Issue 15:
October 2022

Creating a climate of change digest

Creating a climate of change digest: Climate risk regulatory developments in the financial services industry

At the latest meeting of the International Organization of Securities Commissions (IOSCO), the Board came to a consensus on key considerations for approving two draft International Sustainability Standards Board (ISSB) disclosure-related proposals.[1] The proposals, "Exposure Draft IFRS S2 *Climate-related Disclosures*" and "Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*," were open for comment until July 29, 2022, and more than 1,300 comment letters were submitted, signaling significant interest in the proposals and providing feedback from a diverse set of international stakeholders for consideration.[2]

This development represents progress toward IOSCO's goal of better aligning international sustainability disclosures, as reflected in the Commission's "Workplan for Sustainable Finance."[3] In recent remarks, Ashley Alder, IOSCO Board Chair and CEO of the Hong Kong Securities and Futures Commission, noted increased acknowledgment of "the value of a global baseline of sustainability disclosures that builds on existing initiatives and results in corporate reporting for investors that is sufficiently consistent and comparable across both developed and developing markets."[4]

During its recent meeting, the IOSCO Board agreed on three thematic areas of concern, including:[5]

- Ensuring the proposed standards can truly serve as an effective global baseline under either a voluntary or mandatory regime, including by considering how to provide for the scaling and phasing-in of requirements to accommodate issuers with differing degrees of maturity in sustainability reporting.
- How the ISSB can best assist implementation by clarifying definitions and providing additional guidance and examples where necessary.
- How and when to incorporate the proposed industry-based disclosure data points, recognizing on the one hand that industry specificity is highly valued by investors, while on the other that some data points may initially be challenging for some issuers.

IOSCO will begin its review and determine its stance on approval of the ISSB proposals upon their finalization.

During the July 28, 2022, meeting of the Financial Stability Oversight Council (FSOC or Council) a progress update was provided on the advancement of more than 30 recommendations detailed in the Council's *Report on climate-related financial risk*, issued in October 2021.[6] The Council issued an accompanying fact sheet[7] detailing the progress made to date by FSOC members in implementing the 2021 recommendations.

The latest progress update sheds light on developments made by the Council and its members to address the recommendations organized in the following four categories:[8]

1. Enhancing public climate-related disclosure;
2. Assessing and mitigating climate-related risks that could threaten US financial stability;
3. Building capacity and expanding efforts to address climate-related financial risks; and
4. Filling climate-related data and methodological gaps.

Of note is the progress that the Council has made to start an interagency committee, the Climate-related Financial Risk Committee (CFRC), consisting of staff from the 15 FSOC member agencies and organizations.[9] The CFRC is expected to foster increased interagency collaboration and communication through information sharing, providing FSOC members a range of "best practices" to consider in the process of detecting and responding to climate-related financial risk. Going forward, the FSOC and its members intend to concentrate on the 2021 recommendations.

The Federal Insurance Office, whose director is a nonvoting member of the FSOC, will be issuing a report by the end of the year identifying any gaps in regulatory oversight by state insurers related to climate risk and disclosure.10 The report will also analyze current climate-related disclosure regimes in the insurance sector.

While a leading group of state insurance commissioners signed on to a new Task Force on Climate-related Financial Disclosures (TCFD)-aligned climate-risk-disclosure standard for insurance companies in April, only 15 states have committed to use the survey in 2022.11 The National Association of Insurance Commissioners (NAIC) first created its climate risk survey more than a decade ago, and this new survey represents an updated version. However, these jurisdictions represent almost 80% of the US insurance market, according to the NAIC.12 The survey remains voluntary.

On July 28, 2022, the Office of Financial Research (OFR) announced the preliminary launch of its Climate Data and Analytics Hub (the Hub), which is expected to assist financial industry regulators in assessing climate-related financial risks that may pose risk to financial stability.[13] The tool was developed in response to President Biden's "Executive Order on Climate-Related Financial Risk" to support the FSOC and the Secretary of the Treasury in collecting data to identify climate-related financial risks affecting the US financial system.

In his recent remarks, OFR Acting Director James Martin reiterated two necessities of effective research on climate-related financial risk consisting of "financial and non-financial data, as well as high-powered computing capabilities."[14] The Hub is a collaborative tool where primary use is afforded to the OFR, the Federal Reserve Bank of New York, and the Federal Reserve Board, with planned expansion to members of the FSOC. The tool was launched to further support researchers, analysts, and support staff by increasing their access to climate-related data maintained across federal government agencies (e.g., US Department of Agriculture, National Oceanic and Atmospheric Administration, and National Aeronautics and Space Administration).[15]

On August 15, 2022, California's Senate Bill SB 260, the Climate Corporate Accountability Act, was amended with a majority vote.[16] However, the California Senate refused to pass the bill later that month.

The bill would have required US partnerships, corporations, limited liability companies, and other business entities doing business in California and with annual revenues greater than $1 billion to provide annual public disclosures of their Scope 1, 2, and 3 greenhouse gas (GHG) emissions. California is one of several larger US states that is taking a proactive approach to addressing climate-related risk. However, the state's proposed regulation was met with trepidation by certain banking and securities trade associations, given the nature and extent of the requirements.

Key highlights of the recent amendment are as follows:[17]

- Reporting entities are required to publicly disclose their GHG emissions to an emissions registry and not to the Secretary of State.
- Reporting entities are required to ensure that their public disclosures have been independently verified by the emissions registry or a third-party auditor, approved by the state board, with expertise in GHG emissions accounting.
- The state board is required to establish auditor qualifications and a process for approval of auditors that ensures sufficient auditor capacity, as well as timely reporting implementation, as required. The state board is required to contract with an emissions registry to develop a reporting and registry program to receive and make publicly available the required disclosures.
- The bill is amended to authorize the Attorney General to bring a civil action against a reporting entity for violations of these provisions.
- The bill is amended to make the implementation of its provisions contingent upon an appropriation by the Legislature in the annual Budget Act or another statute for its purposes.
- The bill, after amendment, requires the regulation to ensure that the reporting timelines consider industry stakeholder input and take into account the timelines by which reporting entities typically receive Scope 1, 2, and 3 emissions data, as well as the capacity for independent verification to be performed by a third-party auditor, as approved by the state board.
- The bill, after amendment, requires the regulation to ensure that the reporting entity's public disclosure is structured in ways that maximize and streamline reporting and ease of use in meeting the requirements of national and international disclosure programs and standards, including, but not limited to, adopted rules from the US Securities and Exchange Commission (SEC) and international standards such as those established by CDP Global.

Key takeaways

The bill reflected some similarities compared to the proposed climate disclosure rule issued by the SEC since it would have required both listed and non-listed institutions to make emissions disclosures and mandatory disclosures of all Scope 3 emissions (including financed emissions) with no phase-in periods.

The amended bill attempted to address some of the concerns raised by the industry. The amendments allowed for the consideration of stakeholder inputs in establishing reporting timelines and to structure the disclosures and streamline the reporting requirements with other national and international disclosure standards. However, these changes did not reduce the industry's issues with the bill.

The California Bankers Association, American Bankers Association, Bank Policy Institute, and Securities Industry and Financial Markets Association sent a joint letter dated August 17, 2022, to the California State Assembly (State Assembly) to raise concerns about the bill's requirement to disclose financed emissions.[18] The letter suggests that the State Assembly postpone the bill until the SEC rule is finalized to provide time to ensure uniformity. Similarly, several insurance organizations signed on to a letter opposing the bill.[19]

Additional Deloitte US perspective on climate risks

For additional insights, please see our ongoing series on how climate risks are shaping US financial regulatory initiatives and the impact these developments may have on the financial services industry and the broader economy:

- ***Centering around sustainability in financial services firms: Navigating risks, finding opportunities***
- ***Ingraining sustainability in the next era of ESG investing***
- ***Addressing the business ramifications of climate risk on banks***
- ***Building a more sustainable insurance industry***

Contacts

Kristen Sullivan
Audit & Assurance partner | Sustainability and ESG Services leader
Deloitte & Touche LLP
ksullivan@deloitte.com

Ricardo Martinez
Principal | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
rimartinez@deloitte.com

David Sherwood
Managing director | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
dsherwood@deloitte.com

Ashley Renee Wells
Advisory analyst | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
aswells@deloitte.com

Deloitte Center for Regulatory Strategy

Irena Gecas-McCarthy
FSI director, Deloitte Center for Regulatory Strategy, Americas
Principal | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
igecasmccarthy@deloitte.com

Michele Jones
Senior manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
michelejones@deloitte.com

Meghan Burns
Manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
megburns@deloitte.com

Kyle Cooke
Senior regulatory analyst | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
kycooke@deloitte.com

Liz Festa
Senior regulatory analyst | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
lfesta@deloitte.com

Additional contributors

Sandhya Narayan
Solution manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
sanarayan@deloitte.com

Trupthi Gorur
Senior solution advisor | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
tgorur@deloitte.com

Priyanka Arora
Senior solution advisor | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
priyarora@deloitte.com

Shubhra Jain
Lead solution advisor | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
shubhrajain@deloitte.com

Endnotes

1. International Organization of Securities Commissions (IOSCO), "IOSCO welcomes the strong stakeholder engagement on proposals for a comprehensive global baseline of sustainability disclosures for capital markets," press release, July 27, 2022.
2. International Financial Reporting Standards (IFRS), "ISSB receives global response on proposed sustainability disclosure standards," August 5, 2022.
3. IOSCO, "IOSCO welcomes the strong stakeholder engagement on proposals for a comprehensive global baseline of sustainability disclosures for capital markets."
4. Ibid.
5. Ibid.
6. US Department of the Treasury (Treasury), "Financial Stability Oversight Council releases fact sheet on climate-related financial risk efforts," press release, July 28, 2022.
7. Treasury, "Fact Sheet: The Financial Stability Oversight Council and progress in addressing climate-related financial risk," July 28, 2022.
8. Ibid.
9. Ibid.
10. Ibid.
11. National Association of Insurance Commissioners, "U.S. insurance commissioners endorse internationally recognized climate risk disclosure standard for insurance companies," April 8, 2022.
12. Ibid.
13. Treasury, "Office of Financial Research pilots cutting-edge data hub to assist with climate-risk assessments," press release, July 28, 2022.
14. Ibid.
15. Office of Financial Research (OFR), "OFR Fact Sheet: Climate Data and Analytics Hub," July 28, 2022; President Joseph Biden, "Executive Order on Climate-Related Financial Risk," White House, May 20, 2021.
16. California Legislature, "Bill Text - SB-260 Climate Corporate Accountability Act. (ca.gov)," senate bill, August 15, 2022.
17. Ibid.
18. American Bankers Association, Bank Policy Institute, California Bankers Association, and Securities Industry and Financial Markets Association, "SIFMA, CBA, ABA, and BPI on Enhanced Financed Emission Disclosures," comment letter, August 17, 2022.
19. California Chamber of Commerce, "Updated Coalition Letter to Assembly," coalition letter, August 31, 2022.

Deloitte.

CENTER *for* REGULATORY STRATEGY AMERICAS