



19 December 2022

Climate and the Financial Sector

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

EU Updates

General

13/18 December 2022 [EU]: Provisional agreement reached on “Fit for 55” reforms package, including new EU carbon border tax

On Tuesday, the EU Council and European Parliament reached a provisional agreement on the “Carbon Border Adjustment Mechanism” (the EU’s new carbon border tax – CBAM). On Friday, all other regulations part of the “Fit for 55” package proposal were similarly finalised. Under the CBAM Regulation, between 1 January 2023 and 31 December 2025 importers of in-scope products will be subject to certain preparatory reporting obligations. The levy will then begin to apply from 2026, in parallel to the phasing out of free carbon allowances under the domestic Emissions Trading System. The entire reforms package will now be submitted for final approval by the EU Parliament and Council. ([link](#))

14 December 2022 [EU]: EU fails to reach an agreement on rules to prevent greenwashing in bond markets

European Parliament aimed to complete the EU Green Bond Standard this week but negotiations between EU parliament and members states could not be finalised and should resume next year according to an EU official. EU Green Bond Standard is a part of the European green deal investment plan announced on 14 January 2020 and it is a voluntary standard to help scale up and raise the environmental ambitions of the green bond market. ([link](#))

15 December 2022 [EU]: International Sustainability Standards Board (ISSB) announces guidance to support measurement of Scope 3 greenhouse gas (GHG) emissions and disclosures

ISSB sets out a series of guidance to support entities applying the requirement within its climate-related disclosure standard (S2) to disclose Scope 3 CHG emissions. ISSB agreed to develop a framework for the measurement of Scope 3 GHG emissions with the use of reasonable information available without undue cost or effort. ISSB announced a one-year temporary exemption to give companies more time to implement emission reporting processes. Such exemption is part of a series of guidance set-up to support disclosure of GHG emissions. ([link](#))

16 December 2022 [EU]: BCBS 2023-2024 work program prioritises climate-related financial risk monitoring

The Group of Central Bank Governors and Heads of Supervision (GHOS), BCBS' oversight body, endorsed strategic priorities and BCBS two-year (2023-2024) work programme. On climate-related financial risks, the work programme will include work across all three pillars of regulation, supervision and disclosure. On disclosure, a set of bank-specific "Pillar 3" disclosure will be developed. ([link](#))

Banking

12 December 2022 [EU]: ECB announces climate-related on-site inspections

The ECB's supervisory efforts in the upcoming triennium will continue focusing on climate-risk. As part of the Single Supervisory Mechanism (SSM) priorities for 2023-2025, the ECB announced that EU banks with climate risk-related issues can expect "deep-dive follow ups" and on-site inspections. Controls could be either standalone on climate risk management, or embedded within other reviews. The ECB expects banks to be fully aligned on ECB's expectations on climate-related risks by the end of 2024. The internal practices of banks will be benchmarked against supervisory expectations. ([link](#))

13 December 2022 [EU]: EBA issues a new sustainable finance roadmap

The EBA published a roadmap explaining its approach over the next three years to integrate ESG risks consideration in the EU banking framework. The EBA roadmap is

built around eight key objectives: (1) transparency and disclosures, (2) risk management and supervision, (3) prudential treatment of exposures, (4) stress-testing, (5) standards and labels, (6) greenwashing, (7) supervisory reporting and (8) ESG risks and sustainable finance monitoring. Additional ESG mandates may emerge from the ongoing review of the CRR/CRD banking package. ([link](#))

14 December 2022 [EU]: ECB speech on the need to manage biodiversity risks in the financial sector

Frank Elderson (member of the Executive Board and Vice-Chair of the Supervisory Board of the ECB) gave a speech at the Biodiversity COP15 on the need for financial institutions to manage biodiversity risks in the same way as any other material risks. Elderson stated that impacts on natural ecosystems are addressed in its 2020 “Guide on climate-related and environmental risks”, and that banks should integrate them in their due diligence efforts and become able to quantify them. ([link](#))

Insurance

13 December 2022 [EU]: EIOPA publish the results of its climate stress test on EU Institutions for Occupational Retirement Provisions

With the first climate stress test of the sector, EIOPA aims to assess the resilience of IORPs against a climate change scenario developed together by EIOPA, the European Systemic Risk Board and the ECB. EIOPA assessed a sample of 187 IORPs from 18 countries and stress test results show material exposure to transition risks. EIOPA’s approach lead to a full balance sheet review to determine the impact of those risks of IORP’s asset portfolios and long-term liabilities. The stress test was complemented by a qualitative analysis of mitigation and adaptation measures which revealed an increased consideration of ESG factors in IORPs’ investment decisions. ([link](#))

15 December 2022 [International]: International Association of Insurance Supervisors (IAIS) issues a market report highlighting key risks in the global insurance sector

The global insurance market report published by the IAIS considered that climate-related risk is a key area of supervision. The IAIS supports supervisors to strengthen their understanding of climate-related exposures in the insurance sector. The IAIS identified various significant gaps in protection against climate-related risks. ([link](#))



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