

Directors' duties and climate risk

Experiences from the European banking sector

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ClientEarth uses the law to:

1 Fight climate change



2 Empower people and promote the rule of law



3 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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