



**CENTRE SUSTAINABLE
FOR FINANCE**

Impact of ESG Risk on Lending Portfolio
A GBESTB virtual conference

**The London Institute
of Banking & Finance**

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Impact of ESG Risk on Lending Portfolios

- What is the new landscape of ESG risk factors?
- Why ESG risks are important to lending activities?
- How material it is and what are the key implications for banks?
- What is the ESG risk agenda?

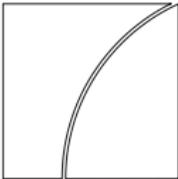
This session will look into the key challenges faced by banks when implementing their ESG risks framework.

Five key challenges faced by banks

- 1. An accelerating pace** and changing regulatory tone from encouragement to full on supervision.
2. Not just accelerating but **increasing in complexity**: data, scope (eg biodiversity and TNFD), policies, taxonomies, labels.
- 3. Reporting focus** including with ISSB starting delivery of standards but this is just the beginning. Reporting data presents a big demand on banks. Audit standard MI is very challenging.
4. First impacts felt are **legal and reputation risk** and developments in this space – sanctions already being applied.
- 5. Training expectations**: from regulators for practitioners to be trained. Broadening out to all business lines and functions, no longer just specialist roles.

1: Accelerating pace

Basel Committee
on Banking Supervision



Principles for the
effective management
and supervision of
climate-related financial
risks

June 2022



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EFRAG
European Financial Reporting Advisory Group

IFRS
International Financial
Reporting Standards

	TCFD	Global Reporting Initiative	EFRAG	IFRS
Scope	Global	Global	Europe	Global
Time Horizon	June 2017	January 2023	First draft to be reviewed by EC by mid-2022, implementation via delegated acts expected in October 2022 and October 2023	Currently in Consultation Phase until end of July 2022
Goal	General Guidelines	Disclosure Standard	Disclosure Standard	Disclosure Standard
Target of disclosed info	Investors, lenders and insurance underwriters ("primary users")	All stakeholders	Investors and companies	Financial investors and other capital market investors
Specific to a regulation	General	General	CSRD	General
Alignment	Alignment with GRI	Alignment with TCFD's recommendations	<ul style="list-style-type: none"> – Seeking compatibility with the TCFD's recommendations, – Statement of collaboration with GRI – In contact with ISSB 	<ul style="list-style-type: none"> – Standards are built on TCFD'S standards, – Collaboration agreement with GRI, – Communication with EFRAG
Financial & Non-financial standards	both	both	both	both

2: Increasing complexity

- New risks factors into the Risk Management framework
- ESG factors: scope selection and criticality assessment
- Data selection and processing
- Embedding ESG risks into policies and processes
- Regional taxonomies in the context of global standardisation: still work in progress
- ESG labels, metrics, ratings... how to navigate?
- Where to start and how to progress?

3: Reporting focus

Figure 2

Core Elements of Recommended Climate-Related Financial Disclosures



Governance

The organization's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management

The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

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 **IFRS**[®]
Sustainability

4: Legal and reputation risks



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One in five cases of ESG risks linked to greenwashing

One in every five cases of corporate risk incidents linked to environmental, social and governance (ESG) issues stems from greenwashing and misleading communications, new research has found.

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5: Training expectations

- Significant need for training – the topic is new for everyone and still evolving
- Foundation training to be delivered across the organisations
- Technical deep dives not just for the specialised teams
- Key objective to align senior management and staff – from Board to all staff sessions
- Moving landscape need permanently updated content
- Technical needs complemented by regulatory pressure
- A top priority for the Risk and L&D teams

Q & A

Thank you