

Creating a climate of change digest



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

Leading off

The International Chamber of Commerce (ICC) launched a new set of Principles for Sustainable Trade Finance (PSTF) at Sibos 2024 in Beijing. PSTF aims to provide a consensus set of principles that define sustainable trade finance products.¹

PSTF, launched in October 2024, provides guidelines to enable banks, corporates, and investors to effectively channel capital toward sustainable and inclusive trade finance facilities while mitigating the risks associated with greenwashing. PSTF provides principles and guidance for three types of trade finance products: Green Trade Finance (GTF), Sustainability-linked Trade Finance, and Sustainability-linked Supply Chain Finance (SLSCF).²

- **Principles for Green Trade Finance (PGTF)** – GTF refers to trade finance products that align to or support a green activity. PGTF are a set of detailed, fully implementable principles that provide a common language and set of processes for banks to utilize when conducting a use of proceeds-based assessment for green-labeled trade finance products. PGTF aims to complement and support the Loan Market Association's (LMA) Green Loan Principles (GLPs)³ in the assessment of trade finance transactions and to ensure that the threshold for sustainability in green trade finance is comparable to that of other green financing.

- **Guidance on Sustainability-linked Trade Finance –** Sustainability-linked finance measures improvement in one or more client-level key performance indicators (KPIs.) ICC recommends utilizing the pillars of the LMA's Sustainability-Linked Loan Principles (SLLPs)⁴ as guidance for sustainability-linked assessments.
- **Guidance on SLSCF –** SLSCF encourages buyers to establish and monitor sustainability-aligned KPIs for their suppliers, ensuring that sustainability objectives permeate supply chain finance programs. ICC provides additional clarity on ownership of KPIs in relation to SLSCF programs. ICC also recommends utilizing the pillars of the LMA's SLLPs as guiding principles for sustainability-linked SCF programs.

The PSTF also declares ICC's ambition to release bespoke principles for Social Trade Finance and address critical socioeconomic dimensions such as labor rights, human rights, and economic development. The PGTF and future Principles for Social Trade Finance will form the two use-of-proceeds components of the wider ICC Principles for Sustainable Trade (PST).

The ICC principles align with global standards such as the Loan Market Association's Green Loan Principles, the EU Taxonomy, and the UN Sustainable Development Goals. To support implementation, the ICC provides tools such as green activity lists, code-mapping resources, and a sustainable credentials library.

On November 4, 2024, the US Securities and Exchange Commission (SEC) issued a risk alert to registered investment companies, providing insight into the agency's current examination process for funds.⁵

The SEC's Division of Examinations issued a risk alert focusing on registered investment companies, which include mutual funds, ETFs, and unit investment trusts managing more than 15,000 portfolios. The division has issued the risk alert to assist investment companies and their advisers in their compliance efforts and to provide information that may help funds and their advisers prepare for an examination.

The alert informed that the division would utilize a risk-based approach for examination selection and scoping that is aligned with the approach taken for examining investment advisers.⁶ Fund-specific and adviser-specific risk factors, such as those related to the fund's or its adviser's business activities, conflicts of interest, and/or regulatory history would be considered in the selection.

The alert indicated that the areas reviewed during examinations may include compliance policies and procedures of funds and their service providers for their effectiveness; funds' board governance processes and the efficacy of board oversight of funds' compliance programs; funds' investment advisory agreement approval process and the thoroughness of the board's review of fund fees for consistency with disclosures; and fund disclosures in regulatory filings and investor communications for their consistency and appropriateness.

Examinations often include the review of three core areas: fund compliance programs, fund disclosures and filings, and fund governance practices. The alert highlighted common deficiencies and weaknesses observed by the division in these three core areas. The alert also detailed the initial information that the division may request to be provided for review as part of fund examination. The risk alert provided an attachment titled "Typical Initial Information Examiners Request of Certain RICs and Their Advisers" as a resource to assist with the examination process.⁷

International Swaps and Derivatives Association (ISDA) CEO Scott O'Malia provided informal comments on the need for robust and consistent standards for a voluntary carbon market to transition to a net-zero economy and reduce carbon emissions.⁸

ISDA's CEO offers five recommendations to incorporate an efficient voluntary carbon market.⁹

1. **Definition of "ton of carbon":** A globally consistent, widely adopted definition of a "ton of carbon" and a robust, independent system using scientific evidence to verify and audit the integrity of voluntary carbon credits (VCCs) are noted as nonnegotiable prerequisites for an effective carbon market.
2. **Sound legal framework:** A robust legal framework is deemed necessary to create greater certainty and confidence in the trading of voluntary carbon credits. ISDA believes all VCC trades should be protected by a consistent legal framework that creates certainty over the exchange of collateral and obligations in a bankruptcy scenario.¹⁰
3. **Accounting treatment for VCCs:** It is noted that there are no specific provisions relating to carbon credits under US Generally Accepted Accounting Principles or International Financial Reporting Standards, and an aligned approach that would allow consistent treatment of VCCs is advocated.
4. **Secondary market:** The development of a liquid-forward market is recommended as it would send valuable price signals to buy- and sell-side firms, enabling them to gauge supply and demand and manage their risk, and because such a market would help to secure long-term investment in carbon removal technologies and nature-based solutions.
5. **Global regulatory framework:** The development of a globally consistent regulatory framework for a voluntary carbon market is advocated.

These five recommendations were presented at a recent meeting of the Sustainable Finance Task Force of the International Organization of Securities Commissions (IOSCO) where the CEO urged policymakers to consider these recommendations to create a vibrant, efficient voluntary carbon market and to work with ISDA to implement them.¹¹

On November 12, 2024, the Financial Stability Board (FSB) released its 2024 progress report on achieving consistent and comparable climate-related disclosures, drawing on a survey of FSB member jurisdictions and input from standard-setting bodies and international organizations.¹²

The report¹³ describes the progress by the International Sustainability Standards Board (ISSB) and other standard-setting bodies (SSBs) and international organizations in supporting jurisdictions and companies to use the new ISSB standards (IFRS S1¹⁴ and IFRS S2¹⁵), the progress made by FSB member jurisdictions on climate-related disclosure practices, and the progress on corporate climate-related disclosures, and it provides details on those jurisdictions that have put or are putting in place structures or processes to bring the ISSB standards into local requirements, as highlighted below.

• Progress toward a global climate disclosure framework:

- The report recognizes the need to promote capacity-building and other support for those seeking to use the ISSB standards. It notes the challenges faced by small- and medium-sized enterprises (SMEs) and entities in emerging market and developing economies (EMDEs) in adopting the standards.
- The report highlights the progress made in ensuring interoperability between ISSB standards and other regional and jurisdictional disclosure frameworks. The report recapitulates that the Global Reporting Initiative (GRI) and IFRS Foundation intend to deepen their working relationship¹⁶ and that the Foundation and European Financial Reporting Advisory Group (EFRAG) have published guidance material¹⁷ on the alignment between European Sustainability Reporting Standards (ESRS) and the ISSB.
- The report highlights the progress made by the global audit and ethics SSBs, the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) since the 2023 FSB report¹⁸ toward global assurance and ethics (including independence) frameworks.
- FSB is exploring the implications of transition plans for financial stability, highlighting that an increase in the availability of transition plans will provide a clearer picture of how entity-level disclosures of plans could be used for macroprudential purposes.
- The report summarized the initiatives taken by the International Accounting Standards Board to connect financial statements and sustainability-related disclosures and the initiatives taken by the Basel Committee on Banking Supervision to address climate-related financial risks in the global banking system.

• Jurisdictional progress in promoting climate-related disclosures:

- A large majority of FSB jurisdictions have established regulations, guidelines, or strategic roadmaps for climate-

related disclosures. Specifically, 19 of 24 surveyed FSB member jurisdictions are on the path toward establishing climate-related disclosure requirements.

- Additionally, 17 of 24 surveyed FSB member jurisdictions have set or proposed voluntary or mandatory disclosure requirements based on the ISSB standards and the recommendations of the Task Force on Climate-related Disclosures (TCFD).

• Progress on companies' climate-related financial disclosures:

- The report summarizes the primary elements of the ISSB's 2024 report titled Progress on Corporate Climate-related Disclosures.¹⁹
- It is noted that the number of companies disclosing TCFD-aligned information continues to grow, but more progress is necessary. The report informs that, between October 2023 and March 2024, more than 1,000 companies have referenced the ISSB in their disclosures.

Overall, the FSB's 2024 report underscores the global efforts and progress made toward achieving consistent and comparable climate-related disclosures while also highlighting areas that require continued focus and improvement.

IOSCO issued a statement of support on the IAASB's International Standard on Sustainability Assurance (ISSA) 5000.²⁰

The IAASB approved the proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements in September 2024. ISSA 5000 replaces the ISAE 3000 (revised)²¹ as the preferred framework for providing assurance of sustainability standards and covers the wide range of sustainability information that organizations report—from climate-related risks and emissions data to social and governance metrics.

IOSCO congratulated IAASB on achieving the milestone of finalizing ISSA 5000 and noted the extensive and thorough outreach program conducted by the IAASB throughout the life cycle of the development of ISSA 5000.²² IOSCO published a report in March 2023 setting out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting and published a public statement in December 2023 on the consultation on proposed ISSA 5000. In its statement of support,²³ IOSCO acknowledged that the final standard is responsive to the key considerations and observations set out by IOSCO in its 2023 report and public statement.

IOSCO believes that the standard may enhance consistency, comparability, and reliability of sustainability-related information provided to the market. In its statement, IOSCO called on its members to consider ways in which they might apply or otherwise be informed by the IAASB's global sustainability assurance standard when considering assurance requirements or permissions within the context of their jurisdictional arrangements.

Contacts

Kristen Sullivan

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

Chris Ruggeri

Principal | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
cruggeri@deloitte.com

Ricardo Martinez

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

Rahil Banthia

Senior manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
rbanthia@deloitte.com

Michael Ruiz

Senior manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
miruiz@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

Kyle Cooke

Manager | Deloitte Services LP
kycooke@deloitte.com

Liz Festa

Senior regulatory analyst | Deloitte Services LP
lfesta@deloitte.com

Aaron Salerno

Manager | Deloitte Services LP
asalerno@deloitte.com

Additional contributors

Trupthi Gorur P.

Manager | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
tgorur@deloitte.com

Nikhilesh Parashar

Senior solution advisor | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
niparashar@deloitte.com

Simran Lavi

Lead solution advisor | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
slavib@deloitte.com



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:

- [Deloitte 2024 CxO Sustainability Report](#)
- [2025 financial services industry outlooks](#)
- [The CIO's call to action: Driving an environmentally sustainable tech agenda to accelerate organizational change](#)
- [Climate Change and Financial Risk Digest | Deloitte US](#)
- [Center for Regulatory Strategy - Sustainability, Climate & Equity | Deloitte US](#)

Endnotes

1. International Chamber of Commerce (ICC), "[ICC launches pioneering Principles for Sustainable Trade Finance developed with leading trade banks](#)," October 21, 2024.
2. ICC, [ICC Principles for Sustainable Trade Finance](#), October 2024.
3. Loan Market Association (LMA), "[Green Loan Principles](#)," February 2023.
4. LMA, "[Sustainability-Linked Loan Principles](#)," February 2023.
5. US Securities and Exchange Commission (SEC), "[Registered investment companies: Review of certain core focus areas and associated documents requested](#)," November 4, 2024.
6. SEC, "[Risk Alert: Investment Advisers: Assessing Risks, Scoping Examinations, and Requesting Documents](#)," September 6, 2023.
7. Ibid.
8. Scott O'Malia, "[A clear plan for voluntary carbon trading](#)," International Swaps and Derivatives Association's (ISDA) *derivatiViews*, November 4, 2024.
9. Ibid.
10. Scott O'Malia (ISDA), "[IOSCO Sustainable Finance Task Force: Scott O'Malia remarks](#)," IOSCO Sustainable Finance Task Force meeting (Singapore), September 27, 2024.
11. Ibid.
12. Financial Stability Board (FSB), "[FSB reports on progress towards globally consistent and comparable climate-related disclosures](#)," press release, November 12, 2024.
13. FSB, [Achieving consistent and comparable climate-related disclosures: 2024 progress report](#), November 12, 2024.
14. International Financial Reporting Standards (IFRS), [IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#), June 2023.
15. IFRS, [IFRS S2 Climate-related Disclosures](#), June 2023.
16. IFRS, "[GRI and IFRS Foundation collaboration to deliver full interoperability that enables seamless sustainability reporting](#)," May 24, 2024.
17. EFRAG and IFRS, [ESRS-ISSB Standards: Interoperability guidance](#), May 2, 2024.
18. FSB, "[FSB publishes annual progress report on climate-related disclosures](#)," October 12, 2023.
19. IFRS Foundation, [Progress on Corporate Climate-related Disclosures—2024 report](#), November 2024.
20. International Organization of Securities Commissions (IOSCO), "[IOSCO issues statement of support on the IAASB's International Standard on Sustainability Assurance \(ISSA\) 5000](#)," press release, November 12, 2024.
21. International Auditing and Assurance Standards Board (IAASB), "[International Standard on Assurance Engagements ISAE 3000 \(Revised\). Assurance Engagements other than Audits or Reviews of Historical Financial Information](#)," December 2013.
22. IOSCO, "[IOSCO issues statement of support on the IAASB's International Standard on Sustainability Assurance \(ISSA\) 5000](#)."
23. Ibid.



This document contains general information only and Deloitte is not, by means of this document, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser.

Deloitte shall not be responsible for any loss sustained by any person who relies on this document.

As used in this document, "Deloitte" means Deloitte & Touche LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2025 Deloitte Development LLC. All rights reserved.
8968560

CENTER *for*
REGULATORY
STRATEGY
AMERICAS