks would be a valuable measure?

Firms are already required to report on material risks. For the majority of firms, climate risks (and/or opportunities from climate change) are material, at least over a 10 year plus horizon. For some firms, they will be material in the short term. For these reasons, no new requirement is needed, just guidance or encouragement, as appropriate, on the materiality of climate risks.

Q2. Do you have any suggestions for what information could be included in a climate risks report?

As outlined above, it is our view that the TCFD approach is adopted to ensure consistency, not just within the UK, but globally. It consists of four key "thematic areas" that, in the TCFD's view, represent the core elements of how organisations operate. The TCFD recommendations[2] are that organisations report their approach to identifying and managing climate-related financial risks against these:

i. *Governance* - the organisation's governance around climate-related risks and opportunities;
ii. *Strategy* - the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning;
iii. *Risk Management* - how the organisation identifies, assesses, and manages climate-related risks; and
iv. *Metrics and Targets* used to assess and manage relevant climate-related risks and opportunities.

The TCFD also proposes a number of Recommended Disclosures[2] for each, as set out below:

i. Governance

[2] Recommendations of the Task Force on Climate-related Financial Disclosures, p14: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf

a. Describe the board's oversight of climate-related risks and opportunities
b. Describe management's role in assessing and managing climate-related risks and opportunities

ii. *Strategy*

a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term
b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning
c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario (we look at scenario analysis in more detail below)

iii. *Risk Management*

a. Describe the organisation's processes for identifying and assessing climate-related risks
b. Describe the organisation's processes for managing climate-related risks
c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management

iv. *Metrics and Targets*

a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process
b. Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks
c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

This provides a substantial basis from which to start.

Q3. Do you have any views on which regulated firms should be required to compile a climate risks report?

We believe that this should be a requirement for all firms that identify climate change as a material risk to their firm and/or customers.

<u>Our responses to your additional questions</u>

Q1. How can authorities, including the FCA, most effectively work with industry to meet investor demand for green investment opportunities and encourage those raising capital and investing in it to pursue sustainable outcomes?

As outlined in the DP, the authorities will have a key role in highlighting issues and encouraging transparency and market integrity with regard to the 'greenness' of market participants and their products. Developments in the EU and similar taxonomies should help in this respect.

The DP also suggests actions which could be taken by the existing projects Innovate and GFIN where greater collaboration may be possible, as well as policy research, even problem-solving initiatives. All of this we support, on the basis that findings are shared. This is the key role for regulators in particular; encouraging and sharing.

Q2. Do you agree with the extent of the FCA's proposed interventions on climate change-related financial disclosures? Is there a specific need for us to intervene further in the interests of market integrity or consumer interests?

We see no need for any formal intervention at this stage. The FCA (and PRA) can play an important role through its thought-leadership, in highlighting and encouraging good practice, and sharing information on poor practice. Also, as highlighted above, regulators may help promote market integrity and transparency by supporting efforts to develop and embed suitable taxonomies and similar initiatives.

Q3. In light of the EU work on taxonomy, what are your views on the form common standards and metrics for measuring and reporting against green financial services products should take?

It is our view that the continued development (and, over time, adoption) of global frameworks, standards and guidance for green finance, such as the TCFD, Green Bond Principles, Green Loan Principles, etc. should be supported. Global bodies such as the Financial Stability Board (FSB) should, as with the TCFD, encourage and support adoption. Where market pressure and a 'comply and explain' approach is not working, regulators should then consider the costs and benefits of intervention.

Q4. How could regulators and industry best work together as part of the Climate Financial Risk Forum?

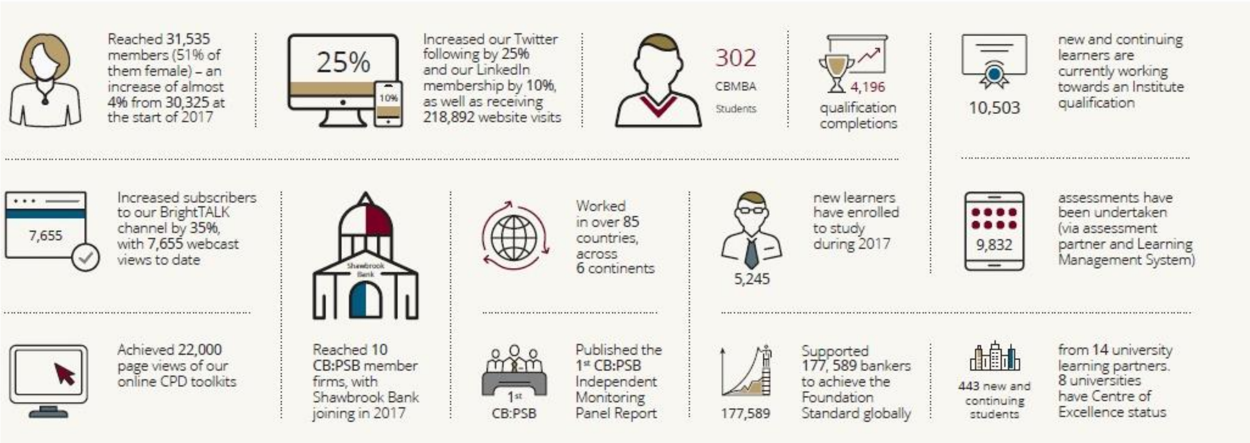
The Forum provides a useful platform, with open dialogue, to agree a common approach to climate risk; reporting on issues and developing voluntary market standards and/or guidance for such reporting (adopting/adapting global standards such as those referenced above), and for disseminating this knowledge more widely.

It would seem sensible, not least in the interests of consistency and avoidance of duplication, that the Forum quickly establishes ways of working with other initiatives, including the Green Finance Institute. Again, it is the opportunity for the Forum to share thought-leadership, good practice and other key knowledge resulting from its work that will be essential to its success.

ANNEX 1

Chartered Banker

About the Chartered Banker Institute



The Institute is proud to be a part of the Chartered Body Alliance

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