

AFB CLIMATE FINANCIAL RISK WORKING GROUP

DATE: WEDNESDAY 12 JUNE 2024 (9:00 – 10:30, ARRIVAL FROM 8:30)

VENUE: ANZ, LEVEL 12, 25 NORTH COLONNADE, CANARY WHARF, E14 5HZ

SUMMARY

ATTENDEES

Chair: Bobby Charalambous, ANZ
Transition Finance Market Review:
Ashleigh Lee
Agathe Duchiron (virtual)

AFB Members: Annex 1
AFB: Andrew Brooke
Robert Kemble
Chloe Capelin

SECTION A – GENERAL

1. Intro/AFB Competition Law Guidance

SECTION B – ISSUES FOR DISCUSSION BY CFR WG MEMBERS

2. Transition Finance Market Review

The UK government has commissioned the [Transition Finance Market Review \(TFMR\)](#) to look at how the UK can contribute to the evolving global landscape of transition finance, and provide clarity on what a high integrity approach looks like, affording the necessary flexibility across jurisdictions and for SMEs.

The TFMR will look systematically at how market actors can develop the instruments and expertise required to enable the capital flows needed for the transition of harder to abate sectors and companies, and the enabling ecosystem that will support this market.

On 14 March 2024 a [Call for Evidence](#) in relation to the TFMR was published, which closed for response on 25 April 2024.

AL gave an overview of transition finance and TFMR, and shared the early findings from its Call for Evidence. She confirmed that TFMR aims to publish its report in autumn 2024, which will give recommendations to the market and UK government, with a focus on policy, rather than regulatory, recommendations. Following this, TFMR will continue to work with stakeholders to monitor how the recommendations are received and the progress on implementation.

At the meeting we will be joined by representatives from the TFMR who will update on their progress and engagements so far, and facilitate a discussion - seeking a global perspective on the challenges and early findings of the TFMR - to the following questions:

1. What do you see as international examples of best practice in finding the right balance between ambition and practicality in setting guardrails for transition finance? Where should the UK position itself relative to these EU and other financial centres?
- Members agreed that although there are differing levels of disclosure and flexibility needed across jurisdictions, credibility is key.

- AL gave examples of successful practices in other jurisdictions including: the US IRA policy for supporting transition tech and investment; Singapore’s guidance on TF, carbon taxes, and focus on relevant skillsets needed; and Japan’s sovereign transition bonds and TF framework tied to sector pathways.
 - AL stated that the UK needs a pragmatic and ‘high integrity’ approach, without being overly prescriptive like the EU. She noted the need for a more global conversation and to draw on the UK’s particular strengths (e.g. academia, legal sector) in its own approach.
2. What key principles/frameworks/standards do you use when developing your transition finance strategy/framework, or when looking at transition finance-related projects more generally?
- Members discussed the difficulty of competing time horizons. Banks face pressures to act in the short-term on TF, but have business strategies with medium to long-term perspectives. Many transition technologies are still in development, and there is a need to secure current energy supplies. AL suggested interim, alongside long-term, targets may be set.
 - Members discussed a range of reasons why TF projects may not happen, including poor bankability and lower risk appetites. AL confirmed TFMR will consider solutions from banks’ perspectives to improve these factors.
 - On anti-greenwashing, members were concerned about reputational risks from civil society, where lending to ‘brown’ clients and hard-to-abate sectors is not viewed as positively. The issue of financed emissions, and the risk where clients may not follow through on their transition plans, was also raised.
 - Members discussed taxonomies and disclosure frameworks, noting that these have are of limited use for the above. Members agreed that greater clarity in a TF framework would help their decision-making.
 - Members shared how stronger anti-greenwashing regulation has created a more risk-averse mindset in industry. TF projects typically come with high uncertainty and risk, particularly litigation and reputational risk. AL and members discussed how the review could make recommendations for a more conducive policy environment, for example, lowering the greenwashing threat for banks, by providing a ‘safe harbour’.
3. How should the TFMR approach interoperability and global coherence on the topic of transition finance, including with respect to the influence of EU regulation (e.g. SFDR, EU taxonomy, EFRAG implementation guidance?)
- Members agreed on the importance of interoperability and emphasised that TFMR should consider this carefully before making recommendations, as the divergence across jurisdictions’ approaches to TF means international banks’ HQs and branches are often pulled in different directions.
 - Members also sought greater clarity on how a lower bar to TF in other jurisdictions might affect UK-based banks providing TF to clients there.
 - AL confirmed that TFMR plans to consider how its proposals could work across other jurisdictions, with the hope that others will align with it. TFMR is also considering other forums it could engage with, to improve its understanding of TF internationally and help foster alignment after its report is published.
 - AB explained that since many AFB members are subject to EU standards too, the UK approach as recommended by TFMR needs to lead into these, with members agreeing that some alignment with the EU’s approach would be helpful.

4. What steps are needed to build a transition finance eco-system in the City and other UK financial centres?
 - AL explained that TFMR is considering how to improve feedback loops around the TF eco-system in the City and assessing whether current governance structures are sufficient for progressing TF conversations, as well as practical measures like applications of blended finance.
 - Members agreed that greater long-term certainty and clarity is needed from the UK government and regulators to help banks' TF strategies and decision-making, including on first-of-kind transactions. AL noted that firms would benefit from greater certainty around which transition technologies the government will support in the long-term, real economy policies, and national planning for hard-to-abate sectors.

3. FCA FG24/3: Finalised Non-Handbook Guidance on the Anti-Greenwashing Rule

On 23 April 2024 the FCA published [FG24/3: Finalised non-handbook guidance on the anti-greenwashing rule](#), which follows [Guidance Consultation 23/3](#) to which [AFB responded in January](#). The guidance comes into force on 31 May 2024 and closely follows the draft guidance. The key takeaways for members include:

- **Scope** – the FCA confirms the rule applies when a firm communicates with clients in the UK in relation to a product or service, or communicates a financial promotion (or approves a financial promotion for communication) to a person in the UK.
- **Reiteration that this is not a new requirement** – “2.11) The anti-greenwashing rule is intended to complement and be consistent with these [existing requirements] rules”; “3.13) For most firms, the rule does not introduce a new requirement as they should already be ensuring their claims are ‘fair, clear and not misleading’.” (Note, this is the rationale given by the FCA for not delaying the implementation date of 31 May).
- **Two new examples of good practice** (example 3, page 9, and example 7, page 12) – The FCA provides an example (7) of a fund manager that releases marketing material outlining the qualities/metrics it seeks in its investment in sustainability-linked bonds. Example 3 considers how claims about social characteristics may be considered misleading.
- **Reliance on Third-party data** - The FCA notes that when firms rely on third-party data, they should consider “the appropriateness of relying on data, research, analytical resources and other information provided by third parties to substantiate the claims they are making”

RK proposed to hold a virtual call with members to discuss the anti-greenwashing rule, with details to be sent in a follow-up email.

[The call will be held on 12 July, 10:30 – 11:15. Please contact Robert.kemble@foreignbanks.org.uk if you wish to attend.]

4. Bank of England Paper on Measuring Climate-related Financial Risks Using Scenario Analysis

On 17 April 2024 the Bank of England [published a paper on ‘Measuring climate-related financial risks using scenario analysis’](#). The paper explores how financial institutions can use scenario analysis to quantify physical and transition risks, and focuses on how financial institutions can ‘extend’ macro-climate scenarios to undertake granular asset-level analysis of financial risks, drawing on examples across sovereign bonds, corporate bonds and residential mortgages. It also discusses how scenario analysis outputs can be applied to financial institutions’ existing financial modelling toolkits.

SECTION C – FOR NOTING

5. Basel Committee on Banking Supervision Discussion Paper on the Role of Climate Scenario Analysis in Strengthening the Management and Supervision of Climate-Related Financial Risks

On 16 April 2024 the Basel Committee on Banking Supervision [published a discussion paper](#) on how climate scenario analysis can be practically used to help strengthen the management and supervision of climate-related financial risks, with a deadline for response of 15 July 2024.

SECTION D – AOB

ANNEX 1

NAME	BANK	JOB TITLE
Dr Aleander Jardine	ABC International Bank plc	Climate Risk Analyst
Ms Bobby Charalambous	ANZ Banking Group Ltd	Climate Risk Director – Group Regulatory Compliance and Policy
Mr Steven Thomas	BMO Financial Group	Director, Risk
Mr Chris McNab	Commonwealth Bank of Australia	COO London Branch and US Markets
Ms Deepa Kelkar	ICICI Bank UK plc	Risk Manager
Mr Matthew Bates	Kexim Bank (UK) Ltd	Company Secretary / Finance Manager
Mr Jonathan Bashforth	Landesbank Baden-Württemberg	Head of Compliance EMEA
Mr Sebastian Dziubinski	Landesbank Baden-Württemberg	Head of Risk Control
Mr Russell Cook	Macquarie Bank Ltd (London Branch)	Lead Director ESR, EMEA
Ms Anne-Karien von Fumetti	MUFG Bank, Ltd	Head of European Regulatory Policy and Advocacy
Mrs Santiya Dineva	MUFG Bank, Ltd	VP ERM
Ms Laila Sadek	Natixis	Credit Risk
Mr Alun Dawson-O'Brien	Northern Trust Management Services Ltd	Vice President Head of Climate & Sustainability Risk Program
Mr Michael Beckley	Qatar National Bank	Senior Vice President - Risk
Mr Alvin San Miguel	RBC Europe	Director, GRM Business Management and Climate Risk - UK, Europe & APAC
Ms Anna Liljedahl	SEB	Client Regulatory Analyst
Mr Nathan Whitteron	Westpac Institutional Bank	Chief Credit Officer, Europe & Americas