

AXA Climate

Sustainability Regulation

IACPM / Risk Management Institute of the National University of Singapore Credit Portfolio Workshop

August 1, 2023.

INITIATIVE

EFRA | EUROPEAN FINANCIAL REPORTING ADVISORY GROUP

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TCFD | Task Force on Climate-Related Financial Disclosures

OECD

OECD | ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

GRI Empowering Sustainable Decisions

GRI | GLOBAL REPORTING INITIATIVE

UN GLOBAL COMPACT

FASB FINANCIAL ACCOUNTING STANDARDS BOARD
UNGC | UN GLOBAL COMPACT

THE GLOBAL GOALS
For Sustainable Development

UNSDGs | UN SUSTAINABLE DEVELOPMENT GOALS

EQUATOR PRINCIPLES

IFC | International Finance Corporation
WORLD BANK GROUP
IFC | INTERNATIONAL FINANCE CORPORATION

ISSB | INTERNATIONAL SUSTAINABILITY STANDARDS BOARD

PRI | Principles for Responsible Investment
PRI | PRINCIPLES for RESPONSIBLE INVESTMENT

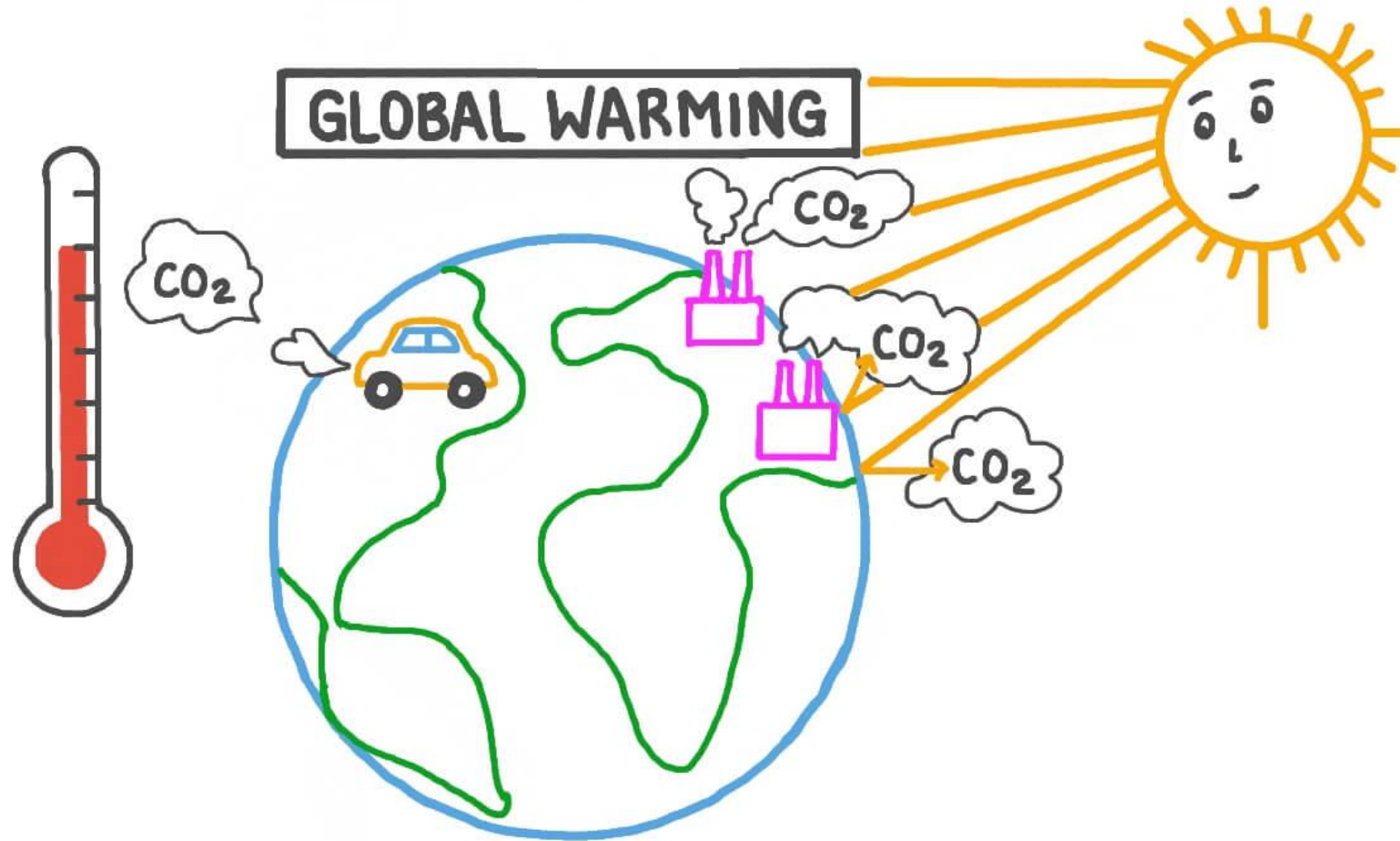
PCAF Partnership for Carbon Accounting Financials

PCAF | PARTNERSHIP FOR CARBON ACCOUNTING FINANCIALS

wbcscd | WORLD BUSINESS COUNCIL for SUSTAINABLE DEVELOPMENT

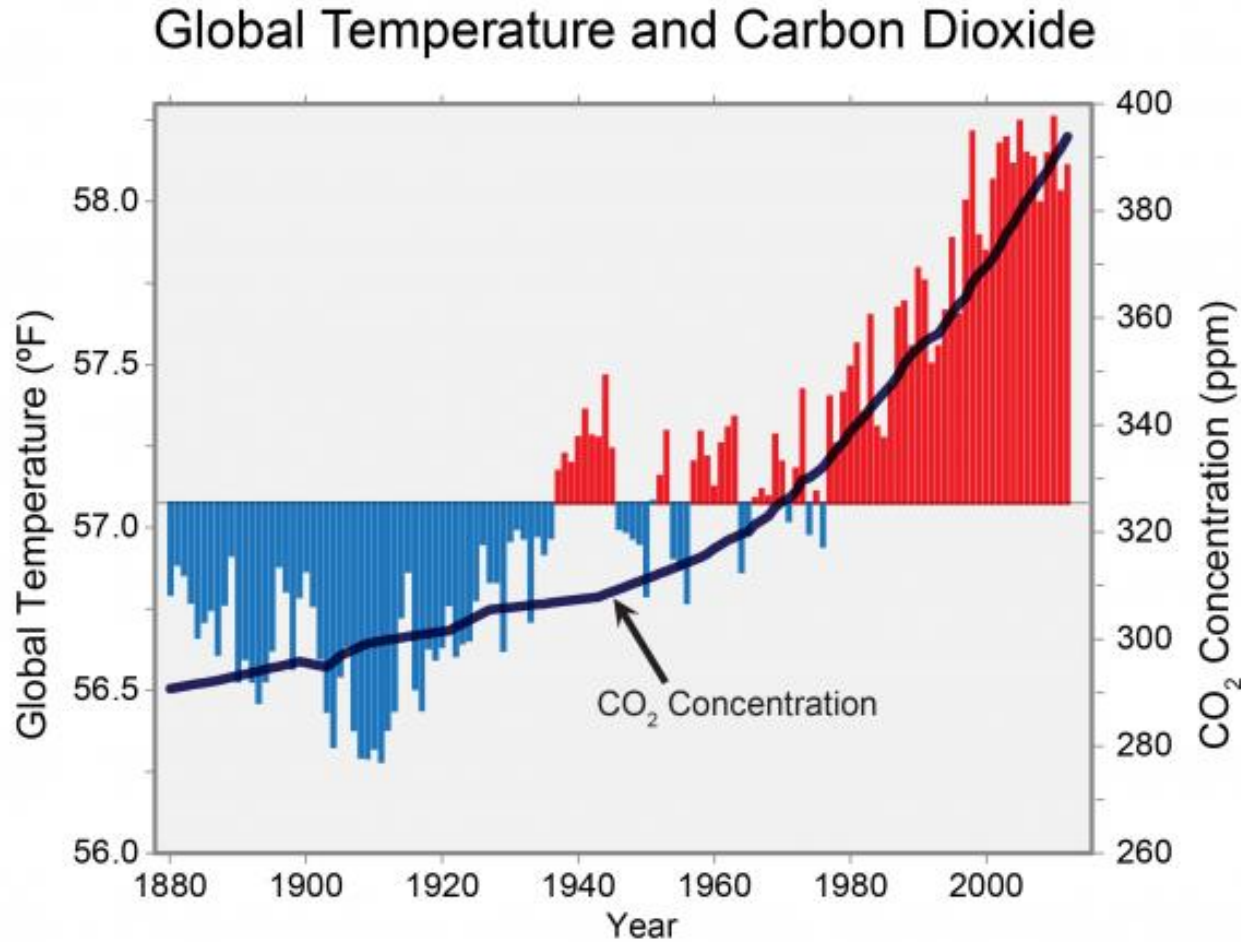
- Background and Causal Factors behind Sustainability Regulation
- Key Global Types of Regulation Influencing APAC Regulators
 - Taxonomies
 - Disclosures
 - Capital Markets Guidance
 - Labelling and ESG Rating related regulation
- Local “Landscape building” initiatives
- Evolution of Financial Services Regulatory Enforcement Actions
- What the Future may hold within the ESG Enforcement Space

How Did we Get Here?



Source: Nagwa

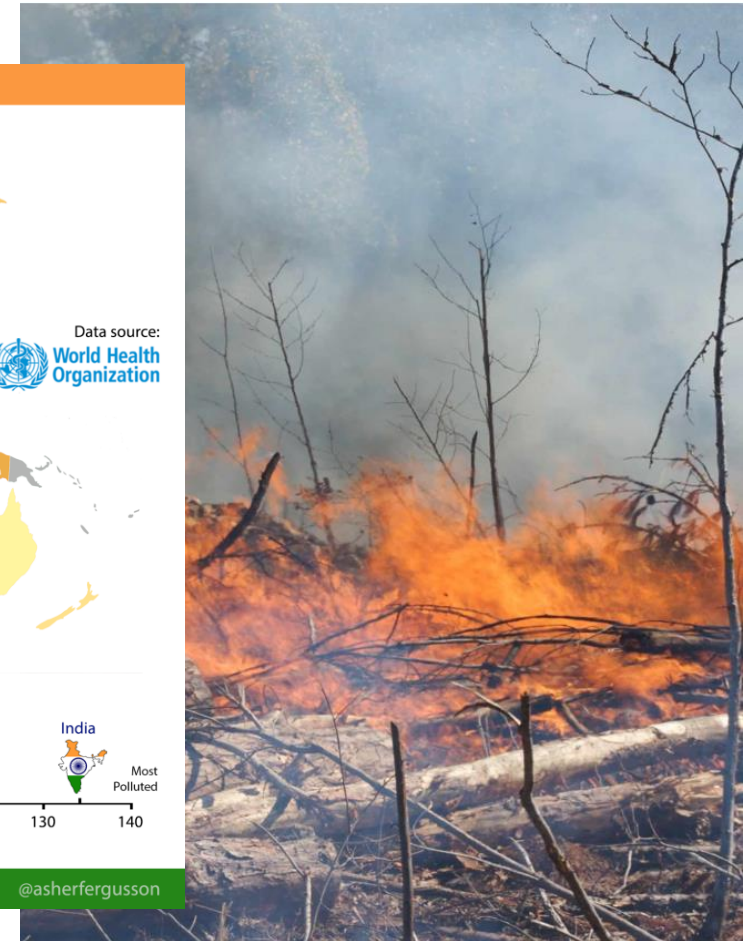
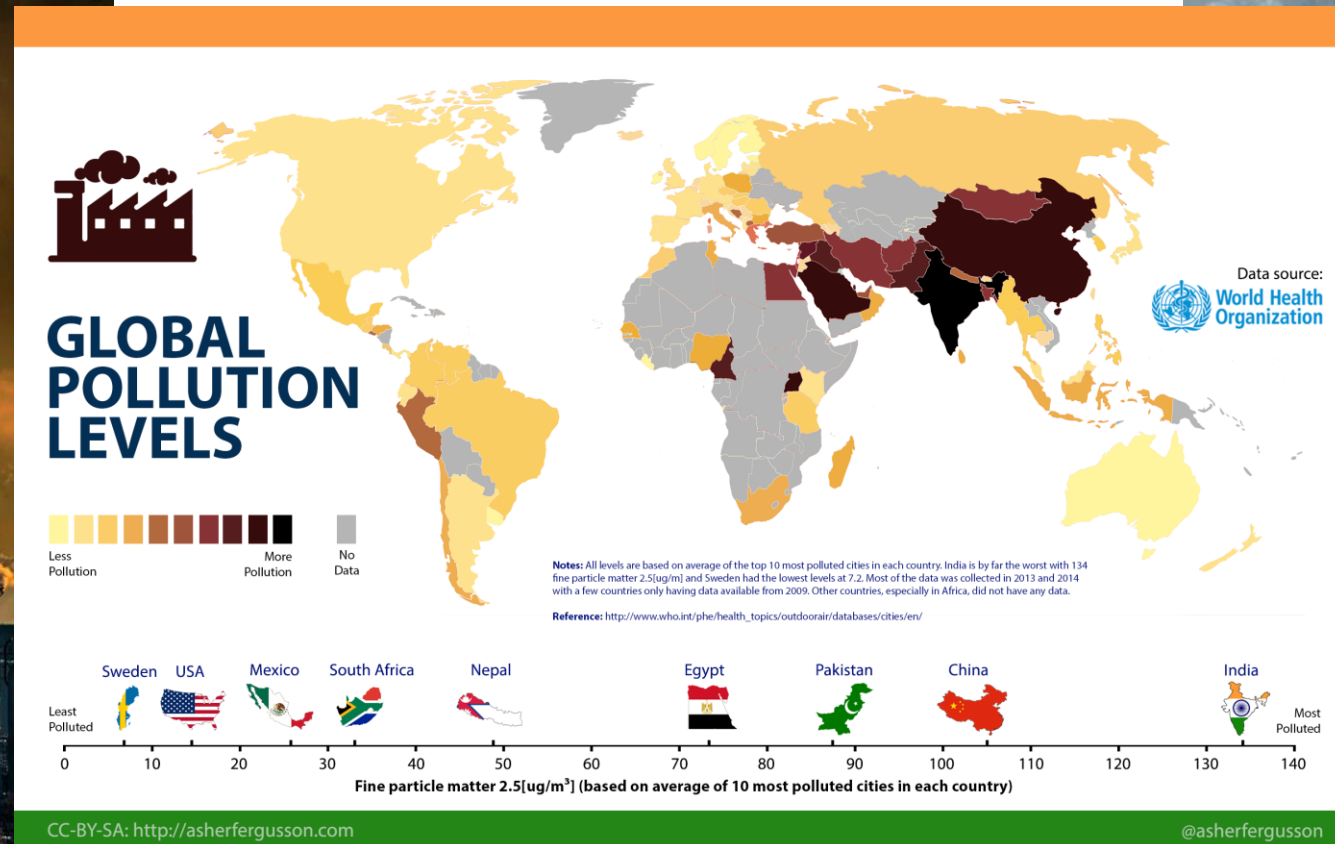
Global Temperature Rise



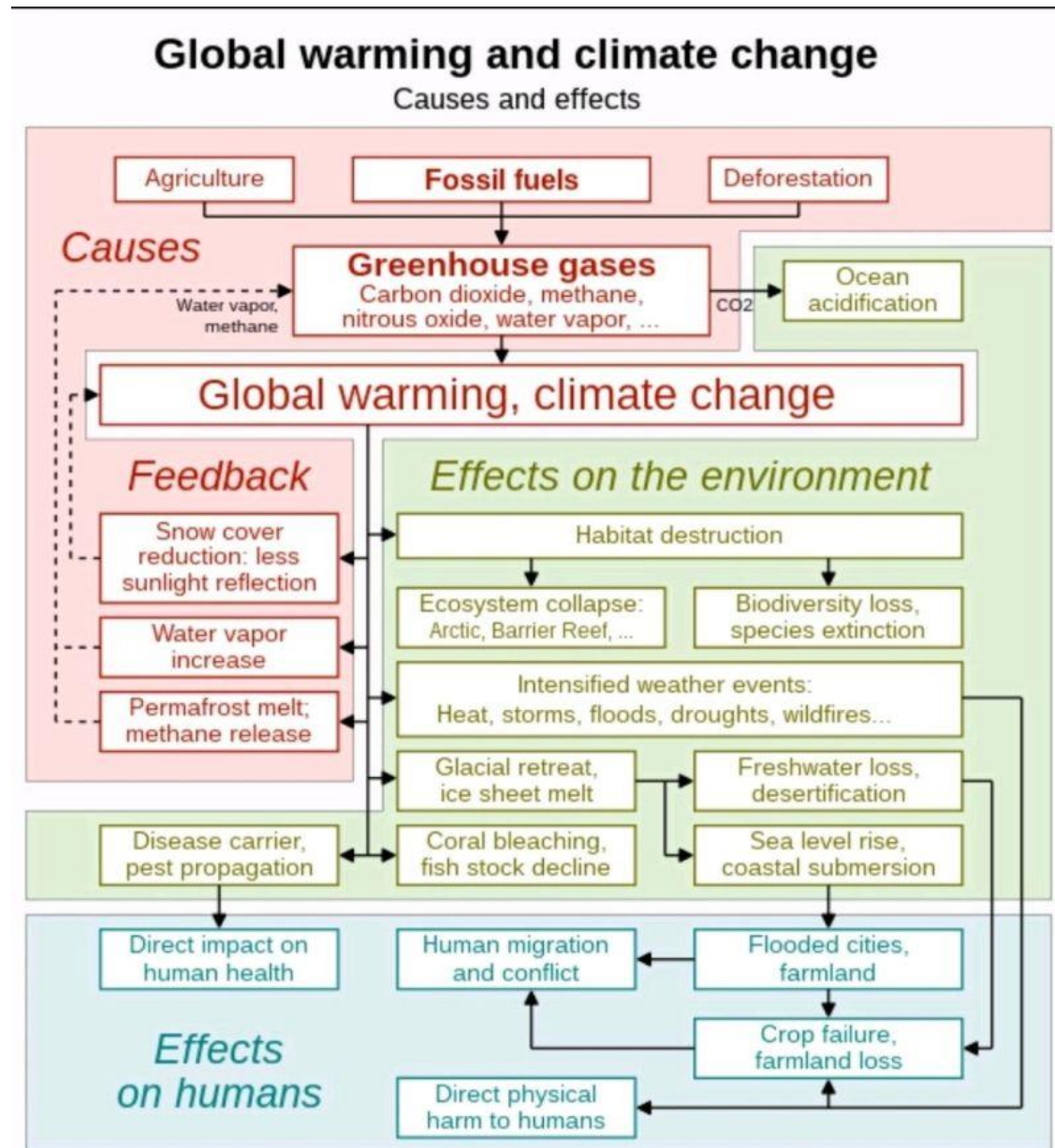
Source: Climate.gov

- The planet's temperature has risen by an average of 0.08° Celsius per decade since 1880.
 - The rate of warming since 1981 is more than twice as fast: 0.18° C per decade.
- 2022 was the sixth-warmest year on record.
 - The 2022 surface temperature was 0.86° warmer than the 20th-century average of 13.9 °C and 1.06 °C warmer than the pre-industrial period (1880-1900).
- The 10 warmest years in the historical record have all occurred since 2010.
- The 7 hottest days in the last 100,000 years all happened in the last 14 days:
 - Death Valley – 53.9
 - Western China – 52.2
 - Spain – 46
 - Iran – 66.7

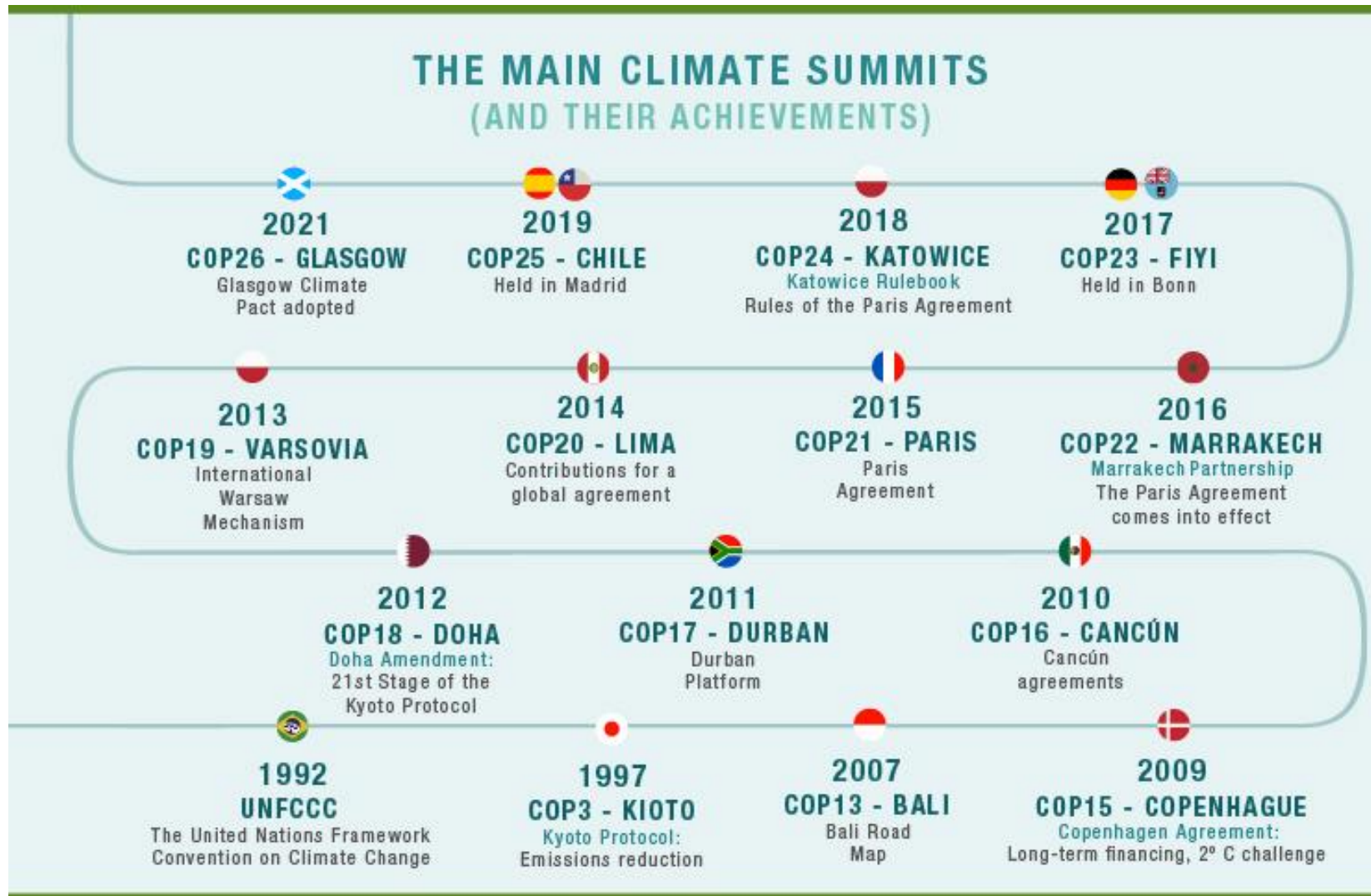
Pollution



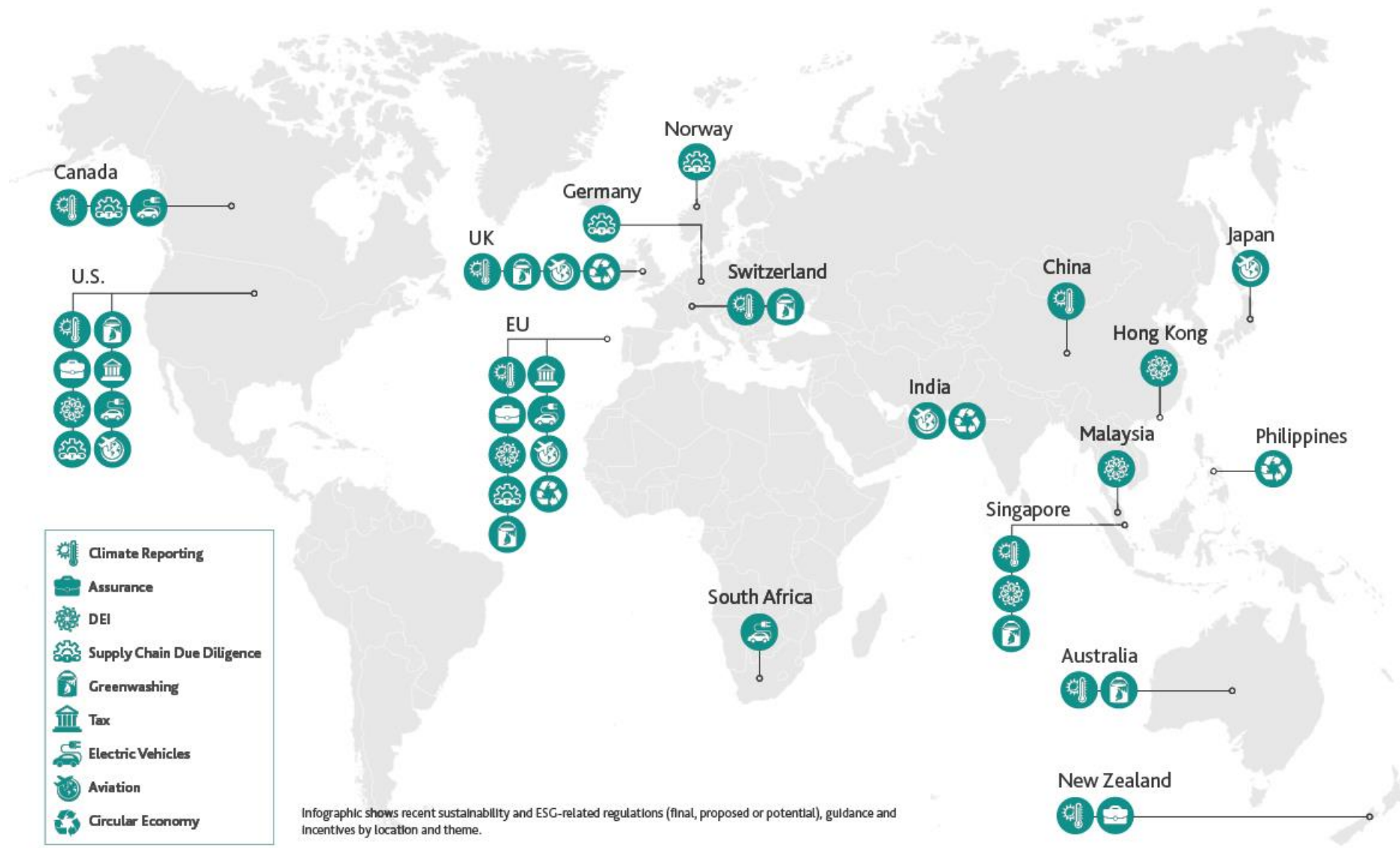
The Impact



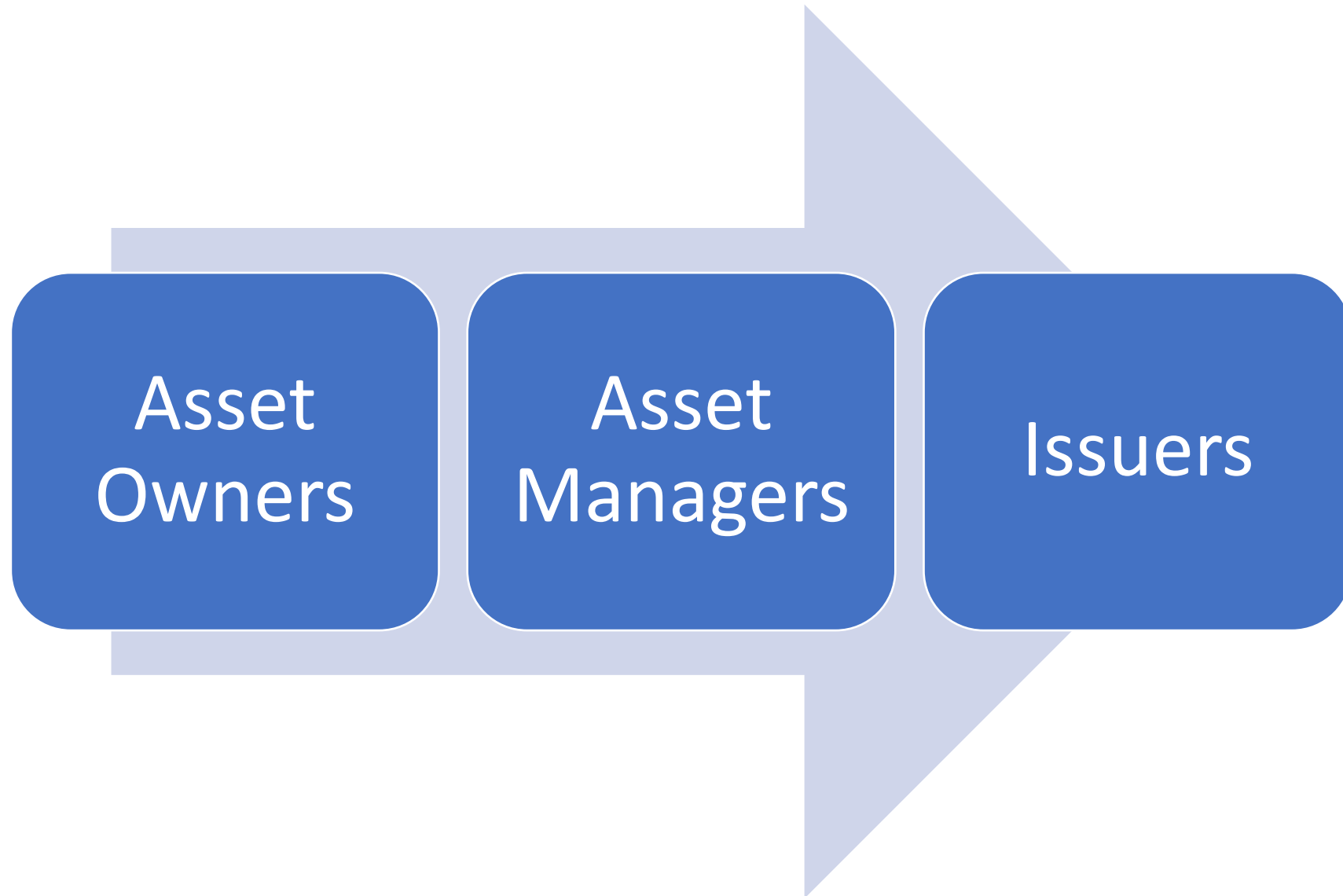
Global Response - Conferences of the Parties



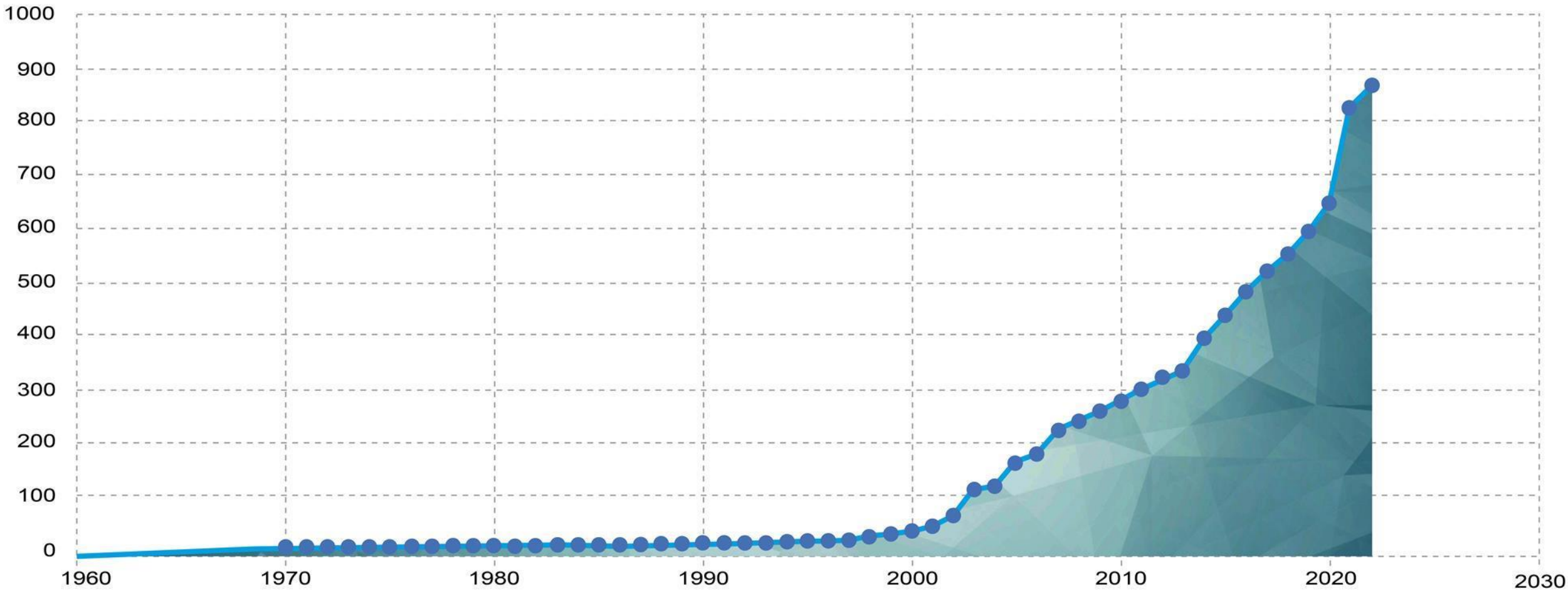
Sustainability and ESG-Related Regulations



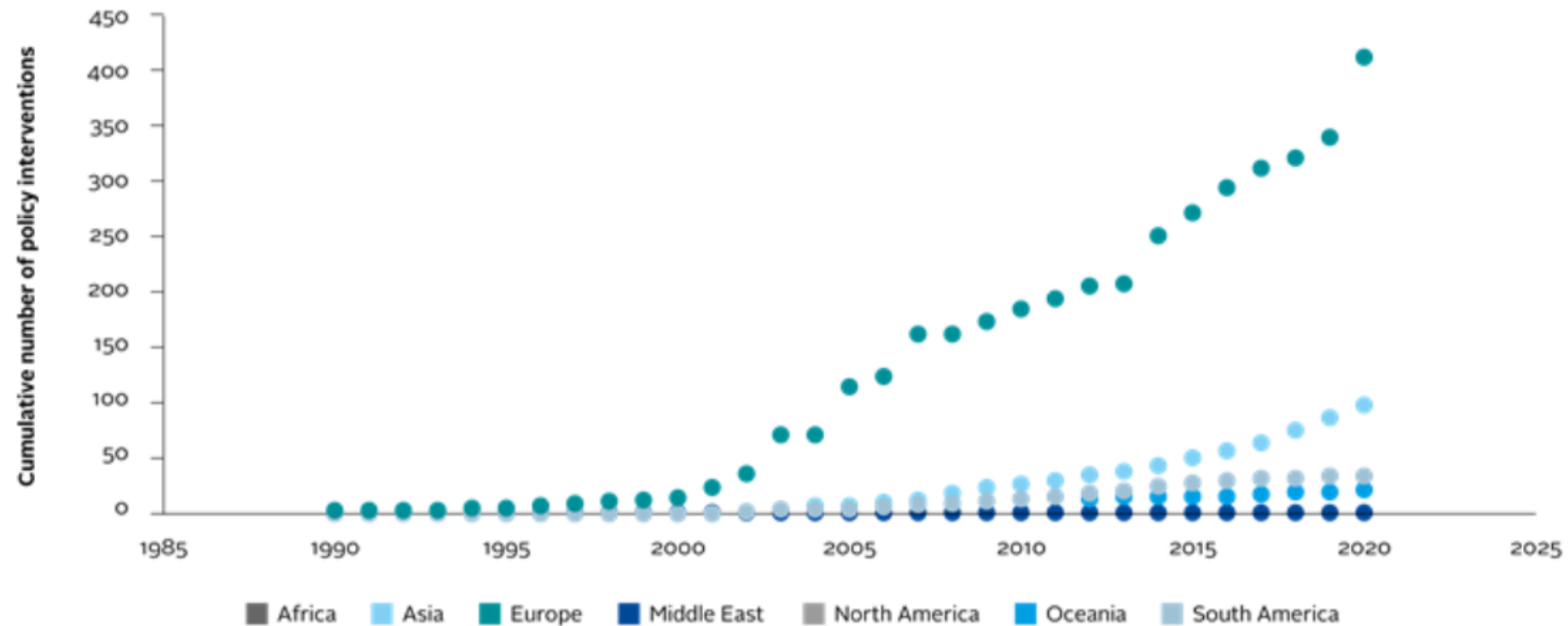
The Investment Chain



Cumulative Number of ESG Policy Interventions

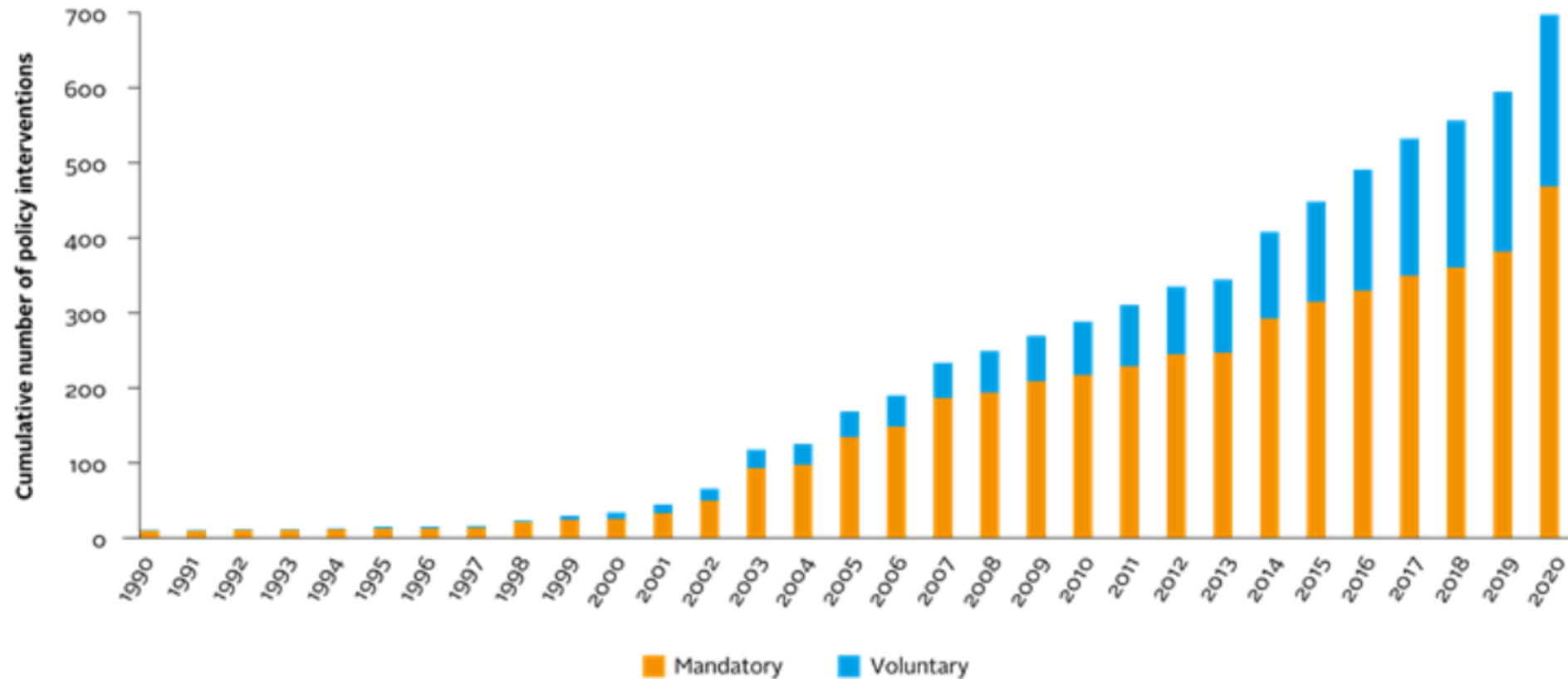


ESG Policy Issuance Variation Between Regions



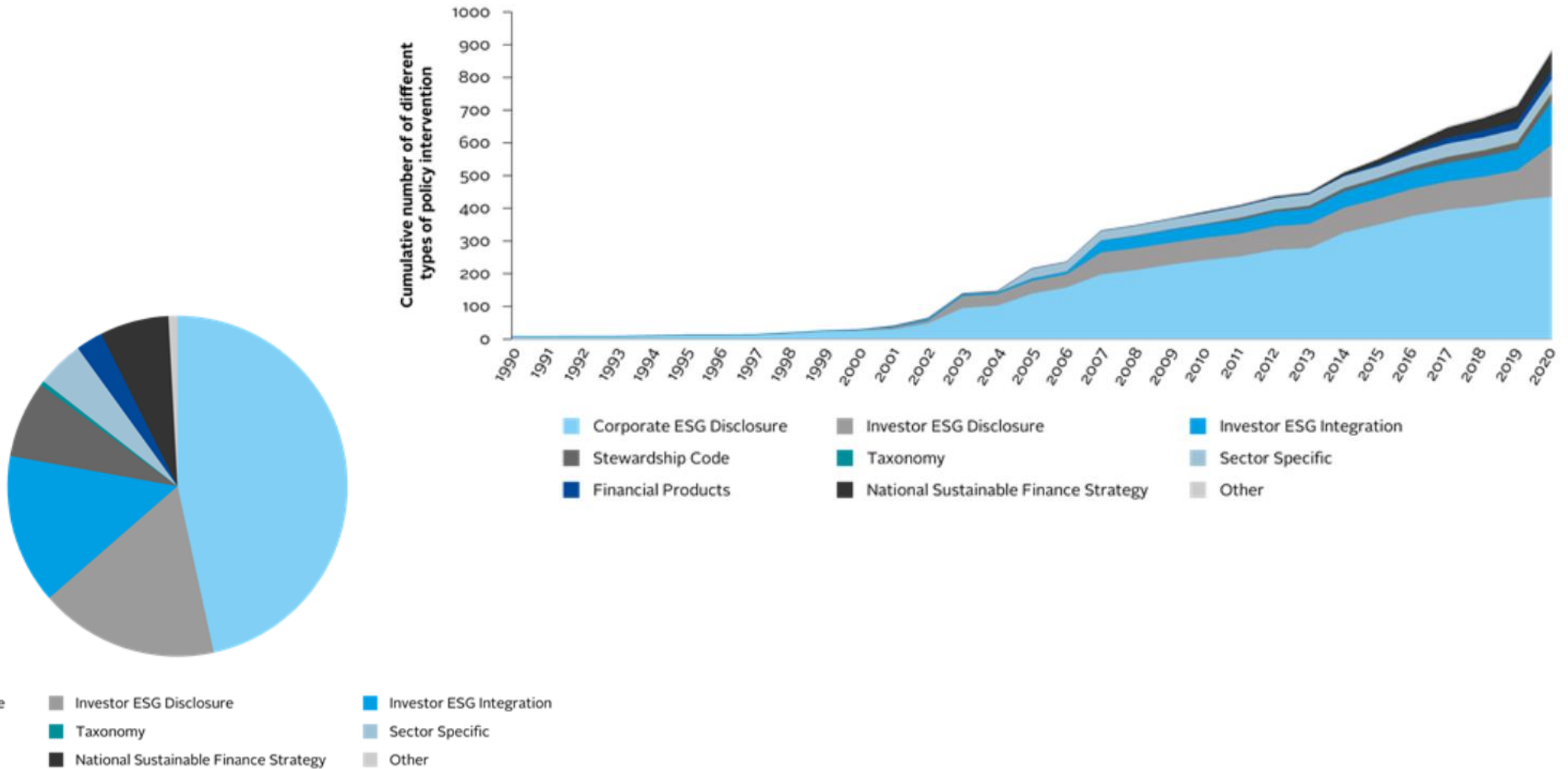
Source: UN PRI Regulation Database

Enforceability of ESG Regulation



Source: UN PRI Regulation Database

What Types of ESG Policies are we Seeing?



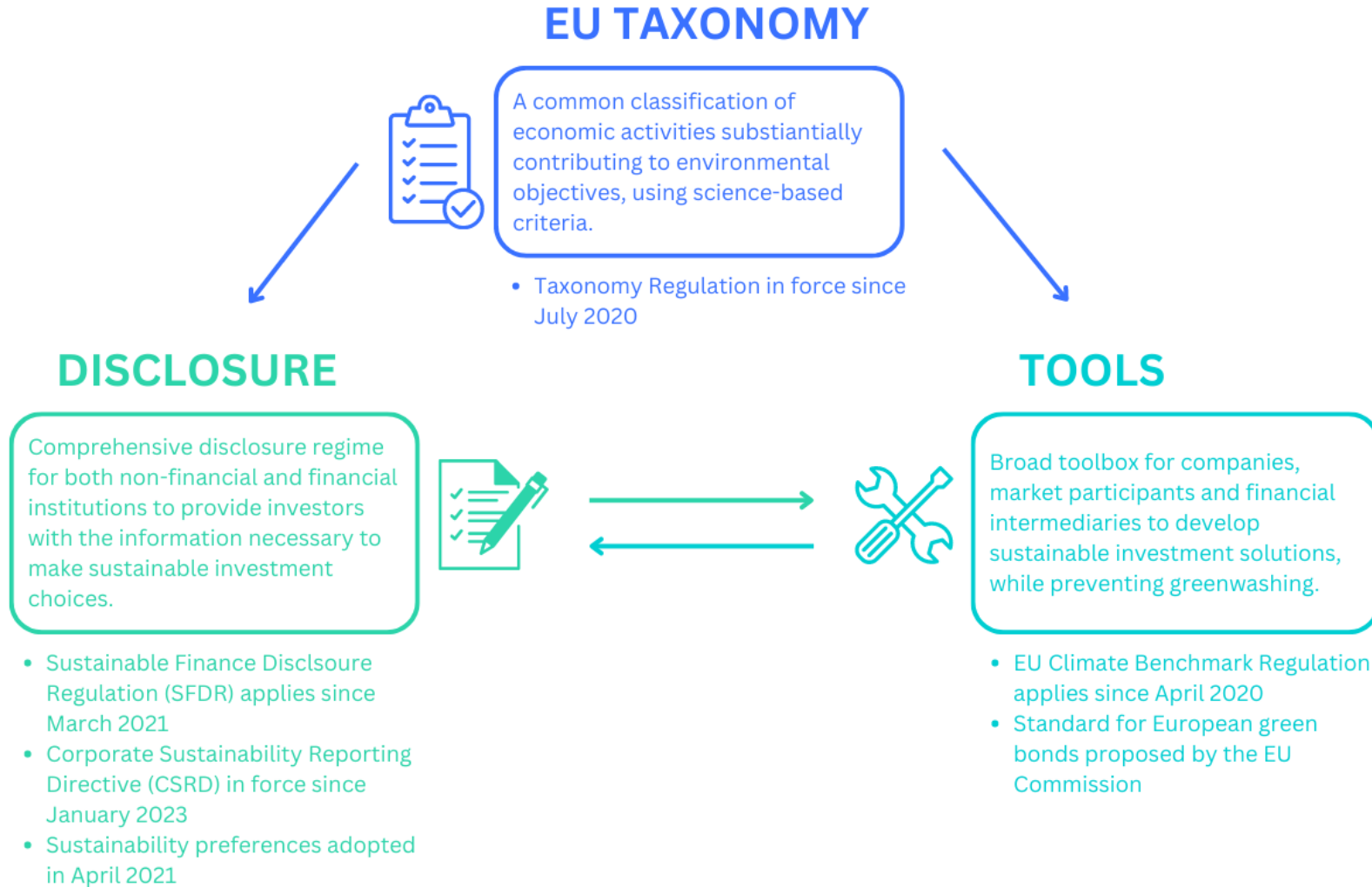
The ESG Regulatory Basics



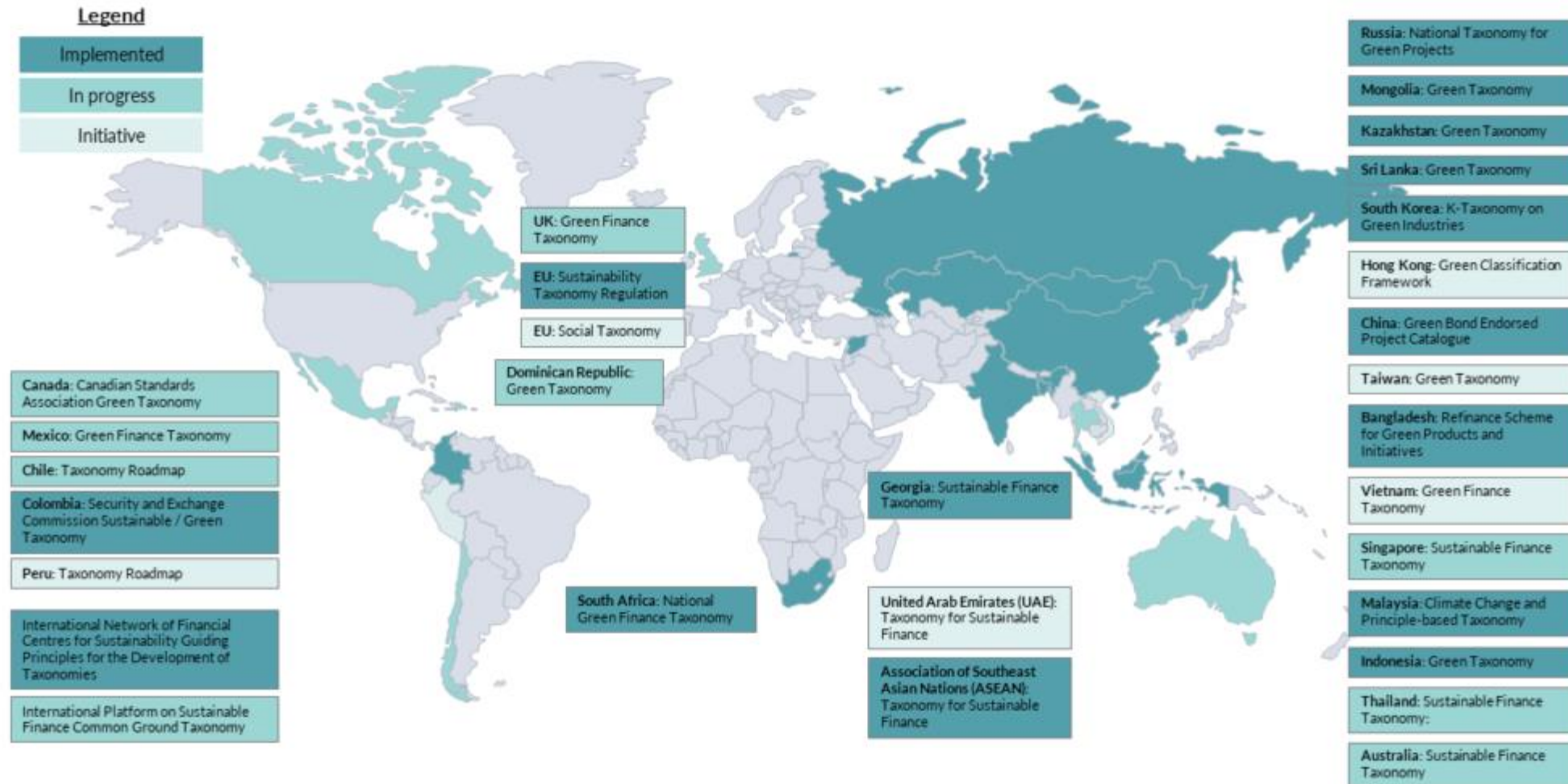
TCFD | TASK FORCE ON
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FINANCIAL
DISCLOSURES



The EU Framework

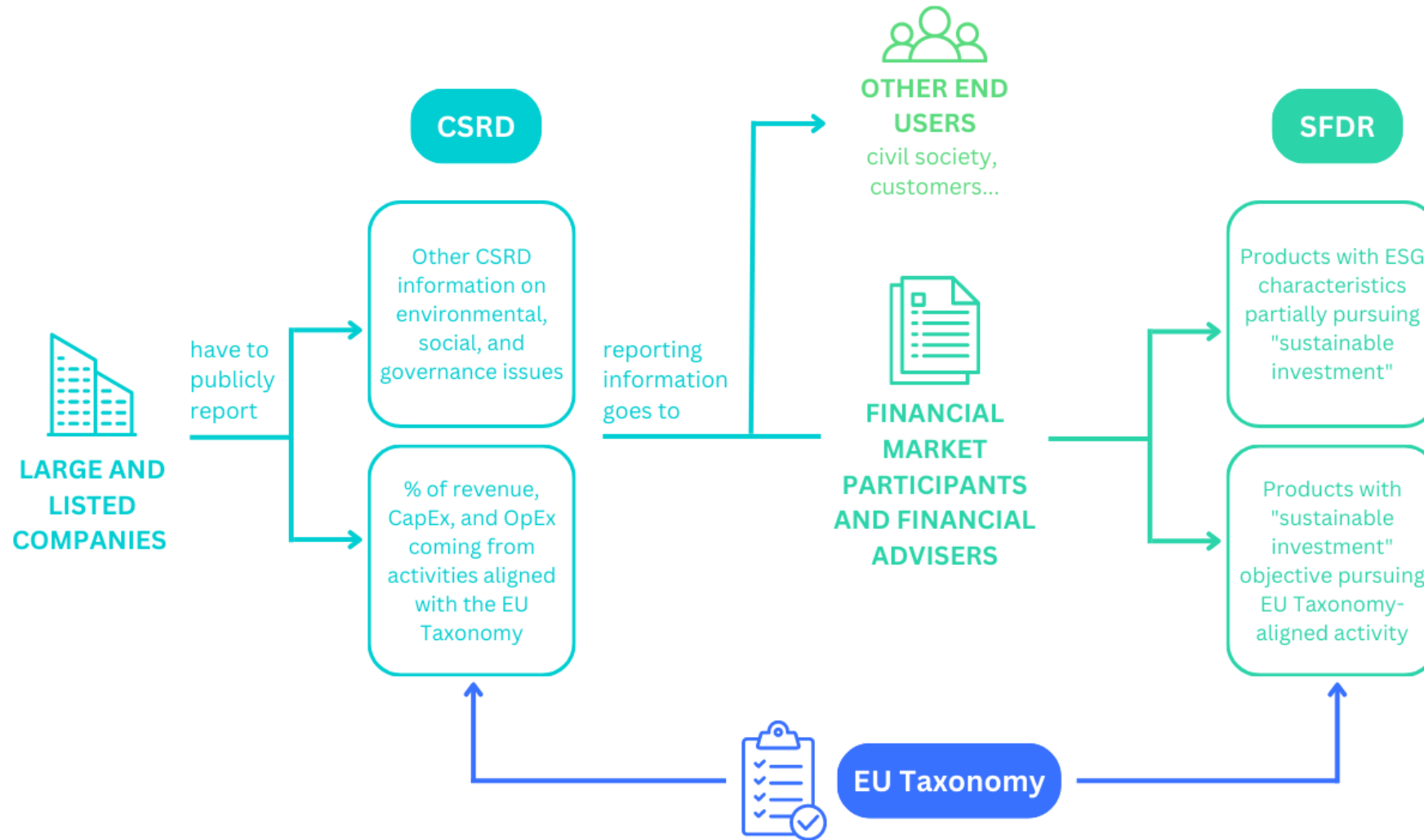


Taxonomies

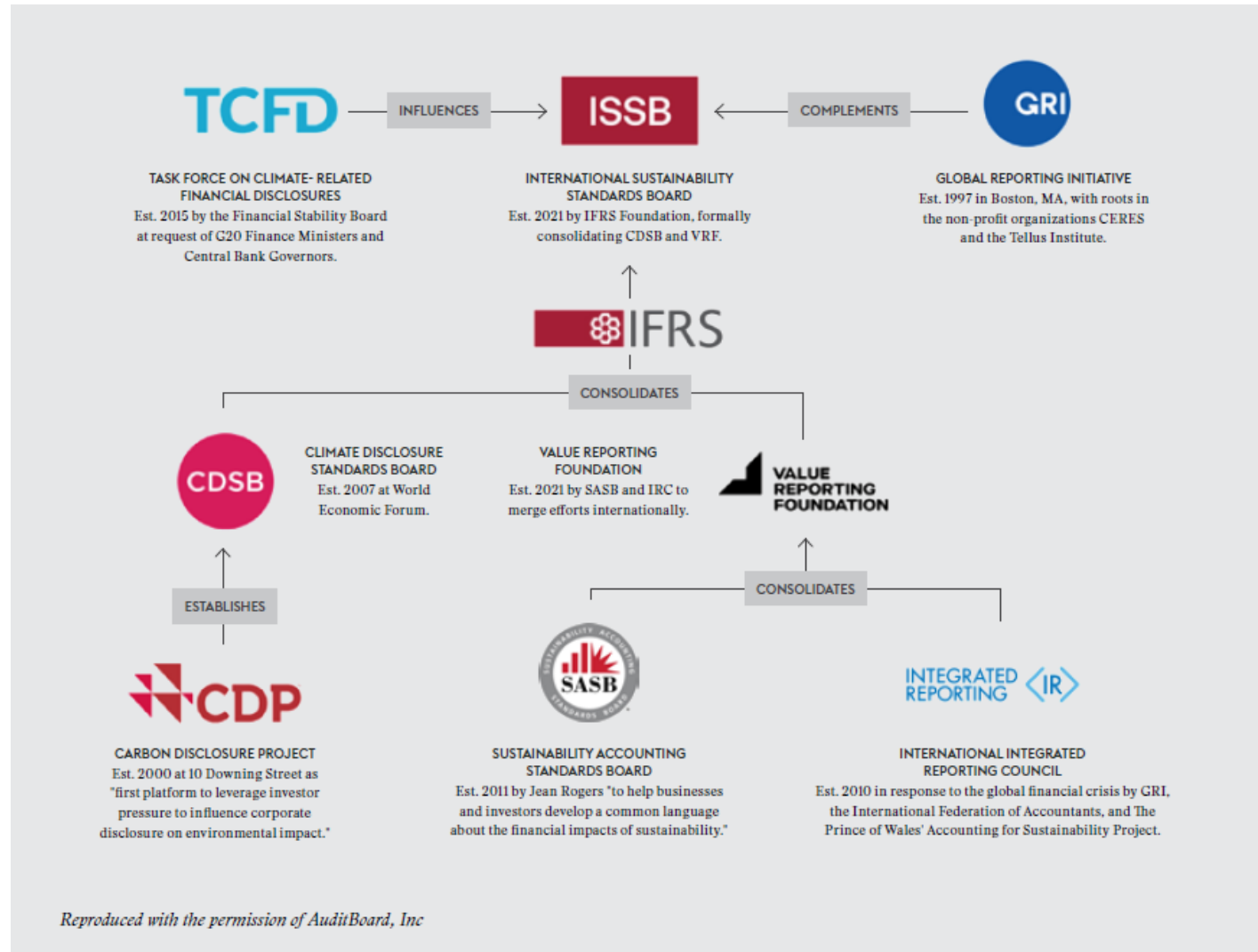


Source: ECOFACT AG 2023

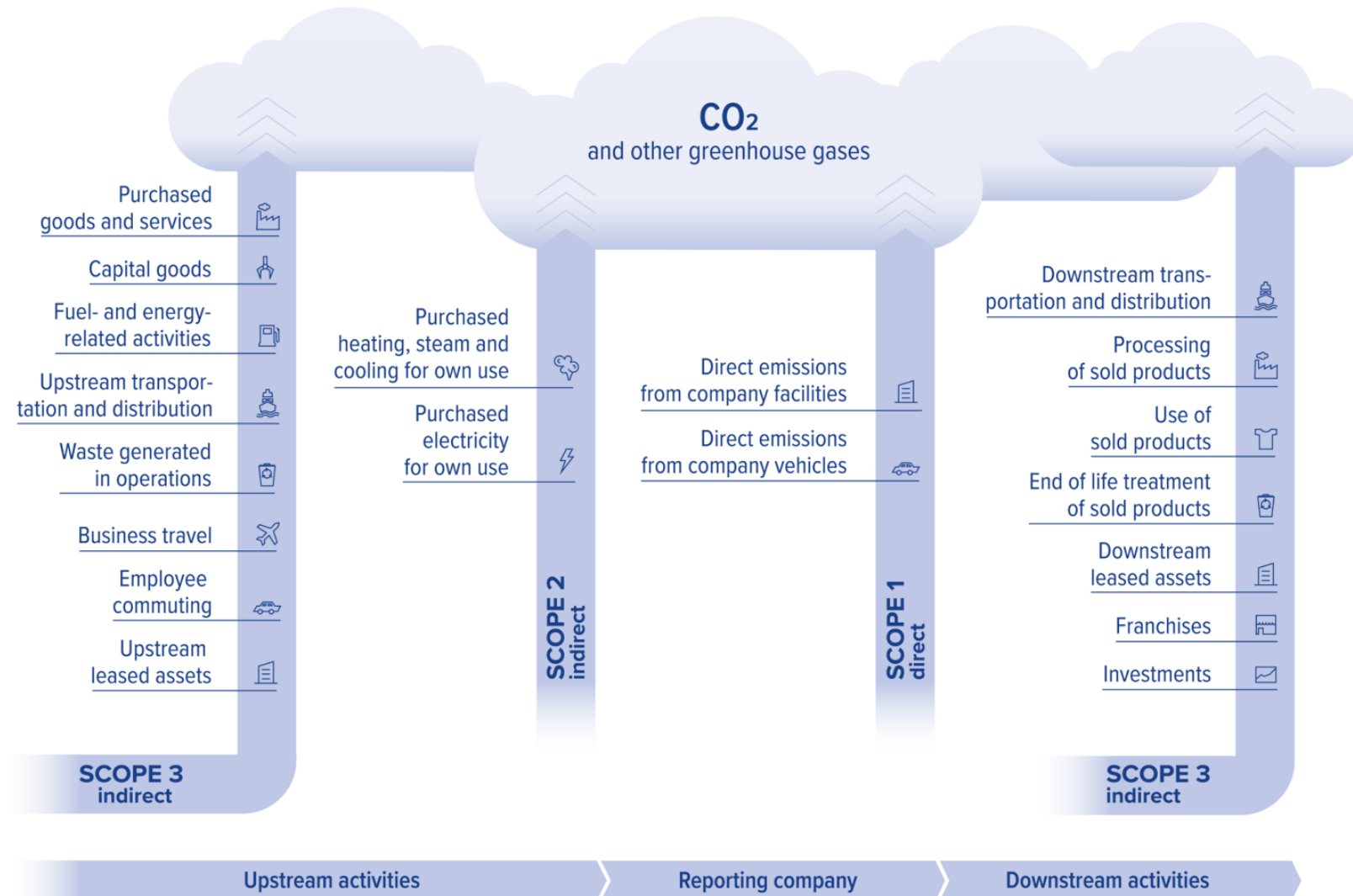
Reporting & Disclosures



Consolidation of Corporate Disclosure Reporting



Summary of GHG Scope Emissions



Scope 1, 2 and 3 emissions according to the GHG protocol

Source: ClimatePartner

International Sustainability Standards Board (*ISSB*)

- IFRS S1*

- IFRS* S1 prescribes how an entity prepares and reports its **sustainability-related financial disclosures**. It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to users in making decisions relating to providing resources to the entity.
- IFRS S1 sets out the requirements for disclosing information about an entity's sustainability-related risks and opportunities. An entity is required to provide disclosures about:
 - Governance processes, controls and procedures used to monitor, manage and oversee sustainability-related risks and opportunities.
 - Entity strategy for managing sustainability-related risks and opportunities.
 - Processes used to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and
 - Entity performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation.
- IFRS S1 is effective for annual reporting periods beginning on or after 1 January 2024 with earlier application permitted if IFRS S2 Climate-related Disclosures are also applied.

International Sustainability Standards Board - IFRS S2

IFRS S2 prescribes how an entity prepares and reports its:

- a. climate-related risks** to which the entity is exposed, which are:
 - a. climate-related physical risks; and
 - b. climate-related transition risks; and
 - b. climate-related opportunities** available to the entity.
- IFRS S2 requires an entity to disclose information that enables users of general-purpose financial reports to understand:
 - a. Governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities.
 - b. Entity strategy for managing climate-related risks and opportunities.
 - c. Processes used to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and
 - d. Entity performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.
- IFRS S2 is effective for annual reporting periods beginning on or after 1 January 2024.

Voluntary Capital Markets Guidance

The LMA Green Loan Principles:

- These aim to facilitate and support environmentally sustainable economic activity. The Green Loan Principles (*GLP*) have been developed with a view to promoting the development and integrity of the green loan product.

ICMA Green Bond Principles:

- The Green Bond Principles (*GBP*), together with the Social Bond Principles (*SBP*), the Sustainability Bond Guidelines (*SBG*) and the Sustainability-Linked Bond Principles (*SLBP*) are published under the governance of the Principles.
- The Green Bond Principles (*GBP*) seek to support issuers in financing environmentally sound and sustainable projects that foster a net-zero emissions economy and protect the environment.

The four core components for alignment with the LMA GLP and ICMA's GBP are:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

Sustainability-Linked Bonds and Loan Principles:

- The proceeds of SLBs are intended to be used for general purposes, hence the use of proceeds is not a determinant in its categorisation. Regardless, in select cases, issuers may choose to combine the GBP/SBP approach with the SLBP.
- The SLBP have five core components:
 1. Selection of Key Performance Indicators (*KPIs*)
 2. Calibration of Sustainability Performance Targets (*SPTs*)
 3. Bond characteristics
 4. Reporting
 5. Verification

ESG Ratings Regulation

- Approximately 150 different ESG data providers in the market.
- Estimated ESG-related assets under management (*AUM*) predicted to reach US\$53 trillion by 2025, a third of all global investments.
 - Currently, ESG ratings providers use different methodologies and very different data sources, leading to divergent rankings for the same company. Additionally, they also use different scales, some numerical, some letters.
 - These issues have led many to question the value of ESG ratings as they currently stand.
 - ESG raters often find varying conclusions, despite access to the same information, and on average, the correlation between the leading providers' scoring of the same company can be as low as 0.54. By comparison, in the regulated field of credit ratings this correlation is close to 0.99.
- In 2022, Japan's Financial Services Agency released a Code of Conduct for ESG rating and data providers.
- The UK has established a working group for a voluntary best practice code for ESG raters, looking to bring them within the scope of the Financial Conduct Authority.
- Recently, the EU proposal will see ESG ratings providers supervised by ESMA to ensure the quality and reliability of their services, and the providers will be required to use methodologies that are "rigorous, systematic, objective and subject to validation." The proposals also include organizational requirements to prevent potential conflicts of interest, and transparency rules regarding the methodologies, models and key rating assumptions underlying the provider's ratings activities.
- Implications:
 - Common language.
 - Increased transparency.
 - Less greenwashing.

ESG Labelling Regulation

- US Securities and Exchange Commission (SEC) issued draft rules in May 2022 on sustainable investment labels.
- UK completed consultation on proposed rules for sustainability labelling in January 2023.
- EU's consultation paper from ESMA which proposes stricter guidelines completed February 2023.

The % of assets required to be aligned to the strategy the fund name suggests.

Jurisdiction	Sustainability Related Name Label	ESG Related Name Label
EU	50%	80%
UK	70%	70%
US	80%	80%

- Few funds currently with sustainability related language in their names comply with EU, UK or US proposed regulations.

Local Initiatives: MAS' Green Finance Action Plan



Singapore Sustainable Finance Plan Components

Taxonomy

Taxonomy seeks to provide financial institutions with guidance on how to identify and classify activities that can be considered green or transitioning towards green.

Regulatory and Supervisory Approach

The financial sector is exposed to environmental and climate-related risks through its financing, insurance and investment activities. MAS is committed to play a leading role to bolster the financial sector's resilience to environmental risks.

Sustainable Financing Solutions

To support the growth of the green economy in Singapore and Asia, we are developing sustainable solutions with various stakeholders in the financial sector and our international counterparts.

Sustainable Talent Ecosystem

To deepen Singapore's sustainable finance capabilities, MAS is developing a strong sustainable finance research and talent development ecosystem.

Green FinTech

Technology and Sustainability are two key driving forces shaping the future of financial services. Understand more about the various initiatives for technology solutions and projects that accelerate the growth of Fintech and Green Finance.

International and Regional Collaborations

To shape the development of sustainable finance in Singapore and the region, MAS is working closely with industry, international and regional counterparts.

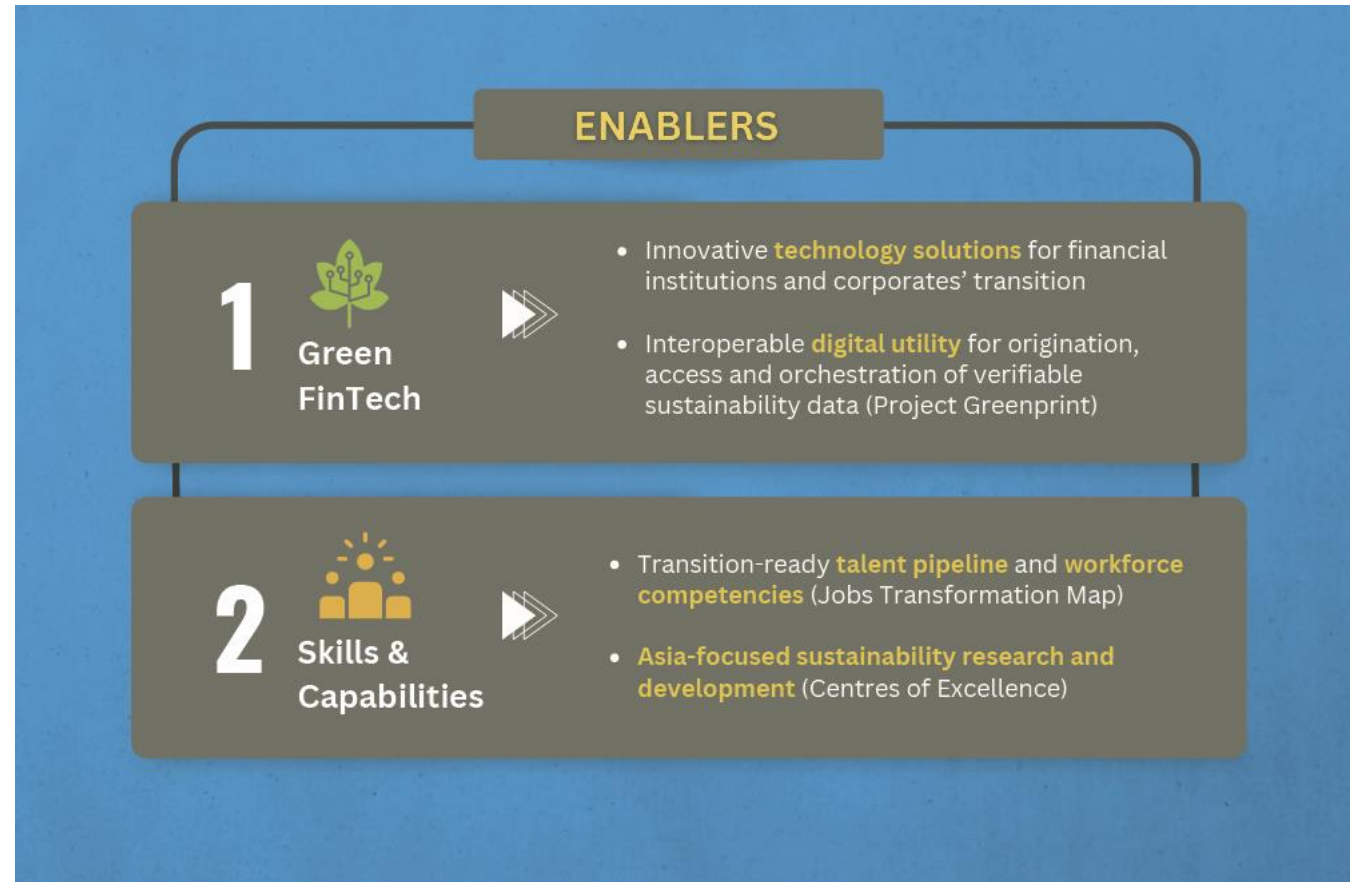
Investment Portfolio

MAS, as Singapore's central bank, manages the Official Foreign Reserves (OFR). We are integrating climate change considerations into our investment framework to enhance portfolio resilience and support the transition to a low carbon future.

MAS' Operations

MAS is reducing its carbon and environmental footprint to support Singapore's climate ambitions and commitments.

MAS FiNZ Action Plan



Source: MAS

Historic Regulatory Enforcement Trends

- The Banking Act of 1933 - allowed federal banking regulators to force banking institutions to follow certain directives.
- For next 30 years, regulators only had authority to terminate an institution's deposit insurance.
- In 1966, US enacted the Financial Institution Supervisory Act, which empowered federal regulators to issue Cease and Desist Orders to:
 - Stop practices in violation of existing laws or detrimental to the financial soundness of the institution.
 - Order institutions to take corrective action.
- In 1978, the Financial Institution Regulatory and Interest Rate Control Act was enacted allowing regulators to issue EAs against individuals and also to levy fines for violation of existing laws or for non-compliance with previous Enforcement Actions, such as C&D Orders.
- The 1989 Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) and the 1991 Federal Deposit Insurance Corporation Improvement Act (FDICIA) empowered regulators to demand that banks change management, remove/suspend personnel, limit growth, and cease dividend payments, and mandated the public disclosure of formal enforcements, beginning in 2000.
- EA activity has tended to follow supervisors' assessment of banking conditions:
 - During periods of solid earnings, EA activity is largely driven by a regulatory focus on risk management and compliance.
 - During times of weaker financial performance, EAs were mainly intended to improve financial indicators related to the CAMELS rating system.
 - *CAMELS rates FIs based on: Capital adequacy, Asset quality, Management, Earnings, Liquidity, and Sensitivity.*

*Federal Deposit Insurance Corporation (FDIC)

Typical Regulatory Enforcement Actions

Severe enforcement action types

Against institutions

- Cease and Desist Orders
- Formal Written Agreements/Supervisory Agreements
- Prompt Corrective Actions

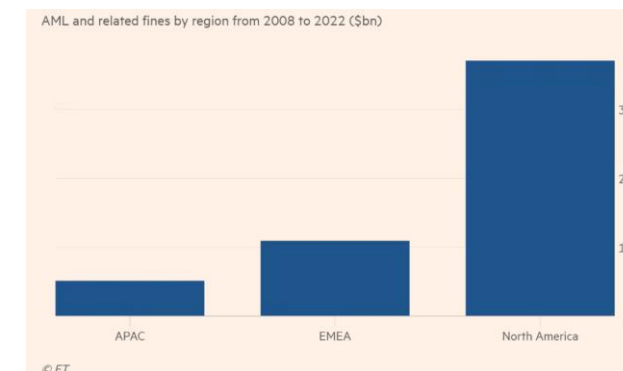
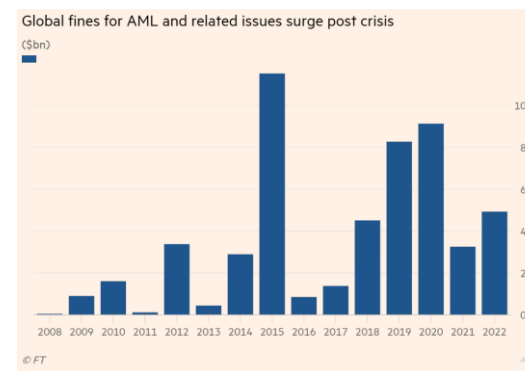
Less severe enforcement action types

Against institutions

- Deposit Insurance Threat
- Other Fines
- Order Requiring Restitution
- Call Report Infractions
- Memo of Understanding (*MoU*)
- Hearing Notice or Other Action: Hearing Notice

Against individuals

- Sanctions against Personnel
- Cease and Desist Order against a Person
- Fines Levied Against a Person
- Restitution by a Person



Regulators clamp down on greenwashing at financial institutions

MAY 2022

The U.S. SEC fines **BNY Mellon Investment Adviser** \$1.5 million over "misstatements and omissions concerning ESG considerations"

OCTOBER 2022

The U.K.'s Advertising Standards Authority bans two **HSBC** climate-related ads saying they could mislead consumers

MAY 2022

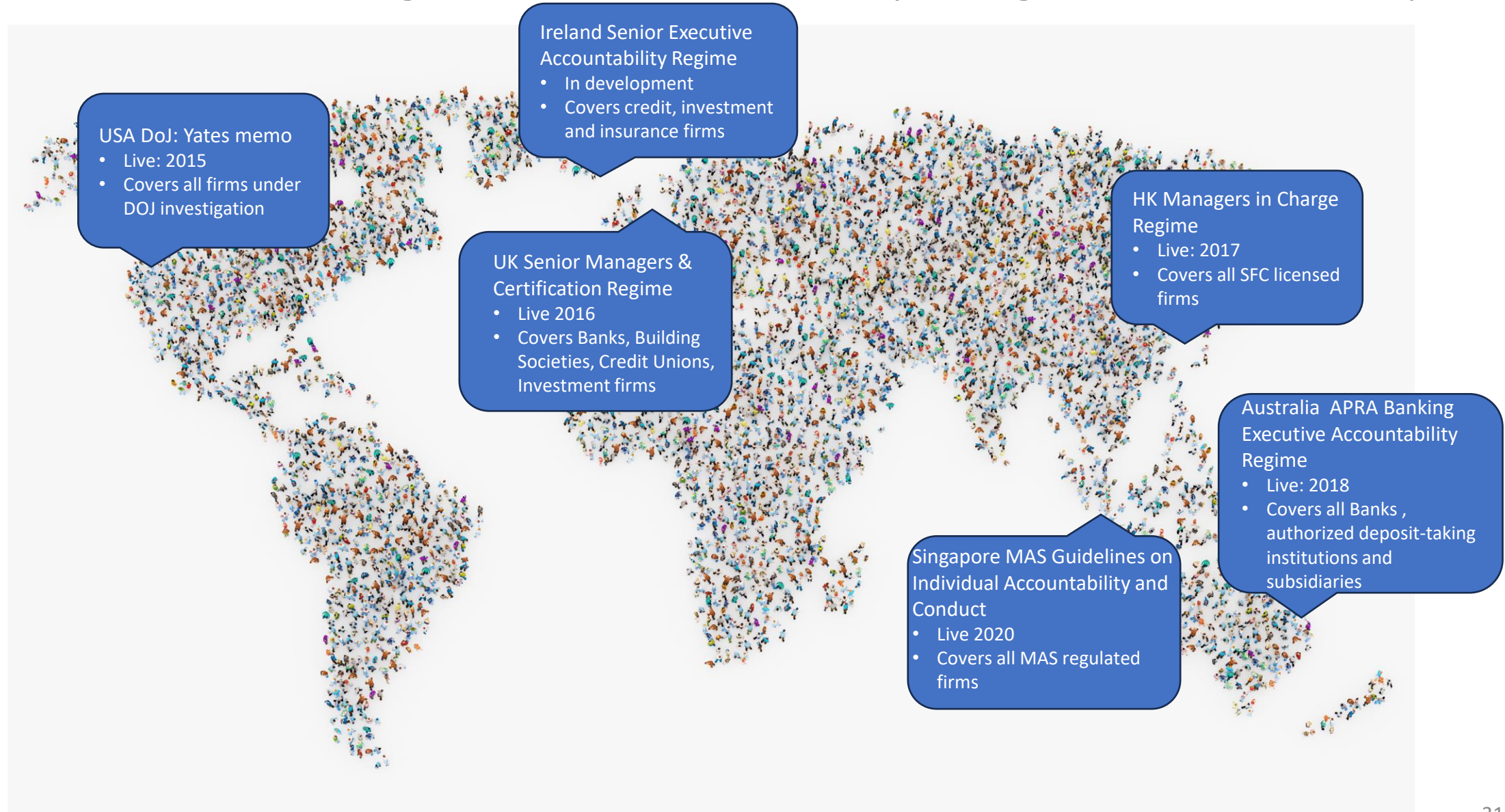
German police raid the Frankfurt offices of **Deutsche Bank** and its asset manager **DWS** as part of an investigation into alleged ESG misstatements at DWS

NOVEMBER 2022

The U.S. SEC fines **Goldman Sachs Asset Management** \$4 million for "failing to follow its policies and procedures involving ESG investments"

Created Feb. 21, 2023.
ESG = environmental, social and governance.
Source: S&P Global Market Intelligence.
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Senior Manager Accountability Regimes Globally



MAS Guidelines on Individual Accountability

MAS Individual Accountability and Conduct regime aims to create a healthy culture and promote positive conduct in the financial sector in Singapore.

The guidelines by the MAS focus on five high-level outcomes for FIs to promote ethical behaviour, responsible risk-taking, accountability of senior managers and reinforcement of good conduct among staff and business:

- **Outcome One** - Senior managers' responsibilities for managing and conducting the FI's core functions are identified.
- **Outcome Two** - Senior managers are fit and proper for their roles and held responsible for the actions of their employees and the conduct of the business under their oversight.
- **Outcome Three** - The FI's governance framework supports senior managers' performance of their roles and responsibilities, with a clear and transparent management structure and reporting relationships.
- **Outcome Four** - Material risk personnel are fit and proper for their roles, and subject to effective risk governance, and appropriate incentive structures and standards of conduct.
- **Outcome Five** - The FI has a framework that promotes and sustains among all employees the desired conduct.

MAS state rules and regulations are not enough to maintain a healthy culture. The MAS highlights that financial institutions should go “the extra mile” to promote a culture of ethical behaviour and compliance. There are several actions that firms should take to monitor and access culture and conduct and only complying with regulatory requirements or internal rules is not enough.

Chief Executive Officer	Chief Financial Officer / Head of Finance
Chief Risk Officer / Head of Risk	Chief Operating Officer / Head of Operations
Chief Information Officer / Chief Technology Officer / Head of Technology	Chief Information Security Officer / Head of Information Security
Chief Data Officer	Chief Regulatory Officer / Chief Compliance Officer
Head of Financial Crime Prevention	Head of Compliance
Head of Human Resources	Head of Actuarial
Head of Business Function e.g., Head of Retail Banking/Private Banking/Corporate Banking/Underwriting/Marketing/Investment etc	Other Core Functions as needed

XIII

13 ELEMENTS

