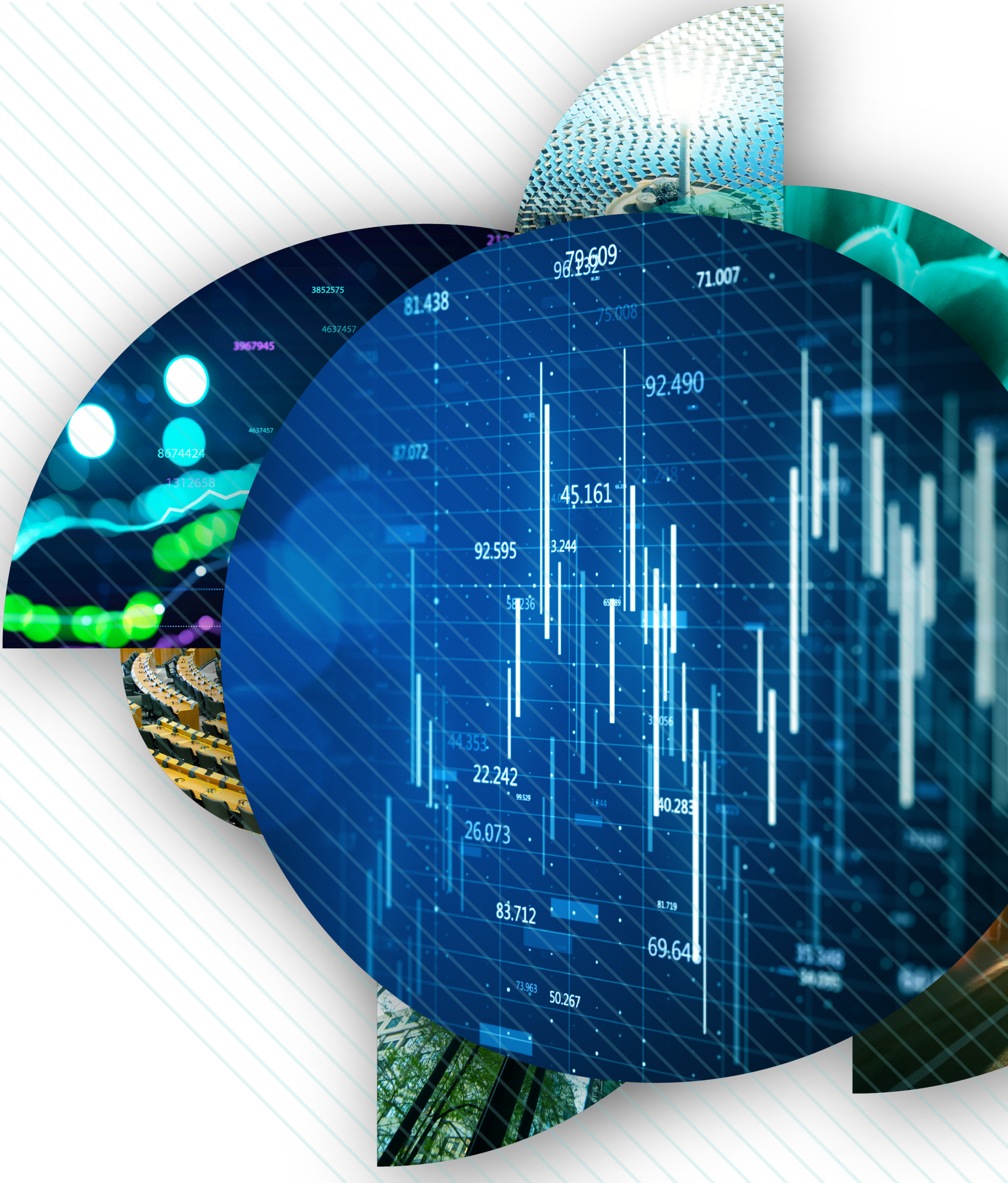
Norton Rose Fulbright

ESG | Sustainability

Financial Services regulatory ESG updater

December 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 20 November – 18 December 2023, from UK, France, EU, US, Australia and certain international regulators.

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This month's highlights

FCA publishes final rules and guidance on SDR and investment labels

On 28 November 2023, the FCA published a package of measures setting out its final rules and guidance on Sustainability Disclosure Requirements (**SDR**) and investment labels. The measures are intended to help consumers navigate the market for sustainable investment products, by improving the trust and transparency of such products and minimising greenwashing.

The measures

The package, which is set out in FCA Policy Statement PS23/16, includes measures to introduce:

- An anti-greenwashing rule for all FCA-authorised firms to reinforce that sustainability-related claims must be fair, clear and not misleading. The FCA is also consulting on supporting guidance (see further details below).
- Naming and marketing rules for investment products, to ensure the use of sustainability-related terms is accurate.
- Four labels to help consumers navigate the investment product landscape and enhance consumer trust.
- Consumer-facing information intended to provide consumers with better, more accessible information to help them understand the key sustainability features of a product.
- Detailed information targeted at institutional investors and consumers seeking more information in pre-contractual, ongoing product-level, and entity-level disclosures.
- Requirements for distributors to ensure that product-level information (including the labels) is made available to consumers.

Who do the rules apply to?

The anti-greenwashing rule applies to all FCA-authorised firms that make sustainability-related claims about products and services, while the investment labels, disclosure and naming and marketing rules apply to UK asset managers. The FCA has also introduced targeted rules for the distributors of investment products to retail investors in the UK.

When do they start to apply?

The anti-greenwashing rule will come into effect from 31 May 2024, and firms can use the investment labels from 31 July 2024. The naming and marketing rules for asset managers come into effect from 2 December 2024.

Guidance consultation on the anti-greenwashing rule

The FCA has also published Guidance Consultation GC23/3 setting out proposed new guidance on the anti-greenwashing rule, including its expectations for FCA-authorised firms making claims about the sustainability of a product or service. The proposed guidance is designed to help firms better understand the FCA's expectations under the anti-greenwashing rule and other existing, associated requirements.

The deadline for comments on GC23/3 is 26 January 2024.

International

As with the previous consultation, the FCA has produced an annex regarding international compatibility noting that its assessment of its rules against the EU Sustainable Finance Disclosure Regulation and the US Securities and Exchange Commission's proposals broadly remain the same.

Briefing note

We have an online briefing note The FCA SDR Policy Statement – some of the headlines.

Australia's commitment to addressing greenwashing and ESG issues will persist in 2024

Developments in December 2023 have emphasised that Australia's commitment to addressing greenwashing and ESG issues will persist in 2024. While the Australian Securities and Investments Commission (**ASIC**) was the only regulator to institute greenwashing proceedings in 2023, the Australian Competition and Consumer Commission's (**ACCC**) release of its final greenwashing guidance is likely a prelude to stronger enforcement action by the regulator in 2024, particularly in the consumer markets sector. Further, the completion of two reviews into Australia's key climate change reporting schemes and the adoption of the Nature Repair Bill 2023 (Cth) after lengthy consultation indicates that Australia will embrace a more ambitious approach to climate policy in 2024.

United Kingdom

20 November 2023

The Financial Conduct Authority (**FCA**) has published a speech by Sheree Howard, Executive Director of Risk and Compliance Oversight, delivered at the XLOD Global London event. The speech focuses on "building firm foundations for healthy cultures".

In her speech, Ms Howard notes that heightened financial pressures mean making careful judgements around risk but should not mean dropping standards. She outlines a past example of deregulation which led to lower standards in New Zealand's construction sector, and sets out various lessons that firms in the UK financial sector can learn from that example, including:

- Firms should ensure they have clear sight of the breadth of risks they face and the controls needed to manage them.
- Employees should never feel fear to challenge. For a healthy, purposeful culture to thrive, firms need to create an atmosphere of fearlessness, not fear.
- One of the FCA's key current concerns is concentration, particularly when it is unintended. Ms Howard flags the "enormous risk when we concentrate only on our own firm and its culture and practice without realising what may be playing out or potentially waiting in the wings elsewhere".
- The FCA has also seen how different types of risk can transform. What may start as conduct, operational or reputational risk can swiftly transform into liquidity or solvency risk, and in the event of liquidity or solvency challenges there are often new conduct, operational or reputational challenges to manage.
- A culture that tolerates non-financial misconduct is unlikely to be one in which people feel able to speak up and challenge decisions, or in which they will have faith that concerns will be considered independently and fairly.
- Should allegations or evidence of non-financial misconduct come to light, the FCA expects a regulated firm to take them seriously through appropriate internal procedures and act accordingly.
- An organisation with a lack of diversity, equity and inclusion is at much greater risk of not having a healthy culture.
- A challenging environment must not lead to diminishing standards, short cuts to vital processes, a reduction in the control framework or changes in the investment in or behaviour of our lines of defence, by short term commercial interest being prioritised over regulatory obligations.
- Boards and senior management need to provide an unambiguous tone from the top on the importance of good conduct. As a regulator, the FCA also hugely values the second and third lines, which should play a key role in assisting senior management with its oversight of business activities.

23 November 2023

The FCA has published a speech by Emily Shepperd, Chief Operating Officer and Executive Director of Authorisations, delivered at City and Financial's Culture and Conduct Forum. The speech focuses on how to "flex" an organisation's power through culture.

In her speech, Ms Shepperd makes the following comments:

- As firms look to raise the bar under the Consumer Duty, they need to consider how their own culture can help to drive better outcomes.
- New, flexible proposals on diversity and inclusion will help firms to drive changes that are ultimately beneficial, but it is important that the purpose of this is understood and that the right policies and procedures are in place to ensure an inclusive culture with the right incentives.
- Enabling people to contribute, challenge and add value means listening, looking at processes and making changes to ensure people can perform at their best.
- The FCA has worked to enhance transparency and to monitor outcomes. It is working closely with the Government on metrics and welcomes industry feedback on how it can measure its performance against its secondary objective to promote competitiveness and growth in the medium to long term.

29 November 2023

The House of Commons Environmental Audit Committee has published a report on the financial sector and the UK's net zero transition.

The report follows an inquiry, launched by the Committee in May 2022 to examine the role of financial institutions in meeting the UK Government's climate and environment targets.

In this report, the Committee considers the balance between investing in fossil fuels and renewable energy sources in order to meet the UK's net zero targets. It also examines securing private investment in net zero and the part that carbon pricing can play as part of a changing global market.

In addition, this report considers the UK Government's position as a global leader in green finance and the effect its policies have on the net zero transition and the implications for local authorities.

The Committee argues that the Government's position to shift the onus of responsibility to the private sector, and rely on market mechanisms, does not go far enough. It flags concerns that relying on investor behaviour "will not move the dial fast enough" in terms of tackling the nature and climate crises, and sets out recommendations to address its concerns.

France

20 November 2023

Following a first analysis of listed companies' reporting on the taxonomy, published in November 2023, the Autorité des Marchés Financiers (**AMF**) has published a second report analysing the quality of the information provided by 31 non-financial companies on the eligibility and alignment of their activities within the European Taxonomy.

The report highlights the following key findings:

- Almost all companies have limited themselves to analysing the contribution of their activities to the climate change mitigation objective and have not given sufficient consideration to the climate change adaptation objective. The AMF stresses the importance of analysing the contributions to the different objectives of the taxonomy in order to fully respect the regulations.
- Several companies have chosen not to disclose the extent to which some of their activities are aligned due to legal uncertainties.
- Few companies have identified sustainable investment plans, although this information is important for reporting on their transition efforts.
- Almost a third of the companies surveyed reported alternative indicators on a voluntary basis. This is an option, provided that it is not given more prominence than the regulatory information, at the risk of misleading readers.

European Union

20 November 2023

The European Banking Authority (**EBA**) has published the final templates that will be used to collect climate-related data from EU banks in the context of the one-off Fit-for-55 climate risk scenario analysis. The templates are accompanied by a template guidance, which includes definitions and rules for compiling the templates. Furthermore, the EBA is also disclosing the list of banks participating in the exercise.

21 November 2023

There was published in the Official Journal of the European Union (**OJ**) Commission Delegated Regulation (EU) 2023/2485 of 27 June 2023 amending Delegated Regulation (EU) 2021/2139 (**Taxonomy Climate Delegated Act**) establishing additional technical screening criteria for determining the conditions under which certain economic activities qualify as contributing substantially to climate change mitigation or climate change adaptation and for determining whether those activities cause no significant harm to any of the other environmental objectives.

The Commission Delegated Regulation amends the Taxonomy Climate Delegated Act mainly by establishing the technical screening criteria for climate change mitigation and climate change adaptation for economic activities not yet included in that Delegated Act. This notably concerns some manufacturing activities in relation to key components for low carbon transport and electrical equipment, which can help achieve greenhouse gas emissions savings in other target activities.

The Commission Delegated Regulation enters into force on the twentieth day following that of its publication in the OJ.

21 November 2023

There was published in the OJ Commission Delegated Regulation (EU) 2023/2486 of 27 June 2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Commission Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities.

The Commission Delegated Regulation specifies the technical screening criteria under which certain economic activities in the sectors of manufacturing, water supply, sewerage, waste management and remediation, construction, civil engineering, disaster risk management, information and communication, environmental protection and restoration activities and accommodation activities, qualify as contributing substantially to: (i) the sustainable use and protection of water and marine resources; (ii) the transition to a circular economy; (iii) pollution prevention and control; or (iv) the protection and restoration of biodiversity and ecosystems. The Commission Delegated Regulation also specifies criteria for determining whether those economic activities cause significant harm to any of the other environmental objectives. It prioritises those economic activities and sectors that were identified as having the biggest potential to make a substantial contribution to one or more of the four environmental objectives and for which it was possible to develop or refine the recommended criteria without further delay. For certain sectors and activities, such as agriculture, forestry or fishing, as well as certain manufacturing activities, a further assessment and calibration of criteria will be needed

The Commission Delegated Regulation also amends the Taxonomy Disclosures Delegated Act (Commission Delegated Regulation (EU) 2021/2178) to ensure that the disclosure requirements laid down in it are consistent with the provisions of the Commission Delegated Regulation and to correct a small number of technical mistakes and inconsistencies.

The Commission Delegated Regulation enters into force 20 days following that of its publication in the OJ.

22 November 2023

The European Securities and Markets Authority (**ESMA**) has published three explanatory notes covering key topics of the Sustainable Finance (**SF**) framework.

The explanatory notes are purely descriptive and cover:

- Definition of sustainable investments. This document is intended as an aide to stakeholders to navigate the SF framework concerning the Sustainable Finance Disclosure Regulation (**SFDR**) definition of sustainable investment and the Taxonomy Regulation definition of environmentally sustainable economic activities.
- Application of do no significant harm requirements. This document seeks to explain the Do No Significant Harm (**DNSH**) principle that is embedded in several pieces of SF legislation. The DNSH principle is a key element in the Taxonomy Regulation, SFDR and the Benchmark Regulation.
- Use of estimates. The purpose of this document is to explain how key SF legislation deal with the use of 'estimates' and 'equivalent information' and the conditions under which these are allowed as sources of data to prepare mandatory ESG metrics for the compliance of regulated entities with their obligations.

30 November 2023

The EBA has published a statement in the context of COP 28. In its statement, the EBA highlights its efforts to integrate sustainability aspects in many areas of its work, including risk management, disclosures, supervisory practices, climate stress testing and the Pillar 1 framework.

5 December 2023

The European Parliament has announced that in the Economics and Monetary affairs committee MEPs, led by the rapporteur Aurore Lalucq (S&D, FR), voted in favour of significant changes to draft regulation proposed by the European Commission (**Commission**) on ESG ratings.

The adopted report adds provisions to ensure that rating products should explicitly disclose the rated entity's materiality. In this way, ESG raters are encouraged to address the material impact of the rated entity on the environment and society in general more than is currently the use.

ESG rating providers should also disclose information to the public on methodologies, models and key rating assumptions which those providers use in their ESG rating activities and in each of their ESG ratings product.

Furthermore, in a bid to encourage competition among ESG rating providers and fostering an environment where smaller rating providers can enter the market, an entity seeking to obtain more than one ESG rating should choose at least one ESG rating provider with a market share below 15%.

13 December 2023

The Platform on Sustainable Finance has issued a draft report which includes proposals for EU taxonomy-aligning benchmarks. The draft report suggests two proposals for EU taxonomy aligning benchmarks without and with exclusions (**EU TAB** and **EU TABex**) with the intention of initiating a discussion on the pivotal role the taxonomy could assume in shaping climate and environmental benchmarks. The EU taxonomy aligning benchmarks are inspired by the success of the EU Paris aligned benchmarks (**EU PABs**) which grew to €116bn in assets under management in less than three years.

EU taxonomy-aligning benchmarks are defined as benchmarks where the underlying assets are selected, weighted or excluded in such a manner that (i) the resulting benchmark portfolio is on a scaling environmentally sustainable capital expenditure trajectory, (ii) while the non-environmentally sustainable capital expenditure proportion is on a decarbonisation trajectory and is also constructed in accordance with the minimum standards laid down in the delegated acts of EU PABs. EU TABs with exclusions also include specific activity exclusion thresholds for fossil fuel related activities.

The deadline for comments on the draft report is 13 March 2024.

13 December 2023

ESMA has announced the launch of a common supervisory action (**CSA**) with Member State competent authorities on ESG disclosures under the Benchmarks Regulation (**BMR**). This is the first CSA for ESMA in its role as a direct supervisor of benchmarks administrators. The CSA will be carried out during 2024 and until Q1 2025. The CSA will focus on supervised benchmarks administrators, located either in the EU or in a third country, that have acquired an authorisation, registration, recognition or endorsement of their benchmarks under the BMR.

14 December 2023

ESMA has issued an update regarding its draft guidelines on ESG and sustainability-related terms in fund names.

ESMA states that:

- The draft guidelines are expected to be approved and published in Q2 2024, subject to the timing of the publication of the Alternative Investment Fund Managers Directive and UCITS Directive revised texts.
- The guidelines would apply three months after the date of their publication on the website in all EU official languages.
- Managers of new funds would be expected to comply with the guidelines in respect of those funds from the date of application of the guidelines. Managers of funds existing before the date of application of the guidelines should comply with the guidelines in respect of those funds six months from the application date.

14 December 2023

The Data and Ratings Working Group (**DRWG**) has published a voluntary Code of Conduct for ESG ratings and data products providers. The DRWG is an industry working group mandated by the FCA to develop a voluntary Code of Conduct for ESG data and rating providers. The Code of Conduct is grounded in the International Organization of Securities Commissions' recommendations for ESG data and ratings. The DRWG has also published a feedback statement summarising the comments it received on its earlier consultation. The Code of Conduct will be owned and maintained and a signatories list will be available on ICMA's website.

14 December 2023

The Council of the EU has issued a press release stating that it has reached a provisional deal with the European Parliament on the Directive on corporate sustainability due diligence. Among other things the press release states that the financial sector will be temporarily excluded from the scope of the directive, but there will be a review clause for a possible future inclusion of the sector based on a sufficient impact assessment.

15 December 2023

ESMA has issued a consultation paper containing draft guidelines on enforcement of sustainability information.

The Corporate Sustainability Reporting Directive (**CSRD**) expands the scope of undertakings who must report sustainability information and requires the Commission to adopt European Sustainability Reporting Standards as delegated acts. To promote convergent supervision of sustainability reporting by issuers subject to the Transparency Directive, the CSRD mandates ESMA to issue guidelines on the supervision of sustainability reporting by Member State competent authorities. The purpose of the consultation paper is to consult on the first draft of the guidelines which ESMA has prepared in response to this mandate.

The deadline for comments on the consultation paper is 15 March 2024. ESMA expects to publish the final guidelines by Q3 2024.

United States – SEC and CFTC

13 November 2023

The Commodity Futures Trading Commission (**CFTC**) Commissioner Kristin N. Johnson has delivered a keynote address. In the address the Commissioner highlighted the need for the CFTC to refine existing regulation in the carbon markets as well as initiate effective enforcement.

The Commissioner also highlighted the CFTC's work to address climate related risks:

- The CFTS recognises the need to begin to examine the scope and impact of climate-related risks on markets.
- The CFTC has hosted two convenings focussed on the market for carbon offsets.
- The CFTC must initiative effective enforcement, offer guidance and refine existing regulation in the carbon credit markets.

Australia

February 2023

In February 2023, ASIC commenced its first court proceedings alleging greenwashing against a global investment manager (**GIM**).

ASIC alleges that GIM falsely represented on its website that funds invested in a sustainable superannuation option were not and would not be invested in companies involved in, or deriving profits from, the production or sale of alcohol, gambling or the extraction or sale of carbon intensive fossil fuels.

The proceeding was heard in the Federal Court of Australia on 7 December 2023. While judgment has been reserved and is expected to be handed down in early 2024, GIM has agreed with ASIC to pay an $11.3m penalty for the alleged contravention. ASIC are also seeking declarations and an adverse publicity order from GIM.

Counsel for ASIC submitted that the penalty was "appropriate…to send a signal" and hoped that this would be "the last of the greenwashing cases in financial services".

7 December 2023

The Nature Repair Bill 2023 (Cth) has passed both houses of Australian Parliament. The Bill seeks to establish a legislative framework for a voluntary national market in biodiversity certificates.

The market will enable project proponents to undertake on a range of land tenures including in aquatic environments and the ocean, projects that protect or enhance biodiversity. The project proponent will be able to apply to the Clean Energy Regulator for a unique biodiversity certificate that can then be sold to interested persons in the market. The Clean Energy Regulator will regulate and market and will have monitoring and enforcement powers to ensure that projects are conducted in accordance with the rules and are meeting the outcomes promised.

The Minister for the Environment and Water stated that the market would make it easier for businesses, philanthropists and others to invest in projects that restore and repair nature across Australia.

12 December 2023

The ACCC has published its long-awaited final guidance on greenwashing titled 'Making environmental claims: A guide for business.' The guidance sets out the regulator's eight 'good practice' principles with respect to making trustworthy environment claims and sets out obligations under the Australian Consumer Law which businesses must comply with to avoid greenwashing. The principles are aimed at encouraging businesses to verify and ensure they have a reasonable basis for making environmental and sustainability claims.

18 December 2023

The Climate Change Authority (**CCA**), which is a statutory agency established to provide independent, expert advice to the Australian Government on climate change policy has completed its second review of Australia's National Greenhouse and Energy Reporting scheme. The CCA is required to review the operation of the National Greenhouse and Energy Reporting Act 2007 (Cth) (**NGER Act**), which establishes the scheme, every five years. The CCA found that while the NGER scheme continues to be integral to meeting Australia's international energy and emissions reporting obligations, there is demand for more detailed emissions and energy data, the potential to improve the accuracy of some emissions estimates and the opportunity to broaden the coverage of the scheme. To that end, the CCA has made 25 recommendations to the government (amongst others) to improve data transparency, extend reporting under the scheme to agriculture and land emissions, and improve compliance by reporting companies.

18 December 2023

The CCA has also completed its fourth review of Carbon Credits (Carbon Farming Initiative) Act 2011 (Cth) which enables the Australian Carbon Credit Unit (**ACCU**) Scheme. The ACCU Scheme is Australia's system for measuring, reporting, verifying and crediting abatement (including sequestration), which is how carbon offsets can be generated.

The authority has made 15 recommendations for the government to consider including promoting greater transparency and more regular reviews of methods for calculating abatement, enabling better participation in the scheme by First Nations, rural, regional and remote communities, and amending the scheme to support the establishment of a carbon dioxide removal industry.

This is the first time the CCA has reviewed the NGER and ACCU schemes concurrently. The authority framed its latest reviews of both schemes with the question "are the schemes fit for-purpose in the 'Paris Plus' context?". In its media release, the CCA noted that the concurrent reviews were a precursor to the authority's forthcoming advice to the government on sectoral pathways to net zero emissions and Australia's 2035 emissions reduction targets, due for completion in 2024.

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

29 November 2023

The Basel Committee on Banking Supervision (**Basel Committee**) has published a consultative document – Disclosure of climate-related financial risks.

The Basel Committee is analysing how a Pillar 3 disclosure framework for climate-related financial risks would further its mandate to strengthen the regulation, supervision, and practices of banks worldwide with the purpose of enhancing financial stability and the potential design of such a framework.

This consultation seeks the views of stakeholders on the Basel Committee's preliminary proposal for qualitative and quantitative Pillar 3 disclosure requirements that would complement the work of other standard setters, including the International Sustainability Standards Boards (ISSB) and provide a common disclosure baseline for internationally active banks.

Based on the feedback received from the consultation, the Basel Committee will consider which elements would be mandatory and which subject to discretion.

The Basel Committee also proposes a potential implementation date of 1 January 2026, one year after the effective date proposed by the ISSB and after the expiration of the ISSB's proposed transitional arrangements. It also welcomes views on whether any transitional arrangements would be required and, if so, the rationale and duration.

The deadline for feedback to the consultative document is 29 February 2024.

3 December 2023

The International Organization of Securities Commissions (**IOSCO**) has issued a consultation report which provides a general overview of the carbon credits ecosystem and outlines a proposed set of good practices to promote the integrity and orderly functioning of voluntary carbon markets. The 21 good practices relate to regulatory frameworks, primary market issuance, secondary market trading, and use and disclosure of use of carbon credits. The consultation report follows a discussion paper that IOSCO issued last November which to sought to advance global discourse regarding what sound and effective voluntary carbon markets should look like and what role financial regulators may play in promoting integrity in those markets. The deadline for comments on the consultation report is 3 March 2024.

4 December 2023

IOSCO has published a final report, Supervisory practices to address greenwashing.

The final report provides a mapping of the regulatory and supervisory approaches and practices (current or planned) by regulators to address greenwashing in the areas of asset managers and ESG ratings and data product providers, including challenges and data gaps hindering the implementation of the 2021 IOSCO recommendations on sustainability-related practices, policies, procedures, and disclosure in asset management.

The final report is based on the responses received to a survey covering 22 jurisdictions and discussions held through various roundtables, both with industry participants and regulators. The final report also incorporates the feedback received from IOSCO's affiliate members consultative committee about the steps taken by industry participants to implement the November 2022 call for action on good sustainable finance practices.

Among other things the final report notes that:

- There is no global definition of greenwashing.
- Most jurisdictions have in place supervisory tools and mechanisms to address greenwashing in the area of asset managers and their products.
- Educational, awareness measures and capacity building activities are also used as proactive tools to prevent greenwashing. Some regulators provide guidance or establish some requirements about the knowledge asset manager staff are expected to have for handling and offering sustainable finance products to retail investors.
- The market for ESG ratings and data products is in a phase of rapid growth. The final report notes that the ESG ratings and data products market remains largely unregulated although a few jurisdictions are currently developing mandatory or voluntary policy frameworks for ESG ratings and data products providers. The final report sets out the key elements of these new frameworks.
- The cross-border nature of sustainable finance investments requires adequate cross-border cooperation. Securities regulators have put in place different mechanisms and tools to assist each other throughout the regulatory cycle (i.e., licensing, supervision/oversight, and enforcement).
- Greenwashing will remain a high risk to the reputation of global sustainable finance markets until the quality and reliability of information available to investors improve.

13 December 2023

The Network for Greening the Financial System (**NGFS**) has published a Technical Document providing recommendations toward the development of scenarios for assessing nature-related economic and financial risks.

The NGFS is a group of central banks and supervisors, which on a voluntary basis share best practices and contribute to the development of environment and climate risk management in the financial sector, and to mobilise mainstream finance to support the transition toward a sustainable economy.

The Technical Document is structured as follows:

- Chapter 2 provides a comprehensive overview of the challenges related to the development of nature related narratives of scenarios, in view of the specific and complex features of nature that end up creating a "local-global trade-off". It then proposes approaches to developing narratives that could overcome this trade-off and consequently serve as starting points for the assessment of nature-related financial risks, distinguishing between approaches for physical risks and approaches for transition risks.
- Chapter 3 reviews a range of modelling approaches for scenarios of two main types, namely nature-economy models, and biophysical models. It assesses the extent to which those approaches are able to integrate the outputs of nature-specific narratives as inputs to a modelling exercise and the extent to which they account for the transmission channels through which specific nature-related hazards can propagate in the economy.
- Chapter 4 examines alternative approaches to the examined models to assess nature-related financial risks, with a focus on those that are able to both represent multiple hazards in multiple sectors and capture the indirect (cascading) impacts of these hazards throughout value chains. It therefore mostly analyses the insights and limitations of Multi-Regional Input-Output (**MRIO**) tables and models, without excluding the possibility of exploring other approaches. It develops two case studies connecting nature-related narratives to MRIOs to give an example of how these tables and models can be used.
- Chapter 5 concludes with a list of options for central bankers and supervisors, to help them moving forward with the development of quantified nature-related scenarios both in the short-term and within a longer-term program.

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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