This newsletter provides a snapshot of the sustainable finance agenda, analysis of policy and regulatory initiatives, market trends, and the ongoing activities of Sustainable Finance Ireland.

Dear Reader,

Hosted by President Biden, it has been a week since a majority of world leaders gathered virtually to focus on the global climate crises. An interesting two days, the financing of climate action was a major theme underscored by the White House issuing a detailed document outlining a first of its kind, all of U.S. government approach to international climate finance. Covered in the Industry Developments section, this plan is expected to have a major impact on international climate finance activities as we build towards November’s COP26.

Record amounts of capital also continue to flow into sustainability focused funds. According to Morningstar, global assets under management and ETFs with climate change as a key theme nearly tripled in 2020 to US$177 billion.

Highlighted by Bloomberg, 76 new climate focused funds were introduced in 2020, bringing the worldwide total to circa 400 (Europe at 282 offerings and 42 in the US). While the US currently lags, earlier this month Citigroup projected that ESG stock exchange-traded funds in the US will top more than US$1 trillion by 2030.

Enjoy the Bank Holiday!

THE SUSTAINABLE FINANCE IRELAND TEAM
US CONSIDERS MANDATORY CLIMATE DISCLOSURES

Participating in a virtual International Monetary Fund (IMF) April event, John Kerry, the US Special Presidential Envoy for Climate, announced that President Biden is considering an executive order requiring climate disclosure, although no details were given on what companies or investments the order would apply to. Kerry noted “it’s going to change allocation of capital. Suddenly people are going to be making evaluations considering long-term risk to the investment based on the climate crisis.”

NEW ZEALAND PROPOSES WORLD’S FIRST MANDATORY CLIMATE-RELATED DISCLOSURE REGIME

The government of New Zealand has announced that it will become the first country to introduce legislation requiring certain financial sector participants to disclose the impacts of climate change on their businesses and explain how they will manage climate-related risks and opportunities. If passed, the Financial Sector (Climate-related Disclosure and Other Matters) Amendment Bill, which is based on the Task Force on Climate-related Financial Disclosures (TCFD) Framework, will come into effect in 2023. It is expected to affect 200 of the country’s biggest companies and several foreign firms, including banks, insurers, and investment managers, that have assets of more than NZ$1bn (€597m). This threshold will make sure about 90% of assets under management in New Zealand are included within the disclosure system.

U.S. INTERNATIONAL CLIMATE FINANCE PLAN

The Biden-Harris administration is stepping up efforts again to tackle the climate crisis in the U.S. and abroad. The U.S. International Climate Finance Plan has identified five areas to mobilise financial resources to assist developing countries to build resilience and adapt to the impacts of climate change, and to better align public and private financial flows consistent with the Paris Agreement. The 5 areas are scaling-up international climate finance and enhancing its impact, mobilising private finance internationally, ending international official financing for carbon-intensive fossil fuel-based energy, making capital flows consistent with low-emissions, climate-resilient pathways, and defining, measuring, and reporting U.S. international climate finance.

CONFIRMATION OF CLIMATE CONSIDERATIONS IN ACCOUNTING STANDARDS AND AUDITS

The International Accounting Standards Board (IASB) – the organisation that develops and approves the widely-used IFRS, has clarified that its existing accounting rules require climate to be considered where material, and assumptions shown. In addition, the International Auditing and Assurance Standards Board (IAASB) has stated that climate must also be part of the audit. The “Big Six” accounting firms have welcomed the interpretations of both the IASB and IAASB.

NEW FINANCIAL ALLIANCE FOR NET ZERO EMISSIONS LAUNCHES

Leading banks, asset managers, insurers and asset owners with assets under management of more than $70tn ($58trn) have announced the launch of a new global alliance which aims to improve coordination of net-zero initiatives in the financial services industry into one sector-wide strategic forum. The Glasgow Financial Alliance for Net Zero is spearheaded by UN Special Envoy on Climate Action and Finance Mark Carney and US Treasury Secretary Janet Yellen and the U.S. Special Presidential Envoy for Climate John Kerry. Each member is required to have a science-based climate plan which is subject to peer review. The new alliance intends to meet several times ahead of the initiative’s first summit which will take place at the COP26 Climate Conference later this year.

SUSTAINABLE FINANCE WATCH

INDUSTRY DEVELOPMENTS
Sustainable Finance Ireland

SPOTLIGHT

EU TAXONOMY AND CORPORATE SUSTAINABILITY REPORTING DIRECTIVE PUBLISHED; DECISION DELAYED ON LABELLING OF NUCLEAR AND GAS

This month the European Commission published two key documents as part of its sustainable finance-related regulations. 1. the first section of the Green Taxonomy (EU’s classification of sustainable economic activities and the rules they must meet to be labelled as green investments in the EU) and 2. a proposal for a Corporate Sustainability Reporting Directive (CSRD).

As regards the Taxonomy, the European Commission has delayed a decision on whether to label natural gas power plants as a sustainable investment under green finance rules. Instead, it is expected that gas will be considered as part of a separate legislative proposal alongside nuclear. to be put before the European Parliament and EU member states in Q4 2021. The two-step approach has been broadly well received as it allows the EU to move forward with the less controversial aspects of the Taxonomy. Nuclear was already deferred last year as the Technical Expert Group drafting the Taxonomy found it too controversial. France supports including nuclear power as it derives a large part of its electricity from it.

Germany and east European countries have called for the inclusion of gas in the Taxonomy as they intend to use it to replace part of their still significant coal generating facilities. Last month, a leaked draft of the Taxonomy indicated that the Commission would allow gas cogeneration plants which generate both heat and electricity to be called sustainable in certain circumstances. This led to nine members of the EU’s Platform on Sustainable Finance threatening to resign if the Commission went ahead with these plans, arguing that the proposal is against climate science and a considerable departure from the recommendations of the Commission’s Technical Expert Group.

The CSRD seeks to improve the flow, comparability and reliability of sustainability information. It extends the existing reporting requirements under the Non-Financial Reporting Directive (NFRD). Specifically, the CSRD extends the scope of companies that must report, requires the audit of reported information and introduces mandatory EU sustainability reporting standards. It also provides greater detail on the information relevant entities should report, covering their whole value chain. The availability of sufficient, comparable, reliable and public ESG data is key to realising the full potential of the EU’s sustainable finance regulatory framework and the CSRD aims to reduce the ESG data gaps.

BANKING REGULATORS TO CONDUCT CLIMATE STRESS TESTS OF BANKS

As the financial sector is becoming increasingly aware of the urgency in gauging the risks from climate change, multiple central banks and bank regulators are adding climate risk scenarios to their stress testing frameworks. Stress tests should increase banks’ awareness of the impact of climate change on credit, market, business and reputation risk profiles. Climate-change risk for banks can be either physical risks such as rising sea levels and wildfires as a result of exposure to extreme weather conditions or transition risks that arise as companies and countries move away from traditional energy and heavy manufacturing industries to net-zero carbon emissions.

The climate stress tests are being spearheaded in jurisdictions with a clear focus on environmental policies, such as the EU and the UK. French financial institutions will be the first to announce results of their voluntary tests this month, before the UK’s Bank of England launches its mandatory biennial stress testing in June 2021. Both the UK and French stress tests will run 30-year climate-change scenarios based on scenarios published by the Network for Greening the Financial System (NGFS). The European Central Bank will test significant eurozone banks in 2022. The US Federal Reserve is currently lagging; however, this will likely change under the Biden administration which has identified climate change as a top priority.

Climate stress testing raises a number of challenges currently absent from existing macro stress testing. First, there is a lack of historical data supporting a clear mapping between climate change scenarios and financial outcomes. Specifically, the empirical relationship between climate risks, especially transition risks, credit losses and bank performance overall remain difficult to deduct. Second, longer time horizons (30 – 50 years) are required in climate stress testing as compared with capital stress testing (nine quarters or less). Finally, back-testing and model validation are problematic with climate stress testing since current estimated losses rely on a limited set of data points and are heavily subjective.

READ THE EC’S PRESS RELEASE HERE

THE INSURANCE INDUSTRY AND THE SUSTAINABLE FINANCE AGENDA

The University of Cambridge Institute for Sustainability Leadership (CISL) and ClimateWise – a network of leading global insurance organisations – have published a joint report highlighting the important role the industry’s underwriting activities play in achieving net-zero emissions and potential barriers limiting the industry from maximising its role in the green transition.

READ MORE HERE AND HERE
The report identifies three specific areas where the insurance industry could contribute to the green finance agenda: sharing data and expertise, product development to support green innovation, and encouraging sustainable choices. The report also proposes courses of action in policy and regulation, knowledge exchange, as well as collaboration.

Regarding policy opportunities, some notable suggestions are put forward such as strengthening supportive and consistent industrial strategy; clarifying liabilities associated with climate transition risk with predictable legal outcomes; and mandating the inclusion of relevant resilience measures in insurance policies that address climate-related disasters. To help improve knowledge exchange in the insurance industry, the report suggests standardising public data capture and processing; sharing publicly funded data with related stakeholders; and increasing public research on the potential impact of climate change under a greater range of climate scenarios to improve scenario analysis and public planning under certainty.

Finally, collaboration efforts should be made to facilitate ongoing dialogue between government and insurers; and collaborating between multilateral stakeholders and across jurisdictions in order to ensure consistency of legal treatment and outcomes due to the cross-border nature of many climate-related risks, for example through the Sustainable Insurance Forum.

In addition, ClimateWise will produce a set of strategic recommendations for COP26 to optimise the contribution of insurance systems by countries, regions and sectors in the transition to a low-carbon economy.

Dublin’s ESG bond listings have experienced a 301.64% increase in Q1 2021 against the same period last year. Q1 issuance for 2021 stands at €15.771bn versus €3.927bn for the same period last year. Please note that in the March Newsletter the reported February figure for ESG bonds listed on Euronext Dublin was €4.13bn, this was incorrect and has been amended to €5.913bn as seen this month. Cumulative ESG bond issuances on Euronext Dublin now stands at €86.978bn.
Towards a Sustainable Financial Centre

The financial system is playing an increasingly important role in the achievement of the SDGs and the Paris Agreement. In fact, recent UN-convened Financial Centres for Sustainability (FC4S) research shows that in 2020 there were more than 17,500 financial institutions globally engaged in sustainable finance initiatives.

Even though there is a great deal of local to global activity, the world’s financial system still has a long way to go towards fully embedding financial stability risks and opportunities arising from socio-environmental changes and capital is still facing deployment barriers to reach sustainable investments. For instance, data quality and comparability have repeatedly been highlighted as key barriers for wider adoption of sustainable finance globally.

However, the commitments of financial centres to this agenda representing a diverse set of financial actors are dramatically increasing. This demonstrates that additional allocation on green and sustainable finance are being targeted and commitments to ban or exclude firms engaged in coal activities and fossil fuel financing are multiplying. Nevertheless, although commitments are a fundamental step towards aligning financial flows to sustainable development, their operationalization remains challenging. Public authorities can play an important role by guaranteeing a level playing field between all financial institutions, ensuring sufficient monitoring, and adopting long-term strategies at the country or financial centre level and further raising ambitions, while ensuring that they are translated into meaningful and concrete actions. In fact, both international and national regulatory bodies have provided their guidance and regulation on the adoption of Environmental, Social and Governance (ESG) factors and clarified that these factors are consistent fiduciary duty.

With this in mind, designing and implementing a sustainable finance roadmap has been identified as decisive to drive the sustainability transformation of a country’s financial system. It can act as a driving force for financial sector stakeholders, supported by government policy, to align their strategy on a sustainable and inclusive recovery as countries ‘build back better’ from the COVID-19 crisis and underpin future growth. In recent years, several governments and organisations have engaged in the process of establishing such roadmaps based on different methodologies. Examples include Switzerland, Luxembourg, New Zealand, Australia, Nigeria and Norway, among many others. While sharing the same general objective of overcoming existing barriers to SDG financing and embedding sustainability into domestic financial systems, these guiding documents differ in designation (roadmaps, blueprints, action plans, etc.), rationale and methodology. Given the relevance of these increasingly demanded documents, the UN-convened FC4S in partnership with the World Bank convened Coalition of Finance Ministers for Climate Action of which Ireland is a member of, is currently developing an international stock take of sustainable finance roadmap approaches and experiences. This will help to identify best practices and challenges, still constraining private resource mobilization for sustainable development.

Ireland’s Response

The development of an Irish Sustainable Finance Roadmap has been included as Action 1 of the 2021 Ireland for Finance Action Plan, “Building on Resilience”. Delivering a Roadmap, along with a series of other targeted sustainable finance actions, is a key priority for government’s commitment to advancing the climate agenda. In prioritising sustainable finance, the 2021 Action Plan is positioning Ireland to capitalise on the international financial services opportunities that the global transition to a sustainable, carbon neutral economy is creating.

Working in partnership with the Department of Finance, industry and industry bodies, Sustainable Finance Ireland has been tasked with coordinating the delivery of the roadmap. Analysing current trends and future needs, when approved, the roadmap can guide Irish green and sustainable finance activities.

Several studies are currently underway to underpin the roadmap development. These include an analysis of Ireland’s current alignment with the Paris Agreement, identification of international sustainable finance best practice; a full understanding of the legal and regulatory requirements affecting sustainable finance; mapping the ongoing skills and capabilities needed within the financial services sector relating to sustainable finance; and conduct research to identify data and digital opportunities for sustainable finance growth in Ireland.

Our goal is to develop a universe of opportunities that will provide us with a roadmap to ensure Ireland has an enabling environment for sustainable finance and that the financial sector plays a strong role in supporting Ireland’s national net-zero ambitions and the achievement of the EU’s Green Deal. In collaboration with the Department of Finance, UN FC4S and the financial services industry, and subject to approval, the goal is to launch the roadmap during Ireland’s fourth Climate Finance Week, 11th – 15th October.
The Green Team Network (CTN) has been launched by the Irish Funds industry to facilitate knowledge sharing and collaboration regarding addressing sustainability goals across companies within the Irish Funds industry. Over the coming months the CTN will adopt a focus on SDG 7, Affordable and Clean Energy and SDG 13, Climate Action to assist the Irish Funds industry’s transition to a zero-carbon future. With more than 16,000 employees in the Irish Funds industry the CTN is well positioned to play a leading role in the industry’s transition to a low carbon future. Sustainable Finance Ireland is delighted to be a member of the CTN Steering Committee.

Colette Coogan, Sustainable Finance Ireland

Colette is leading Sustainable Finance Ireland’s Road to COP26: Investing in a Net Zero Future programme. One of the main features of the programme is to enhance the levels of climate-related reporting and disclosures in Ireland. Colette has 15 years banking experience in Ireland, most recently working in AIB’s Sustainability team. Her main areas of focus on this team included sustainability reporting, materiality assessments, stakeholder engagement, external partnerships and communications. Colette is a certified sustainability practitioner (CSE Sustainability Academy) and has recently completed a Business Sustainability Management programme at the University of Cambridge - Institute for Sustainability Leadership, in addition to IOB APA qualifications.

Nicola Ruane, Sustainable Finance Ireland

Nicola is seconded from EY to Sustainable Finance Ireland to support the development of the Roadmap. As a Senior Manager within EY Ireland’s Climate change and Sustainability Services team Nicola supports private and public sector clients with materiality assessments, stakeholder engagement, strategy development, sustainability reporting and communications. She has 14 years of international experience from roles on a trading floor to Head of CSR for a Japanese Bank to various positions at EY including leading a Corporate Sustainability team within EY’s Financial Services practice, based out of London, with a remit spanning 14 European markets. Nicola graduated with first class honours from London Metropolitan Business School in 2012 with a Master’s Degree in Corporate Social Responsibility where she studied the nexus of sustainability and financial services including a dissertation on long-termism in the financial sector. She also holds a first-class honours business degree from Technology University Dublin.
Sustainable Finance Ireland is proud to support the upcoming Dublin Climate Dialogues, 19th – 20th May. Chaired by Pat Cox, the Dialogues will bring together senior representatives from the US, China, Europe, UK and the UN. Over two days this virtual conference will forge a Declaration on how to raise global ambition at COP26 with specific recommendations to accelerate the transition to #netzero. The Declaration will be handed to the COP Presidency at the conclusion of the conference.