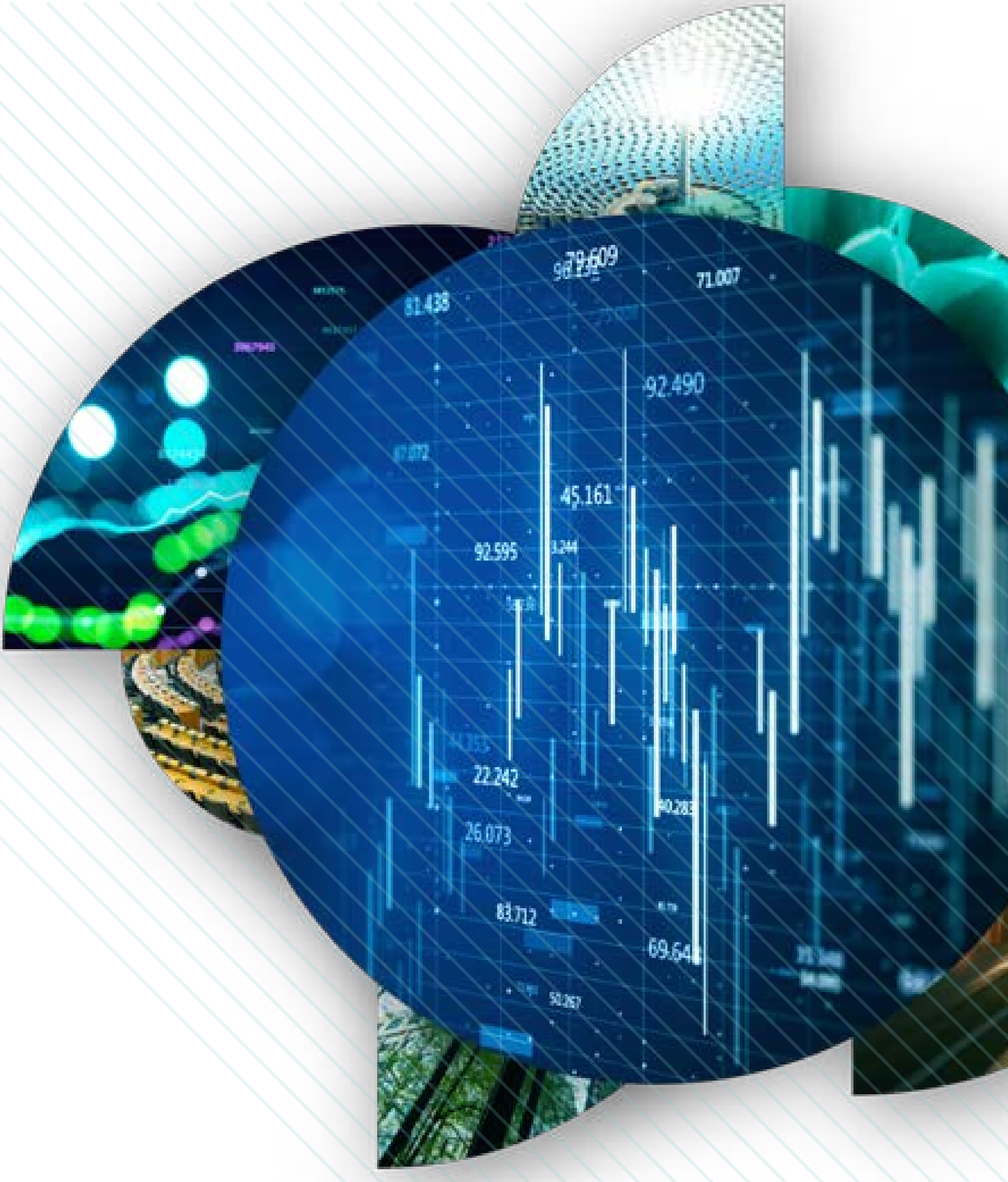
NORTON ROSE FULBRIGHT

ESG | Sustainability

# Financial Services regulatory ESG updater

October 2023



# Introduction

Environmental, Social and Governance (**ESG**) is changing the landscape for financial institutions as a wide range of stakeholders including investors increasingly expect them to make their operations more sustainable. Financial services regulators also view ESG as a priority, embedding the principles of climate-related financial risks into their supervisory frameworks and dealing with institutions that may be making exaggerated or unsubstantiated sustainability-related claims that do not stand up to closer scrutiny (so-called 'greenwashing'). However, the key problem for institutions, particularly those operating cross border, is that there is limited uniformity in regulation, financial services regulators are at different stages in developing their ESG regulatory framework particularly in relation to disclosures and taxonomy. It is therefore critical that institutions monitor the latest announcements from the regulators.

The purpose of this updater is to track ESG regulatory developments from the period 15 September – 13 October 2023, from UK, EU, US, and global regulators.

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# This month's highlights

### 9 October 2023

**TPT issues final version of Disclosure Framework**

The Transition Plan Taskforce (**TPT**) has published the final version of its Disclosure Framework.

The TPT was launched by HM Treasury in March 2022 with a mandate to bring together leaders from industry, academia, and regulators to develop good practice for transition plan disclosures for finance and the real economy. In addition, the TPT has been tasked to engage with non-UK governments and regulatory networks to support conversations on how to build common baselines and principles for transition planning.

### The framework

The TPT Disclosure framework is based on the draft launched for consultation in November 2022, which was updated following extensive engagement and consultation feedback. It is described by the TPT as a sector-neutral disclosure framework for best-practice transition plan disclosures, which has been developed alongside implementation guidance and sector guidance.

### The framework:

- Aims to help organisations set out a credible and robust climate transition plan as part of annual reporting on forward business strategy.
- Recommends disclosure of a company's strategic climate ambition and how this is reflected in its implementation and engagement approaches, its governance and accountability arrangement, and its financial plans.
- Is designed to be available for voluntary and mandatory use internationally, purposefully supporting regulatory implementation in a manner consistent with reporting under the International Sustainability Standards Board's (**ISSB**) standards and accommodating a net zero or other climate ambition. The disclosure framework compliments and builds on the ISSB standards (**IFRS S1** and **S2**).
- Draws on and is aligned with the components identified by the Glasgow Finance Alliance for Net Zero of a good transition plan, to ensure the outputs of both initiatives lock together to form an integrated approach to transition planning.

The TPT notes that transition plans should take a strategic and rounded approach which explains how an organisation will meet climate targets, manage climate-related risks, and contribute to the economy-wide climate transition. It flags that transition planning is an iterative process and companies should get started now.

### FCA statement on the TPT Disclosure Framework

The FCA has welcomed the publication of the TPT Disclosure Framework, stating that it provides a set of good practice recommendations to help companies across the economy make high quality, consistent and comparable transition plan disclosures.

The statement notes that the FCA has worked to ensure that the TPT's recommendations fit with other relevant international initiatives and within the developing global landscape of sustainability-related disclosure standards, and that it is committed to drawing on the TPT framework as it further develops its disclosure expectations for listed companies, asset managers and FCA-regulated asset owners.

The FCA plans to consult next year on rules and guidance for listed companies to disclose in line with the UK-endorsed ISSB standards and the TPT framework as a complementary package. In the meantime, it encourages listed companies and regulated firms to engage early with the framework, and to 'get started.'

# United Kingdom

### 19 September 2023

**Draft Greenhouse Gas Emissions Trading Scheme (Amendment) (No.2) Order 2023**

HM Treasury has published the draft Greenhouse Gas Emissions Trading Scheme (Amendment) (No.2) Order 2023 (the draft SI). The draft SI amends the Greenhouse Gas Emissions Trading Scheme Order 2020 (also known as the UK ETS Order), Commission Delegated Regulation (**EU**) 2019/331, Commission Implementing Regulation (**EU**) 2019/1842 and the Greenhouse Gas Emissions Trading Scheme Auctioning Regulations 2021.

### 19 September 2023

**GFANZ consults on defining transition finance and considerations for decarbonisation contribution methodologies**

The Glasgow Financial Alliance for Net Zero (**GFANZ**) has launched a consultation which outlines preliminary considerations regarding defining transition finance and potential for decarbonisation contribution methodologies.

In 2022, GFANZ identified four strategies necessary for financing a whole economy transition to net zero, which collectively comprise 'transition finance.' These finance or enable the following:

- Climate solutions – Entities and activities that develop and scale climate solutions.
- Aligned – Entities that are already aligned to a 1.5 degrees Celsius pathway.
- Aligning – Entities committed to transitioning in line with 1.5 degrees Celsius-aligned pathways.
- Managed phaseout – The accelerated managed phaseout of high-emitting physical assets.

The consultation document seeks market feedback on a principles-based approach to segment portfolios by the four key strategies and highlights potential approaches to estimate associated decarbonisation contribution impact, drawing on existing methodologies and concepts.

The principles outlined in the consultation document are designed to be voluntary, pan-sector and globally applicable. They build on previous GFANZ publications, existing practices, transition finance frameworks and potential decarbonisation contribution methodologies.

The deadline for feedback to this consultation is 2 November 2023. The final report will be published by COP28.

### 25 September 2023

**FCA and PRA issue consultations on D&I in the financial sector**

The Financial Conduct Authority (**FCA**) and the Prudential Regulation Authority (**PRA**) have published consultations setting out their proposals to introduce a new regulatory framework on diversity and inclusion (**D&I**) in the financial sector. The FCA's consultation paper, CP23/20, is on D&I in the financial sector – 'working together to drive change', and the PRA's consultation is CP18/23 on D&I in PRA-regulated firms.

#### The FCA's proposals in CP23/20

In CP23/20, the FCA proposes a framework which would establish minimum standards and give firms a better understanding of what is expected of them in relation to D&I from a regulatory standpoint. The proposed framework is also intended to help ensure greater consistency and transparency across the sector on firms' approaches to D&I, and to support the objectives of the FCA's Consumer Duty as well as its D&I priorities.

CP23/20 sets out proposals to:

- Better integrate non-financial misconduct considerations into staff fitness and propriety assessments, Conduct Rules and the suitability criteria for firms to operate in the financial sector (Threshold Conditions).

It also proposes to require certain firms to:

- Report their average number of employees to the FCA on an annual basis.
- Collect, report and disclose certain D&I data.
- Establish, implement and maintain a D&I strategy.
- Determine and set appropriate diversity targets.
- Recognise a lack of D&I as a non-financial risk.

The proposals would apply differently to firms depending on their number of employees, their categorisation under the Senior Managers and Certification Regime and whether they are dual-regulated. To reduce regulatory burden, smaller firms with fewer than 251 employees would be exempt from many of the requirements.

The deadline for feedback to CP23/20 is 18 December 2023.

The FCA will review the feedback and develop final regulatory requirements for publication in a Policy Statement in 2024. It proposes that the implementation date for changes would be 12 months after publication of the Policy Statement, in order to give firms time to prepare.

### The PRA's proposals in CP18/23

In CP18/23, the PRA proposes rules and expectations aimed at improving D&I in PRA-regulated firms, which can support better firm governance and decision-making and thereby advance the PRA's objectives. The proposals, developed in parallel with the FCA, build on the ideas discussed in the regulators' joint discussion paper DP2/21: Diversity and inclusion in the financial sector – working together to drive change, which was published by the PRA, the FCA and the Bank of England in July 2021.

The proposals in CP18/23 are informed by many of the suggestions made by the respondents to DP2/21, with the PRA noting that as there is no single means of improving D&I, firms need to take a holistic approach. On that basis, the measures set out in CP18/23 are intended to recognise that developing and maintaining a diverse and inclusive culture requires organisation-wide commitment.

CP18/23 includes chapters setting out proposed rules relating to:

- Firm-wide D&I strategies.
- The setting of diversity targets by the largest firms.
- Board governance.
- Individual accountability for D&I.
- Monitoring D&I.
- Regulatory reporting in relation to D&I data.
- Disclosure of information on targets for the largest firms.

Like the FCA's consultation, CP18/23 closes on 18 December 2023.

### 5 October 2023

**GTAG final advice paper on creating an institutional home for the UK Green Taxonomy**

The Green Technical Advisory Group (**GTAG**) has published a final advice paper on creating an institutional home for the UK Green Taxonomy.

The GTAG has assessed the options for creating an institutional home for the taxonomy, which are informed by the UK Government's stated preference for bringing forward taxonomy-related disclosures, and recommends the following:

- As a "least regrets" options, in the short term (next 3-6 months) the Government should establish an Advisory Body to support implementation/development of the taxonomy through executive action. This could be achieved either by providing additional funding and responsibilities to an existing body (e.g., the Financial Reporting Council/Audit, Reporting and Governance Authority (**FRC/ARGA**) or creating a new entity (e.g., "GTAG 2.0").
- In parallel, to prepare for the medium-term (post end-2024), the Government should initiate the process of legislating for long-term statutory decision-making powers. Again, this could be through granting powers/responsibilities and financial support to an existing body or creating a new organisation. The statutory footing would strengthen investor confidence in the Government's commitment to a robust and science-based taxonomy and also strengthen the UK's institutional green finance capability and thus governance credentials, which will strengthen the UK's leadership on this agenda internationally.

# France

### 6 October 2023

**AMF speech**

The Autorité des marches financiers (**AMF**) has published a speech by Benoit de Juvigny, Secretary General, at the AFME's 7th Annual European Compliance and Legal Conference.

In his speech, Mr de Juvigny makes the following remarks regarding ESG:

- In 2020, a Commission Delegated Act was adopted to allow the creation of Paris-Aligned Benchmarks (**PABs**) and Climate Transition Benchmarks (**CTBs**). These two categories of benchmarks have a major impact on other financial activities. For example, in the case of asset management, passive funds tracking a PAB or a CTB automatically qualify as Article 9 funds according to the Sustainable Finance Disclosure Regulation (**SFDR**).
- As of today, about 90% of all PABs and CTBs are offered by administrators not supervised in the EU, which is suboptimal. Mr de Juvigny asserts that there cannot be a situation where European authorities could not properly supervise a third country provider. As an example, the AMF considers that the current endorsement process envisaged in the EU's ESG ratings legislative proposal is insufficient as it does not provide for proper and coherent supervision and would incentivise ESG rating providers to remain outside the Union. The AMF also has similar views regarding PAB/CTB indices.

# European Union

### 27 September 2023

**ESRB advice on the prudential treatment of environmental and social risks**

The European Systemic Risk Board (**ESRB**) has published advice on the prudential treatment of environmental and social risks.

The advice highlights the specificity of risks related to climate change, which can be expected to become an important driver of broader environmental and social risks, and the challenges of tackling such risks in the existing prudential framework. The advice builds on established positions of the ESRB, as outlined in particular in its contribution to the European Commission's call for advice on the 2022 Review of the EU Macroprudential Framework.

The advice highlights the following:

- The conventional risk management methods used by financial institutions and supervisors have clear shortcomings and may not be suitable for properly capturing the full range of climate-related financial risks, as these methods are based on historical data that do not reflect the new risk patterns that will emerge as a result of climate change.
- In view of the rapidly evolving nature of physical risks and transition risks linked to climate change, the ESRB welcomes the fact that the European Banking Authority (**EBA**) is assessing the prudential treatment of environmental and social risks well before the date stipulated in the regulation.
- While some forward-looking elements can and should be used for the calibration of micro prudential requirements, macroprudential tools may also be needed to deal with the heightened overall uncertainty caused by climate change and the associated system-wide environmental, social and political risks that are to be expected.

- The ESRB considers that macroprudential policies have a role to play in addressing the systemic dimension of climate-related risks and in contemplating micro prudential policies targeting climate-related risks.
- The ESRB is of the view that the macroprudential framework can already be used in its current form to address climate risks, notably through systemic risk buffers (**SyRB**) and borrower-based measures (**BBMs**), although some targeted adjustments are needed.
- The ESRB would welcome a review by the EBA, in the near term, of its guidelines on the appropriate subsets of sectoral exposures to which an SyRB may be applied.
- The SyRB has already been identified as a possible macroprudential tool to guard against systemic aspects of climate risks in the EU.
- A sectoral SyRB may be an adequate tool to increase resilience to concentrated exposures to those sectors or geographies that are most vulnerable to climate risks, provided that it can be designed with sufficient granularity.
- BBMs could usefully complement capital-based measures to mitigate particular climate-related financial risks.
- The ESRB is of the opinion that BBMs should already form part of national macroprudential toolkits in the short to medium term and that their design should allow them to be used to mitigate climate-related financial risks.

## 28 September 2023

### ESAs second joint report on the extent of voluntary disclosure of PAI

The European Supervisory Authorities (**ESA**) published their second joint report on the extent of voluntary disclosure of principal adverse impacts (**PAI**) under the SFDR.

Like the approach taken for the first report in 2022, the ESAs launched a survey of Member State competent authorities to assess the current state of entity-level and product level voluntary PAI disclosures under the SFDR and have developed a preliminary, indicative, and non-exhaustive overview of good practices and areas that need improvement.

The report highlights the following:

- The results show an overall improvement compared to the previous year, although there is still significant variation in the extent of compliance with the requirements and in the quality of the disclosures both across financial market participants and jurisdictions.
- Disclosures appear easier to find on websites compared to the previous year.
- When financial market participants do not consider PAIs, they should better explain the reasons for not doing so.
- Even though they are encouraged to do so under the SFDR, financial market participants are generally not disclosing to what extent their investments align with the Paris Agreement.
- Voluntary disclosures of PAI consideration by financial products will be further analysed in future reports.

The 2023 report also includes a set of recommendations for the European Commission to consider ahead of the next comprehensive assessment of the SFDR.

Future iterations of the report will include an assessment of the PAI disclosure template and on the disclosure of engagement policies, which started being used on 30 June 2023. However, the main purpose of future iterations will remain an assessment of how widespread those disclosures have become and point at best practices.

## 2 October 2023

### ESMA study on ESG names and claims in the EU funds industry

The European Securities and Markets Authority (**ESMA**) has published a study on environmental, social and governance (**ESG**) names and claims in the EU funds industry.

This study contributes to ESMA's on-going monitoring efforts in the area of greenwashing risks, in particular in the investment management sector and supports on-going regulatory efforts regarding ESG disclosure requirements for investment funds. There is currently no EU regulatory definition of an ESG investment product, although several industry and national fund labels exist.

In this study, ESMA shows that the share of EU UCITS investment funds with ESG words in their name has increased from less than 3% in 2013 to 14% in 2023. The study further highlights that fund managers tend to prefer using generic language, rather than more specific words. This can make it more difficult for investors to verify that the fund portfolio is in line with the name.

ESMA will be holding a public webinar on this study and its findings. The webinar will be held online on 18 October 2023.

### 3 October 2023

**ESMA revised guidelines on certain aspects of the MiFID II suitability requirements**

ESMA's revised guidelines on certain aspects of the MiFID II suitability requirements came into force on 3 October 2023. The guidelines were reviewed following the European Commission adopting amendments to Commission Delegated Regulation 2017/565 to integrate sustainability factors, risk and preferences into certain organisational requirements and operating conditions for investment firms. The changes relate to sustainability preferences and organisational requirements.

### 9 October 2023

**ESAs to publish an interactive factsheet on sustainable finance**

ESMA has published the welcome speech that its chair, Verena Ross, delivered at the Joint ESAs Consumer Protection Day 2023. In her speech Ms Ross briefly touches on the three topics that will be discussed during the day – cross-selling, the Regulation of Crypto Assets and greenwashing. She also notes that together with Member State competent authorities, the ESAs will publish in November 2023 an interactive factsheet to contribute providing financial education input on sustainable finance.

### 10 October 2023

**Commissioner McGuiness discusses what is next for the SFDR**

The European Commission has published the opening remarks by Commissioner Mairead McGuiness at the DG FISMA event. In her speech, Commissioner McGuiness discusses what is next for the SFDR.

In her speech, Commissioner McGuiness looks at where things are on sustainable finance and where the SFDR fits in. Her remarks include:

- The market is not using the SFDR in the way it was designed, it was meant to be about transparency but, instead, it is being used more as a labelling scheme.
- Market participants are advertising products as being light green or dark green, the so-called article 8 and article 9. However, the SFDR does not set out any binding thresholds and it does not contain strict definitions for key concepts. Notably, it does not define what a 'sustainable investment' is.
- Although the SFDR was negotiated to be flexible, to help market participants adapt to the new disclosures, the Commission appreciates that, in practice, this lack of binding thresholds and strict definitions can lead to uncertainty and investors find it hard to know if the product they want to invest in is sustainable. As such, there is a risk of greenwashing and mis-selling.
- The Commission needs to consider not just how the SFDR is working in practice but how it links to other parts of the EU sustainable finance framework. It also needs to consider how the SFDR interacts with changing rules in other parts of the world. This is why the Commission has launched an assessment of the SFDR.

### 12 October 2023

**EBA report on the role of environmental and social risks in the prudential framework**

The European Banking Authority (**EBA**) has published a report on the role of environmental and social risks in the prudential framework. The report follows a discussion paper that the EBA published in May 2022 which initiated the discussion on the role of environmental and social risks in the prudential framework for credit institutions and investment firms.

The EBA is mandated under Article 501c of the Capital Requirements Regulation (**CRR**), and Article 34 the Investment Firms Regulation (**IFR**), to assess whether a dedicated prudential treatment of exposures related to assets, including securitisations, or activities (**CRR**), and of assets exposed to activities (**IFR**) associated substantially with environmental and/or social objectives would be justified.

The report recommends risk-based enhancements to the risk categories of the Pillar 1 framework. It also develops considerations on the potential use of macroprudential tools. The report explains why the EBA does not support the introduction of a green supporting factor or a brown penalising factor at this stage. The use of such adjustment factors presents challenges in terms of design, calibration, and complex interaction with the existing Pillar 1 framework.

In the report, the EBA sets out the following proposals:

- Include environmental risks as part of stress testing programmes under both the internal ratings-based and the internal model approaches under the Fundamental Review of the Trading Book.
- Encourage inclusion of environmental and social factors as part of external credit assessments by Credit Rating Agencies.
- Encourage the inclusion of environmental and social factors as part of due diligence requirements and valuation of immovable property collateral.
- Require institutions to identify whether environmental and social factors constitute triggers of operational risk losses.
- Progressively develop environment-related concentration risk metrics as part of supervisory reporting.

In addition, the report also presents possible revisions to the Pillar 1 framework reflecting the growing importance of environmental and social risks, these include:

- The possible use of scenario analysis to enhance the forward-looking elements of the prudential framework.
- The role that transition-plans could play in the future as part of the development of further risk-based enhancements to the Pillar 1 framework.
- Reassessing the appropriateness of revising the internal ratings based supervisory formula and the corresponding standardised approach for credit risk to better reflect environmental risk elements.
- The introduction of environment-related concentration risk metrics under the Pillar 1 framework.

The EBA's policy recommendations for investment firms include:

- As a short-term action, the EBA recommends that the treatment of environmental and social risks for investment firms remain under the Pillar 2 framework for all K-factors including those related to risk to client (**RtC**). Accordingly, the EBA does not recommend changing, in the short term, the prudential framework for investment firms independently from the CRR.
- As a medium- to long-term action, the EBA recommends extending the potential changes made to the CRR/ Capital Requirements Directive IV framework to the investment firms' prudential framework, where applicable. This would concern the parts of the investment firm framework that are directly or very closed related to the CRR. This includes the K-factors related to market risk, trading book concentration risk, credit valuation adjustment and counterparty credit risk. These should be replicated for investment firms, to ensure overall consistency while maintaining proportionality. Differences between the two frameworks, such as the use of the K-CMG, could be addressed previously recommended by the EBA.
- The peculiarities of investment firms, including the overarching objective of having a simpler framework than credit institutions, should be preserved in the medium- to long term. This would apply, in particular, to the RtC key factors.
- The EBA does not recommend introducing differentiating factors for commodity dealers in the scope of IFR/Investment Firms Directive as they currently apply the K-factors in line with the CRR and should apply the same requirements in case of any improvement in the CRR framework in the future for environmental and social risks. As a medium- to long-term action, the EBA will reassess, subject to further evidence and analysis, the appropriateness of introducing differentiating factors for commodity dealers to further reflect the concentration risk of those particular business models.

## United States – SEC and CFTC

### September 2023

**SEC adopts amendments to the Investment Company Act 'Names Rule'**

In September 2023, the US Securities and Exchange Commission adopted amendments to the Investment Company Act 'Names Rule' that addresses certain broad categories of investment company names that are likely to mislead investors about an investment company's investments and risks. The amendments to the rule are designed to increase investor protection by improving, and broadening the scope of, the requirement for certain funds to adopt a policy to invest at least 80 percent of the value of their assets in accordance with the investment focus that the fund's name suggests. The rule's notice requirements are also updated and record keeping requirements established.

## International regulators – FSB, ISOCO, Basel Committee, NGFS, SASB, IFRS, ISSB

### 19 September 2023

**TNFD recommendations**

The Taskforce on Nature-related Financial Disclosures (**TNFD**) has published its recommendations.

The TNFD was launched in 2021. It is a global, market-led, science-based, and government-supported initiative with the mission to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related issues.

The aim of the recommendations is to help business and financial institutions integrate nature-related issues into decision-making, risk management and disclosures. They include a set of general requirements for nature-related disclosures and a set of recommended disclosures structured around the four pillars of governance, strategy, risk and impact management, and metrics and targets.

The key focus areas of the recommendations are:

- The importance of nature's health and resilience for societies, economies and finance.
- An introduction to understanding nature and business.
- Outline of the TNFD disclosure framework.
- Conceptual foundations and general requirements for nature-related disclosures.
- 14 recommended disclosures.
- Overview of metrics architecture and recommended set of disclosure metrics.

Following the publication of the recommendations, the TNFD will move to the next phase of its work to encourage and scale voluntary market adoption of the recommendations by expanding market awareness, market engagement and supporting market capacity building efforts.

The TNFD encourages organisations to get started and begin their nature-related assessment and reporting.

In a recent survey of the TNFD Forum, over 86% of 239 respondents from 36 countries and across 11 sectors indicated that they felt they could start reporting on the TNFD recommended disclosures by calendar year 2026, based on their financial year 2025 outcomes.

### 22 September 2023

**UNEP second biennial progress report on implementation of the UN Principles for responsible banking**

The United Nations Environment Programme (**UNEP**) has published the second biennial progress report on implementation of the UN Principles for responsible banking.

The report highlights the key achievements of member banks in integrating sustainability considerations such as climate change mitigation into their strategies, transforming governance structures, understanding their impacts better, setting targets and developing innovative products and risk management approaches.

The report provides the following key findings:

- Member banks have made considerable progress understanding and disclosing how their portfolios and businesses relate to key environmental and social impacts.

- The majority of banks have set targets to address their most significant portfolio impact, driving alignment and contributing to the UN Sustainable Development goals (**SDG**) and the goals of the Paris Agreement.
- Member banks have also integrated sustainability oversight into their governance structures, primarily at the board and CEO levels, evidencing effective governance for embedding sustainability across the entire organisation.
- Almost all member banks have established public strategies aligned with the SDGs and the Paris Agreement. They offer sustainable finance products and engage with select clients to meet climate targets.
- Whilst progress has been made by member banks, there is still more to be done. Banks are encouraged to build upon governance and structural changes to drive concrete action, realising more real-world impacts while respecting national regulations, cultural norms and contextual variations. This includes continuing to set ambitious public targets in impact areas including climate change (mitigation and adaptation), nature, human rights, resource efficiency and economic inclusion, and focussing on implementing those targets in order to drive systemic change.

Following this report, new guidance on nature and climate change adaptation is expected to be released in Q4 2023.

### 12 October 2023

**FSB progress report on climate-related disclosures**

The Financial Stability Board (**FSB**) has published a progress report on climate-related disclosures.

The report has been delivered to G20 Finance Ministers and Central Bank Governors for their 11-12 October 2023 meeting.

The report highlights the following:

- The FSB welcomes the publication of the ISSB standards, which will serve as a global framework for sustainability disclosures and, when implemented, will enable disclosures by different companies around the world to be made on a common basis.
- The FSB will work with the ISSB, IOSCO and other relevant bodies to promote the timely and wide use of the standards.
- ISOCO completed its assessment of the two ISSB Standards and announced on 25 July 2023 its endorsement of them.
- Progress continues to be made on improving interoperability between the ISSB Standards and jurisdictional disclosure frameworks. In particular, the ISSB and the EU have been working jointly to improve the interoperability of their respective requirements in the overlapping climate disclosure standards.
- All FSB jurisdictions currently have in place requirements, guidance, or expectations in respect of climate-related disclosures, or have taken steps to do so.
- The International Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants have made substantial progress in developing a comprehensive global set of assurance, ethics and independence standards.
- Jurisdictions have made progress in promoting climate-related disclosures. All FSB jurisdictions either have requirements, guidance, or expectations in respect of climate-related disclosures currently in place or have taken steps to do so.

In keeping with the previous year's progress report, this report highlights the findings of the 2023 Task Force on Climate-related Financial Disclosures (**TCFD**) Status Report. The TCFD Status Report, which has also been published today, reveals that the percentage of public companies disclosing TCFD-aligned information continues to grow, but more progress is needed.

### 12 October 2023

**TCFD 2023 status report**

The Task Force on Climate-related Financial Disclosures (**TCFD**) has published its 2023 status report.

This report describes companies' progress in making climate-related financial disclosures and highlights some of the challenges they face in making such disclosures, including challenges with incorporating climate-related risks into their financial statements.

Key findings from the status report include:

- 97 of the 100 largest companies in the world have declared support for the TCFD, report in line with the TCFD recommendations, or both.
- The percentage of public companies disclosing TCFD-aligned information continues to grow, but more progress is needed. For fiscal year 2022 reporting, 58% of companies disclosed in line with at least five of the 11 recommended disclosures—up from 18% in 2020; but only 4% disclosed in line with all 11.
- Disclosure of climate-related financial information in financial filings is limited. On average for fiscal year 2022, information aligned with the 11 recommended disclosures was four times more likely to be disclosed in sustainability and annual reports than in financial filings.
- The majority of jurisdictions with final or proposed climate-related disclosure requirements specify that such disclosures be reported in financial filings or annual reports.
- Over 80% of the largest asset managers and 50% of the largest asset owners reported in line with at least one of the 11 recommended disclosures. Based on a review of publicly available reports, nearly 70% of the top 50 asset managers and 36% of the top 50 asset owners disclosed in line with at least five of the recommended disclosures.

### 3 October 2023

### NGFS conceptual note on short-term climate scenarios

The Network for Greening the Financial System (**NGFS**) has released a conceptual note on its thinking on the range of short term climate scenarios in focus and a roadmap of the analytical work to be undertaken by the NGFS.

The conceptual note outlines the following:

- Five different climate scenario narratives are proposed to underpin the short-term dynamics associated with various transition and physical impacts.
- The narratives not only differ in the source of shocks but also shed light on different transmission channels, key model parameters as well as of accompanying fiscal and monetary policy choices.

# Resources

ESG is high on the regulatory agenda. Businesses, governments, regulators, financial services firms and individuals all have a part to play in tackling climate change and this view is increasingly shared across society. In terms of financial markets, investors are increasingly seeking sustainable financial products and ESG investing, traditional investing combined with sustainable or otherwise philanthropic aims, has seen huge growth in recent years. Regulated firms are also seeking to improve their own ESG performance more generally to build stronger relationships with their stakeholders, including those who use their services. Whilst the growing emphasis on ESG presents opportunities for financial services providers, it also brings with it a number of risks, which need to be properly managed with a view to avoiding future regulatory investigations and enforcement.

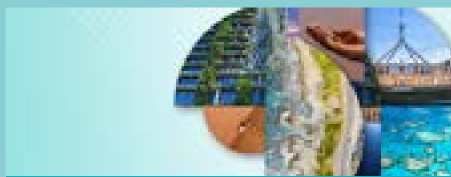
We have produced a number of resources, including articles, podcasts and newsletters, to help clients navigate this evolving, complex landscape:

## Financial services: Regulation tomorrow

Our blog, Financial services: Regulation tomorrow offers a convenient resource for those keeping track of the evolving and increasingly complex global financial services regulatory environment.

## Financial Services Regulatory Developments in ESG

Developed by our global financial services regulatory lawyers and integrated risk advisory group, our Financial Services Regulatory Developments in ESG Hub provides resources and insights to help clients stay informed of key regulatory developments in the sector.



## ESG and Sustainability Insights newsletter

Our ESG and Sustainability Insights newsletter brings together recent insights and resources on key topics affecting your business, including climate change and regulation, business and human rights, sustainable finance, energy transition and more.

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