Directors' duties and climate risk Experiences from the European banking sector

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ClientEarth uses the law to:

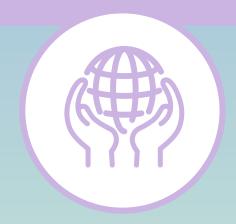
Fight climate change

Empower people and promote the rule of law

Protect the natural world







Overview

- Energy policies, "Paris-aligned strategies" and directors' duties
- Climate disclosures
- Climate risk management
- Climate stress tests and scenario analysis
- Capital requirements



Energy policies and Paris-aligned strategies

- Energy policies
- Shareholder resolutions at AGMs (Barclays, HSBC, Mizuho, MUFG etc)
- Paris-aligned strategies



Directors' duties

- Philippines: "long-term viability and profitability"
 - In a bank's **best interests** to develop a credible Paris-aligned strategy with short, medium and long-term targets to reduce their financed emissions.
 - Continuing to provide financial services to companies that fail to align with the Paris
 goals threatens the bank's long-term health and stability partly down to
 stranded asset risk and the risk of defaults, but also the systemic risk that climate
 change poses to the stability of the financial system as a whole.
 - There are opportunities to be had by banks who stop financing fossil fuels and focus on green finance sooner rather than later.
 - Banks face reputational risks if they continue financing fossil fuels: civil society and the general public are increasingly mobilising to advocate for strong climate action.
 Those banks also risk falling behind emerging market practice.



Climate disclosures

- "What gets measured gets managed" Mark Carney
- Banks' "Scope 3" or "financed emissions" = greenhouse gas emissions associated with banks' financing activities (i.e. the emissions of their customers)
- Recommendations of the Task Force for Climate-related Financial Disclosures (TCFD)



Climate risk management

- Regulator expectations
 - UK: Bank of England Supervisory
 Statement 3/19 on enhancing banks' and insurers' approaches to managing the financial risks from climate change
 - Europe: European Central Bank's Guide on climate-related and environmental risks for banks
- Investor expectations
 - IIGCC's Investor Expectations for Banks



Climate stress tests and scenario analysis

- Europe: European Central Bank economy-wide climate stress test
 (2021) and climate stress test of banks (2022)
- France: Banque de France climate pilot exercise (2020)
- UK: Bank of England climate exploratory scenario for the banking and insurance sectors (2021)
- Globally: Network for Greening the Financial System (NGFS) Guide to Scenario Analysis and hypothetical scenarios



Capital requirements

- Risk weightings and capital requirements
- Europe: call for greater regulation and penalising factor for fossil fuel exposures (1250% risk weighting)



Thank you

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