CBI Supervisory Expectations of Regulated Firms Regarding Climate and Other ESG Issues

Summary

In November 2021, the Governor of the Central Bank of Ireland ("CBI") wrote to the Chairs and CEOs of all regulated financial services providers on climate change. In the letter, the Governor noted the critical importance of the financial services sector taking ownership of the climate agenda. While acknowledging the challenges for firms, the Governor notes that the financial system has to be resilient to the risks of climate change which requires all participants to take action.

To facilitate engagement with the financial services sector the CBI has announced that it will establish a Climate Risk and Sustainable Finance Forum made up of various stakeholders. The Governor indicated that the first meeting will take place in the first half of 2022 and more details will be made available soon. It is likely to be made up of representatives of banks, insurers, asset managers and investment intermediaries.

The CBI intends to play its part in pushing the ESG agenda informed by peer thinking and developments at EU level, including the EU Sustainability Framework. The letter sets out the following CBI expectations to be applied in a proportionate manner to the nature, scale and complexity of each firm summarised as follows:

- **Governance:** Boards will need to demonstrate ownership of climate risks affecting the firm and, along with senior management, promote a culture that places an emphasis on climate and broader ESG issues. Taking ownership may include overseeing climate risk proactively through business strategy and risk appetite, ensuring adequate resourcing/expertise and providing that clear roles and responsibilities are assigned for Boards, board sub-committees and senior management.

- **Risk Management Framework:** firms need to evaluate the impact of climate change on their risk profile and enhance their risk management frameworks accordingly. This includes ensuring robust climate risk identification, measurement, monitoring and mitigation is in place.

- **Scenario Analysis:** the impact of future climate outcomes should be subject to scenario analysis and stress testing, including on capital adequacy, the extent of which should be proportionate to the nature, scale and complexity of the business and the materiality of climate risk impacts. The CBI states that scenarios should include differing transition paths to a carbon neutral future as well as a path where no transition occurs. The CBI acknowledges that approaches to scenario analysis will need to evolve and mature over time.

- **Strategy and Business Model Risk:** firms should undertake a business model analysis to determine the impacts of climate risk and opportunities on the firm's overall risk profile, business strategy and sustainability and to guide strategic planning. Insights from scenario analysis and stress testing should feed into the strategy setting process. Business model changes typically include the development of new products and services and the marketing of the sustainability features of new and existing products and services to investors. The CBI states that firms must ensure that new and existing products and services adhere to requirements under applicable EU legislation and regulation in their development and design.

- **Disclosures:** The CBI letter emphasises that firms must adhere to transparency and disclosure principles and requirements including the Taxonomy Regulation and the Sustainable Finance Disclosures Regulation ("SFDR"), together with other relevant European regulatory requirements.

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Asset managers should note the CBI specifically references the impending date of 1 January 2022 in respect of disclosure obligations relating to climate change objectives under the Taxonomy Regulation. Firms are expected to disclose information and data on the climate-related risks they are exposed to, their potential impact on financial and operational resilience and how they plan to manage and mitigate such risks.

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