Climate risk seminar

GIFT City, Gandhinagar

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Regulatory developments in climate risk area: An overview

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How have the regulations evolved in the Financial sector?

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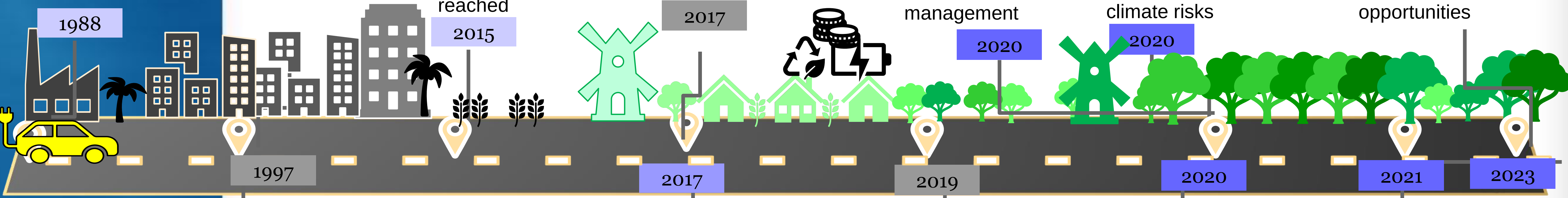
1988 – ipcc: Intergovernmental panel on climate change (IPCC) provides policymakers with regular scientific assessments on climate change, its implications, and future risks



1997 – COP 3. 1997, CoP 3: Kyoto protocol: 1st major globally binding agreement on reducing emissions

2015 – The Paris agreement reached

2017 – NGFS: Network for Greening the Financial System (NGFS). A call for action

2017 – TCFD Task Force on Climate-Related Financial Disclosures: Recommendations of the Task force on Climate related Financial Disclosures (TCFD)

2019 – Bank of England Prudential Regulation Authority: Bank of England Prudential Regulation Authority (PRA), 2019, First regulatory guidance on banks' approach towards climate related financial risks.

2020 – MAS Monetary Authority of Singapore: MAS, 2020,proposed guidelines on environmental risk management

2020 – Hong Kong Monetary Authority 香港金融管理局: HKMA 2020, published range of practices for management of climate risks

2020 – European Central Bank: ECB publishes final guide on climate-related and environmental risks for banks
EU taxonomy finalized

2021 – BIS: Basel Committee on Banking Supervision (BCBS), Climate-related financial risks – measurement methodologies

2023 – IFRS Sustainability: IFRS, 2023, published reporting standards on sustainability and climate related risks & opportunities

Key milestones Domestically

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1992-2002
- India signed the United Nations Framework Convention on Climate Change
- India acceded to the Kyoto Protocol

UNFCCC

2007
- RBI publishes guidance on CSR, Sustainable Development and Non-Financial Reporting

2012
- MCA publishes National Voluntary Guidelines (NVGs)
- SEBI adopts NVGs for Business Responsibility Report

2015-2016
- RBI updates Priority Sector Lending targets
- IBA publishes NVGs for responsible banking

Indian Banks' Association

2019-2021
- RBI's annual publication recognizes climate related financial risks
- RBI joins NGFS

NGFS

2021-2022
- MoF formulates taskforce on sustainable finance
- SEBI issues BRSR requirements

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- RBI publishes Draft Disclosure framework on climate related financial risks

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Key areas of regulatory action

Countries leading the initiative

1	Climate Taxonomy	The classification system to **categorizes economic activities** based on their contribution to climate change mitigation and adaptation objectives. Objective is to prevent **green washing**
2	Green Transition & Sectoral Decarbonization Targets	Develop **science-based sector decarbonization targets** for emissions aligned with methodologies issued by international target setting bodies (e.g., SBTi, IEA)
3	Sustainable Finance	The goal of sustainable finance is to **promote sustainable economic development, mitigate environmental and social risks**, and contribute to long-term financial stability and prosperity.
4	Disclosure Requirements	To disclose information about the **climate-related risks and opportunities** that helps investors making decisions relating to providing resources to the entity, given its climate risk exposure
5	Scenario analysis & Stress testing	Scenario analysis & stress testing involves **constructing plausible future scenarios to evaluate** how **climate risk** could affect a bank's financial position and risk exposures
6	Cap & Trade: Emission Trading	The entities whose emissions are below the cap can **sell carbon credits to those above the cap**, thus **incentivizing transition** to low emission technologies
7	Carbon Tax	A carbon tax imposes a fee on the carbon content of fossil fuels, which are the primary sources of carbon dioxide (CO_2) emissions. **The tax is based on the amount of carbon dioxide emitted** when these fuels are burned.

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Key global regulations and benchmarks

The below is a summary of the key regulatory guidance available globally in the area of climate risk management

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	BANK FOR INTERNATIONAL SETTLEMENTS	NGFS Central Banks and Supervisors Network for Greening the Financial System	IFRS International Financial Reporting Standards	CENTRAL BANK OF THE U.A.E.	HONG KONG MONETARY AUTHORITY
Publication	Principles for the effective management and supervision of climate-related financial risk	Guide on climate-related disclosure for central banks Second edition	IFRS S2: Climate-related Disclosures	Principles for the effective management of climate related financial risks	Embedding climate risk in banking supervision
Areas	Governance, Internal Control Framework, Capital and Liquidity Adequacy, Risk Management, Monitoring and Reporting and scenario Analysis	Governance, Strategy, Risk Management ,Metrics and Targets	Governance, Strategy, Risk Management ,Metrics and Targets	• Oversight and responsibility • Assigning responsibilities associated with climate risk within the organization. • Monitoring and reporting, etc.	• Risk identification and measurement • Scenario analysis and stress testing • Monitoring and reporting • Control and mitigation.
Report Category	Consultative Document	Technical document	IFRS Sustainability Disclosure Standard	Principal Guideline	Supervisory Policy Manual
Stated Objective	Promote a principles-based approach to improve risk management and supervisory practices related to climate-related financial risks	To offer practical support and inspiration to central banks that are taking their first steps in climate-related disclosure	To require an entity to disclose information about its climate-related risks and opportunities	To assist financial sector entities adopt the best possible climate risk management practices in line with the global standards.	To help the FIs in Hong Kong integrate climate risk into their risk management framework and align with the global standards available.
Applicability	Banks and supervisors	Central Banks	Across Industries	All financial sector entities in UAE	All financial institutions in Hong Kong

Key domestic regulations

	भारतीय रिज़र्व बैंक RESERVE BANK OF INDIA		SEBI		irdai
Publication	Framework for acceptance of Green Deposits	Draft Disclosure framework on Climate-related Financial Risks;	Business Responsibility & Sustainability Reporting	Master Circular for ESG rating providers	IRDAI Corporate Governance Regulations
Areas	• Green deposit policy • Financing Framework • Impact assessment • Third party verification • Reporting & disclosure	• Governance • Strategy • Risk Management, • Metrics & Targets	• GHG footprint • Water footprint • Energy footprint • Employee well-being, etc.	• Types of ESG ratings • Provisions applicable to ERPs • Governance and disclosure norms applicable on ERPs, etc.	ESG disclosure and reporting requirements
Report Category	Regulatory circular	Draft Disclosure document	Regulatory circular	Regulatory circular	Supervisory statement
Stated Objective	To encourage banks to offer green deposits, address greenwashing concerns and help augment the flow of credit to green activities/projects.	To disclose information about entity's climate-related financial risks and opportunities for the users of financial statements	To encourage listed entities to adopt responsible business practices and to enhance transparency regarding their ESG impacts.	To promote the integrity and reliability of ESG ratings in the Indian financial markets, facilitating informed investment decisions based on sustainability factors.	To lay foundation stone in the Indian insurance landscape for assisting insurance companies in integrating climate risk into their risk management process
Applicability	SCBs, NBFCs	SCB's, UCBs, NBFC's	Top 1000 listed entities by market cap from FY24	ESG rating providers	All insurance companies including their foreign branches

Steps taken by IFSCA to promote sustainable finance

IFSCA has played a key role in making GIFT city as a climate finance hub. Under the agenda, **"India at 2047"**, it has taken some key measures:

01 5 % of the credit given by banks shall be green or sustainable.

02 $700 million of that has been extended as green and sustainable credit

03 $14 million is green, sustainable or sustainable-linked bonds.

04 The IFSCA encourages climate funds in this regard.

Climate Risk taxonomy

Climate Risk Taxonomy

A classification scheme for economic activities guided by climate objectives to identify economic activities that can be considered as sustainable

Global Landscape

- There are multiple taxonomies currently in place or under development as depicted in the picture
- In jurisdictions including China, the EU, Japan, Malaysia, Mongolia, Russia, green taxonomy regulations or guidance are already in place.
- Other jurisdictions are currently developing or considering green/Climate taxonomies, such as South Africa, South Korea, ASEAN, Bangladesh, Canada, Chile, Colombia, Dominican Republic, India, Indonesia, Kazakhstan, New Zealand, Philippines, Singapore, Thailand, the United Kingdom, Vietnam, Mexico, and Sri Lanka.