International Banking Federation

5th Floor, 1 Angel Court
London EC2R 7HJ
United Kingdom
+44 7725 350 259
www.ibfed.org

The G20 Heads of State and Government
fsb@fsb.org

The Rt Hon Alok Sharma MP, COP President Designate
COP26media@cabinetoffice.gov.uk

October 27, 2021

To the G20 Finance Ministers and Central Bank Governors
To all parties of the United Nations Framework Convention on Climate Change

Re: International Banking Federation (IBFed) priorities on climate change

We are writing to share our views on the important topic of climate change in advance of the G20 Summit of Heads of State and Government on October 30-31st and the UN Climate Change Conference (COP 26) from October 31-November 12th. We fully support efforts to bring together diverse groups of stakeholders from around the world to discuss actions that should be taken to mitigate and adapt to the effects of climate change. As a leading international organization that collectively represents more than 18,000 banks, including more than two thirds of the largest 1,000 banks in the world, we would like to add our voice to the dialogue on climate change and share our key priorities below in advance of the upcoming international meetings.

Banks have a key role to play in financing a balanced and orderly transition

We are committed to supporting a balanced and orderly transition for reducing greenhouse gas emissions around the world. While banks have a key role to play as financial intermediaries, governments will be instrumental in setting targets and establishing policies, considering local jurisdictional conditions and economic structures. While the banking industry can play a prominent role, progress is heavily dependent upon governments delivering on their action plans and industrial strategies.

We believe that plans for reducing emissions by large Corporates and Corporates in high emitting sectors should be encouraged and assessed against climate goals underpinned by the latest science and supported by sectoral roadmaps developed in conjunction with industry and government-led transition pathways and Nationally Determined Commitments. Plans should be credible, manageable, comparable within sectors, and achievable over the short-term, given current economic conditions, as well as being ambitious over the long-term given the climate impacts that are being experienced today and which are predicted for the future. We support collaboration across industry sectors and with governments to facilitate coordinated action that can achieve the greatest impacts. This will enable financial flows to support the transition to a low carbon economy.

We believe government legislation plays an important role in supporting action in a way that also supports economic stability, particularly with the recent impacts of the pandemic. Governments must also ensure that their transition plans are scientifically based and build the capacity of their economies to undertake this transformation, cognizant of the differences in transition capabilities across sectors of the economy. It is also important to recognize that differences in transition capabilities may exist between developed and developing countries.

International climate finance is therefore critical for supporting developing countries' climate change adaptation and mitigation efforts. We seek a common understanding of the role of multilateral development banks and private banks in supporting transitions in emerging market and developing economies and mobilizing public and private financial flows.
In order to meet current energy needs and avoid adverse cliff effects, we believe an orderly transition to low carbon, but preferably renewable, forms of energy should be followed, allowing a reasonable time for further utilization of new technologies. To bring about change and scale-up impacts, we believe there is a need for public capital to be deployed ahead of private capital in emergent sectors such as hydrogen and electric vehicles. The banking sector stands ready to support government efforts in this regard.

Such efforts should also directly address the cost of emissions, as well as how at-risk communities – those currently dependent (both upstream and downstream) on fossil fuel industries – will transition to a net-zero economy in an orderly manner and on a "just transition" basis. By "just transition", we refer to increasing collaboration between governments, industry, and at-risk communities to manage certain transition-related impacts (e.g. employment of those in impacted sectors). Efforts to solely focus on lending portfolio emission targets through actions such as sector exclusions, for example, may disrupt individual local markets and upset an orderly and "just transition" within these communities. Instead, these communities will require special support during the transition.

There are also future economic impacts on the broader community and bank customer base to consider if no actions are taken to mitigate climate change and planning does not occur to support resilience building in the face of damages arising from physical risks. Serious impacts that will be felt include loss of life, loss and damage to infrastructure and property, and interruptions to business continuity and supply chains.

For all the above reasons, we believe that government leadership efforts are critical along with actions taken by the Corporate sector that can be supported by the banking sector in their role as financial intermediaries.

Global standard setters have an important role in sharing information and harmonizing standards and approaches

A global problem requires a global solution. We believe that harmonization of standards internationally in areas such as green and climate harmful taxonomies (the latter describing non-transformable industries), climate risk scenario analysis, and climate-related financial disclosures is important. This will help foster a common understanding of key concepts and promote consistency in approaches, and comparability of results both within and across jurisdictions. At minimum, we believe it is important to use the same language across taxonomies (e.g., using the same or easily comparable industrial codes, establish minimum standards, and design tools to allow for comparability).

We also commend the Network for Greening the Financial System (NGFS) for their initiative in developing a set of six different climate scenarios that may be utilized by local regulators and banks to assess transition and physical risks. We recommend that further work be undertaken to support further granularity of these scenarios to allow for better country level analysis, and to better reflect differences between key regions and economies. Flexibility is essential in the application of these scenarios at the national level to consider the unique features of different economies.

We also support the work of the Task Force on Climate-related Financial Disclosures (TCFD) in developing recommendations in the areas of Governance, Strategy, Risk Management, and Metrics & Targets, which are in the process of being adopted by many of our banks. That being said, banks face challenges with adopting certain recommendations including the resilience of an organization's strategy to different climate-related scenarios and the disclosure of Scope 3 emissions and related risks on account of data challenges described below including reliance on their customers, and the need to produce accurate and reliable information in their financial reporting. We will review recent TCFD developments on changes to guidance in the areas of Strategy and Metrics & Targets.

The banking industry strongly supports efforts to establish a generally accepted international framework for sustainability reporting in order to promote consistency and comparability across organizations and reduce the potential for global fragmentation.

In order to ensure international coherence and to support widespread use, we believe it is important to have a flexible framework. Therefore, global sustainability reporting standards should be "principles-based", and we believe that it is desirable to refer to the examples of the TCFD recommendations, which are flexible and already widely used internationally as a disclosure framework. Regional and local disclosure initiatives should also be considered.

We believe that the eventual streamlining of sustainability reporting and public disclosure in general is important to promote clear, comparable, and value-added information for the decision-making of users.

For international standards to be effective and consistent, international governance must be streamlined

We recommend streamlining international governance of global standards to provide a holistic and consistent framework and avoid fragmentation of approaches from multiple international organizations and standard setters. We trust that the Financial Stability Board (FSB), under the guidance of the G20, is best placed to foster consistency and jurisdictional convergence for such initiatives.

Data challenges must be addressed

While we fully agree that lack of data should not be an excuse for inaction, we are concerned about the data challenges and associated costs that banks will incur in attempting to measure and manage their climate-related risks and produce reliable disclosures. As they relate to Scope 3, attributable financed or facilitated greenhouse gas emissions, banks are highly dependent on information disclosed and/or provided by their customers and challenges are particularly acute in relation to smaller companies and non-public companies. Such companies may typically not provide publicly accessible information and may not even be reporting this information internally. We are concerned that the lack of an economy-wide disclosure requirement that includes private companies will put banks, for practical purposes, in the position of being the primary enforcers of climate policy. This is both an inappropriate delegation of responsibility and one which many banks, and especially smaller institutions and more diversified banking groups with subsidiaries in other countries (which are presumed to be responsible for providing data in the different geographies where they operate, regardless of the degree of development of environmental issues in each country), are in no position to assume.

A growing number of banks started their measurement of and accounting for Scope 3 emissions, and the management of their portfolios' environmental performance over time, based on available public emissions, energy-use and energy-mix data for proxies, and estimates of actual emissions. While such efforts are positive, there is a need to improve data quality standards upon which better emissions estimates can be made. We suggest development of clear framework for banks' measurement of/accounting for Scope 3 emissions that would include:

- Consolidation rules between the various links in the value chain that avoid double-counting, and data quality standards upon which emissions estimates can be made.
- Metrics that enable consideration of carbon sequestration in a portfolio.
- Integration of data that supports not only end-of-period portfolio measurements, but also periodic portfolio activity and forward-looking forecasts.

Development and provision of open-source greenhouse gas emissions databases by business activity and product type, centralizing certificates and labels, or access to satellite data are some examples where public authorities and governments should step in as efforts by individual companies – including small businesses - to fill the void in this regard are welcomed but less efficient and result in inconsistent methodologies, hampering users' ability to compare progress and performance across issuers.

Other data challenges include difficulty in measuring how climate data impacts other data points (e.g. macroeconomic metrics such as GDP, employment, investment) and determining the financial implications of the data. It can also be challenging for banks to review all the different data providers to determine which data is credible, relevant, and useful, and to assess which climate data is material to their financial performance.

With all this in mind, we support efforts to improve data availability for identifying and measuring climate-related risks including the provision of centralized and consistent data by public authorities, with such data being subject to audit by external bodies. We would add though, that even after any standards are set, a considerate transition period will be needed before reliable disclosure can be produced. We believe that it is important for governments and central banks to publicly acknowledge this based on calls for more immediate action. As an aside, we also feel that banks and investors would largely benefit from global efforts to provide more transparency from rating agencies on their climate-related scores, both in terms of costs and methodology, in order to improve comparability.

Research and consultation are key in developing effective standards

We support ongoing research efforts and consultation with industry on climate-related risks and disclosure as highlighted on the FSB's roadmap that was published in July 2021 and confirmed in the TCFD's October 2021 publication. We believe that research and public consultation will result in more robust and transparent standards, ultimately resulting in stronger, fairer, and more effective disclosure requirements. In addition to work that is being undertaken to establish a global minimum standard for disclosures and a basis for comprehensive and robust international data, we look forward to other work on vulnerability analysis and supervisory and regulatory practices. In particular, we support the review of the regulatory framework by the Basel Committee on Banking Supervision in relation to climate risk including the gap analysis and exploration of regulatory proposals/options to address any identified gaps. Prudential regulation should remain focused on ensuring the resilience and stability of the financial sector. We look forward to having the opportunity to review and comment on any such proposals.

In closing, we reiterate the importance of governments and industry working together to develop clear, sector-level roadmaps that align with government-led transition pathways that are underpinned by the latest science and against which corporate transition plans can be assessed. The banking industry stands ready to support efforts for reducing greenhouse gas emissions in their role as financial intermediaries. We would be pleased to discuss the key IBFed climate change priorities articulated above in further detail at your convenience. Should you have any questions or require additional information, please do not hesitate to contact us.

Kind regards,

Hedwige Nuyens
Managing Director IBFed

Denisa Avermaete, Chair IBFed
Environmental Concerns Task Group