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Creating a climate of change digest

Climate risk regulatory developments in the financial services industry

Leading off

The National Association of Insurance Commissioners (NAIC) issued a press release about its members participating in the ASSAL-FSI-IAIS High-Level Meeting (HLM) on Insurance Supervision and the 2024 ASSAL Annual Conference in Uruguay.[1]

More than 30 senior insurance supervisors from 16 countries met at the ASSAL-FSI-IAIS High-Level Meeting, which was co-organized by the Association of Insurance Supervisors of Latin America (ASSAL), the Financial Stability Institute (FSI) of the Bank for International Settlements (BIS), and the International Association of Insurance Supervisors (IAIS) and hosted by the Central Bank of Uruguay. The meeting covered subjects such as insurance regulatory reforms and their implementation in Latin America, the role of supervisors against natural catastrophe (Nat Cat) challenges and climate-related risks, and addressing operational resilience challenges in a tech-driven insurance sector.[2]

The 2024 ASSAL Annual Conference was conducted May 8–9, 2024, and it drew in more than 300 leaders and professionals from the insurance sector. IAIS Head of Implementation and Assessment Conor Donaldson delivered a presentation on priority projects and activities in the context of the IAIS's 2024 *Roadmap*; this addressed climate risk as a strategic theme. The IAIS will continue its work on scenario analysis to develop and share practical capacity-building materials for insurance supervisors. IAIS will examine the role of supervisors in addressing Nat Cat and disaster risk protection gaps.[3]

During the conference, NAIC members discussed various topics such as solvency, climate risks, and resiliency, as well as consumer protection and innovation. Specifically, the session on climate risks focused on climate risks associated with climate change and catastrophes, including regulations regarding reserve requirements, associated capital requirements, and alternative risk transfer instruments, and the impact on insurance and reinsurance prices. California Insurance Commissioner Ricardo Lara presented US supervisors' efforts to increase insurance penetration and encourage policyholder risk mitigation, citing his experiences in California.

NAIC members met with ASSAL's leadership to discuss key issues facing their respective jurisdictions, as well as future collaborations between the two organizations.[4]

At the International Organization of Securities Commission (IOSCO) Presidents Committee meeting on May 28, 2024, the chair of the International Sustainability Standards Board (ISSB) unveiled the ISSB Standards Adoption Guide, which provides insights for jurisdictions as they consider adopting, applying, or otherwise being informed by the ISSB Standards.[5]

More than 20 jurisdictions, accounting for nearly 55% of global gross domestic product (GDP) and more than 40% of global market capitalization—representing more than half of the global greenhouse gas (GHG) emissions—have announced they will use the ISSB Standards or will fully align their sustainability disclosure standards with those of the ISSB.[6]

The guide, titled *Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards*, was published in May 2024 and supersedes the *Preview of the Inaugural Jurisdictional Guide for the adoption or other use of ISSB Standards*, which was published in February 2024.[7] The publication of the new guide was a key IOSCO demand, as it endorsed the Standards in July 2023.[8]

The guide aims to support jurisdictional journeys for the adoption or other use of the ISSB Standards IFRS S1[9] and IFRS S2[10] and to show market participants how jurisdictions are progressing toward delivering globally consistent and comparable sustainability-related information. The guide focuses on increasing transparency, reducing cost associated with multiple reporting standards, and promoting global capital flows. To facilitate this, the guide outlines various features to describe and summarize different jurisdictions' approaches to the adoption or other use of ISSB Standards, such as regulatory or legal standing, degree of alignment with ISSB Standards, and the placement of disclosures. The guide offers detailed information on each aspect of the adoption process, making it a valuable resource for jurisdictions beginning their journey to integrate ISSB Standards into their regulatory frameworks.[11]

The guide will be further refined and updated by the IFRS Foundation to consider the development of ISSB Standards beyond IFRS S1 and IFRS S2 and to consider the various jurisdictional approaches as they become evident over time. The Foundation also plans to conduct bilateral discussions with jurisdictions and develop and publish high-level jurisdictional profiles to describe the status of and progress toward the introduction of sustainability-related disclosure requirements.[12]

On May 28, 2024, the Biden-Harris administration announced new principles for high-integrity Voluntary Carbon Markets (VCM).[13]

The Biden-Harris administration has released new guidelines intended to strengthen the integrity and effectiveness of VCMs. This initiative stems from President Biden's commitment to take action to drive the investments needed to achieve the nation's climate goals of reaching net-zero by 2050. As part of this commitment, the Biden-Harris administration has released a joint statement of Policy and the new Principles for Responsible Participation in Voluntary Carbon Markets[14] that codifies the US government's approach to advance high-integrity VCMs.

The policy statement recognizes the potential of VCMs to grow in the coming years and to channel a significant amount of private capital to support the energy transition and combat climate change. Further, it provides observations on the current state of VCMs and outlines voluntary principles that US market participants should embrace as they engage in VCMs.

The seven outlined principles are as follows:[15]

1. Carbon credits and the activities that generate them should meet credible atmospheric integrity standards and represent real decarbonization.
2. Credit-generating activities should avoid environmental and social harm and should, where applicable, support co-benefits and transparent and inclusive benefits-sharing.
3. Corporate buyers that use credits ("credit users") should prioritize measurable emissions reductions within their own value chains.
4. Credit users should publicly disclose the nature of purchased and retired credits.
5. Public claims by credit users should accurately reflect the climate impact of retired credits and should rely only on credits that meet high-integrity standards.
6. Market participants should contribute to efforts that improve market integrity.
7. Policymakers and market participants should facilitate efficient market participation and seek to lower transaction costs.

The principles for responsible participation in VCMs are designed to ensure that these markets robustly contribute to US climate goals: reducing emissions by 50% by 2030 and achieving net-zero by 2050. The focus is on ensuring that carbon credits represent real, verifiable decarbonization efforts, avoid environmental and social harm, and require public disclosure of credit transactions.

On May 29, 2024, the US Department of the Treasury and the Internal Revenue Service (IRS) released proposed guidance on the Clean Electricity Production Credit and Clean Electricity Investment Credit established by the Inflation Reduction Act of 2022.[16]

The Inflation Reduction Act's "technology-neutral" Clean Electricity Production Credit (section 45Y of the tax code) and Clean Electricity Investment Credit (section 48E of the tax code) will replace existing production and investment tax credits. The Notice of Proposed Rulemaking[17] incentivizes clean energy facilities that achieve net-zero GHG emissions and provides guidance for determining GHG emissions rates resulting from the production of electricity; petitioning for provisional emissions rates; and determining eligibility for the new credits in different circumstances.

Highlights:[18]

1. The credits are available for a facility that generates electricity, is placed in service after December 31, 2024, and has a GHG emissions rate of not greater than zero.
2. Clean energy technologies that rely on combustion or gasification to produce electricity should undergo a life cycle GHG analysis to demonstrate net-zero emissions.
3. Wind, solar, hydropower, marine and hydrokinetic, nuclear fission and fusion, geothermal, and certain types of waste energy recovery property are identified as qualifying technologies.
4. Energy storage technologies can qualify for the Clean Electricity Investment Credit.
5. Any future changes to the set of technologies that are designated as zero GHG emissions or the designation of life cycle analysis models that may be used to determine GHG emissions rates must be accompanied by an analysis prepared by US Department of Energy National Labs, in consultation with agency technical experts and other experts.

The tax credits are expected to help facilities develop clean energy production technologies over time and offer longer-term certainty for investors and developers of clean energy projects. The comment period for the proposed rules ended August 2, 2024, and the public hearing on these proposed rules was held August 12–13, 2024.[19]

On June 4, 2024, Carbon Disclosure Project (CDP) unveiled its new disclosure platform to streamline and remove barriers to high-quality reporting on climate and nature.[20]

CDP's announcement of the launch of its revamped reporting platform comes at a time when there are increasing numbers of countries mandating climate reporting, with many adopting the ISSB standards, IFRS S1,[21] and IFRS S2.[22] CDP has launched a new corporate questionnaire that is aligned with the IFRS S2 climate standard as the foundational baseline for CDP's climate disclosure. This alignment is expected to drive efficiencies for disclosers and data users given that jurisdictions accounting for nearly 55% of global GDP, have decided to use the ISSB Standards or to fully align their sustainability disclosure standards with those of the ISSB.[23]

CDP has also progressed critical alignment with other key standards like the Taskforce on Nature-related Financial Disclosures (TNFD) and the European Sustainability Reporting Standards, harmonizing them in one questionnaire and dataset. The new questionnaire addresses a broad spectrum of environmental issues such as water, forests, climate, biodiversity, and plastics. There is also a release of a stand-alone questionnaire for small and medium enterprises that is tailored to meet their specific needs and capabilities.

2024 reporting cycle and key dates:

- April 16: CDP portal opens for requesters
- Week of April 29: Availability of 2024 questionnaires
- May 14: Portal opens for disclosers
- June 4: Reporting window opens
- September 18: Scoring deadline
- October 2: Reporting window closes

CDP's 2024 enhancements are not just structural but also strategic. The new CDP corporate questionnaire consolidates previous questionnaires into a single document, facilitating a holistic disclosure across multiple environmental issues. This change supports companies in providing comparable and comprehensive environmental data, crucial for assessing risks and opportunities in their operations and supply chains. This strategic approach positions CDP as a pivotal platform in the evolving landscape of global environmental disclosure.

The ISSB delivers further harmonization of the sustainability disclosure landscape as it embarks on a new work plan.[24]

From November 2023 to April 2024, the ISSB considered the feedback that was received in response to the Request for Information[25] published in May 2023 and set its priorities in the 2024–2026 work plan. The ISSB's activities for 2024–2026 are all interrelated and work together to enable the ISSB to deliver a comprehensive global baseline of sustainability-related financial disclosures that meet the information needs of investors.

Core activities in the work plan are centered on connectivity, stakeholder engagement, and interoperability. The work plan has a heightened focus on supporting the implementation of IFRS S1[26] and IFRS S2[27] and has a comparatively lower level of focus on conducting new research projects (related to biodiversity, ecosystems and ecosystem services, and human capital) and on enhancing SASB standards.[28] Implementation of the ISSB's workplan will be supported by strategic relationships.

Highlights of priorities and strategic relationships:[29]

1. **Harmonizing disclosures about transition plans** – The ISSB plans to support work to streamline and consolidate frameworks and standards for disclosures about transition plans (i.e., plans to transition to a lower-carbon economy) by focusing on the provision of high-quality, decision-useful information about the plans that companies have—consistent with the focus of IFRS S2.[30]

2. **Measuring GHG emissions effectively** – The ISSB will focus on supporting the implementation of IFRS S2, which requires GHG emissions to be measured in accordance with the GHG Protocol Corporate Standard. The IFRS Foundation and GHG Protocol have signed a Memorandum of Understanding to put in place governance arrangements so that the ISSB is actively engaged in updates and decisions made in relation to the GHG Protocol standards and guidance.
3. **Partnering with CDP to deliver alignment** – CDP is the ISSB's key global climate disclosure partner and supports companies on their path to compliance with ISSB Standards. CDP's new corporate questionnaire, which is aligned with the IFRS S2, is the foundational baseline for CDP's climate disclosure.[31]
4. **Full interoperability with Global Reporting Initiative (GRI)** – The ISSB and GRI's Global Sustainability Standards Board (GSSB) have committed to jointly identify and align common disclosures that address information needs under the distinct scopes and purposes of their respective standards, for both thematic and sector-based standard-setting.
5. **Informed by the TNFD** – The ISSB will reference and build on relevant initiatives to meet the information needs of investors as it embarks on its research project on biodiversity, ecosystems, and ecosystem services. ISSB has agreed to consider building upon the recommendations of the TNFD.
6. **Transition Plan Taskforce (TPT) disclosures** – In a panel discussion following the opening of the London Stock Exchange on June 24, 2024, ISSB Vice-Chair Sue Lloyd and Co-Chair of the Transition Plan Taskforce Amanda Blanc discussed the plans for the ISSB to assume responsibility for the TPT's disclosure-related materials.

On June 28, 2024, California Governor Gavin Newsom's administration proposed[32] that the implementation of California's mandatory climate disclosure laws relating to GHG emissions (S.B. 253)[33] and climate-related risks (S.B. 261)[34] be delayed for two years.

The amendments have been proposed by Governor Newsom's office through 2024–25 Proposed Budget Trailer Bill Language, which is the implementing language of the California State Budget Bill. The proposed amendments in the trailer bill will be heard concurrently with the budget bill and can thus bypass standard legislative procedures.

Highlights of the proposed amendments:[35]

1. Entities with more than $1 billion in revenue would not have to disclose scope 1 and scope 2 GHG emissions until 2028, and the disclosure of scope 3 GHG emissions is proposed to be delayed until 2029.
2. Reporting entities earning more than $500 million in revenue would not be required to disclose climate-related financial risk until 2028.
3. The deadline for the California Air Resources Board (CARB) to develop regulations for disclosure of GHG emissions under S.B. 253 is updated from January 1, 2025, to January 1, 2027.
4. California Air Resources Board (CARB) is required to set specific disclosure schedules for the reporting of scope 3 emissions under S.B. 253.

The proposed amendments are not final and are subject to further negotiations between the governor and the legislature. The deadline for passing any legislation for 2024 is August 31, and the Newsom administration and legislature may need to arrive at a resolution prior to this deadline.

On July 8, 2024, the Office of Information and Regulatory Affairs released the semiannual Unified Agenda of Regulatory and Deregulatory Actions,[36] which includes the Securities and Exchange Commission's Spring 2024 Regulatory Agenda.[37]

The Securities and Exchange Commission (SEC) has pushed out the release date for three of its environmental, social, and governance (ESG)-related regulations concerning greenwashing,[38] human capital management,[39] and corporate board diversity.[40]

The proposed rule, "Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices," requires registered investment advisers, certain advisers that are exempt from registration, registered investment companies, and business development companies to provide additional information regarding their ESG investment practices.[41] According to the SEC's previous regulatory agenda published last fall, release of the final rule was slated for April 2024. However, the release date has been postponed to October 2024, per the SEC's Spring 2024 Regulatory Agenda.

The SEC's decision to postpone the release of these rules potentially signals the increased scrutiny faced by ESG-related regulations and the challenges in aligning regulatory requirements with industry capabilities.

The Science Based Targets initiative (SBTi) calls for financial institutions worldwide to pilot test the draft Financial Institutions Net-Zero Standard.[42]

SBTi invites financial institutions across the globe to participate in the pilot testing of the Financial Institutions Net-Zero (FINZ) Standard. SBTi is developing the standard to help financial institutions leverage their role as enablers and facilitators in the global economy and drive the net-zero transformation.

The pilot testing phase is an important element of the development process of the standards, in which SBTi will collect the feedback on the draft standards, which is planned to be released by the end of July. The pilot test aims to ensure the robustness, clarity, and practicality of the FINZ Standard Draft, identify implementation challenges, inform the final draft development, and test the feasibility of validating financial institutions against the standard.

Participants of the pilot testing exercise will have the opportunity to gain early insights into the draft standards and communicate with SBTi to address any issues and provide feedback. SBTi has also provided the Terms of Reference[43] for the pilot test—outlining the selection criteria for financial institutions, the objectives and time frame of the testing, and the responsibilities of the participants—detailing how the SBTi will interact with the selected institutions.

The pilot test began on August 19, 2024, and will last for at least six weeks. Financial institutions interested in participating in pilot testing must have completed the application form by August 9, 2024. Submitted applications will be reviewed to ensure that the group of institutions invited to participate will cover a diverse range of financial activity types, emissions profiles, geographies, and business sizes.[44]

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 2023 CxO Sustainability Report
- 2024 financial services industry outlooks
- Ingraining sustainability in the next era of ESG investing
- The CIO's call to action: Driving an environmentally sustainable tech agenda to accelerate organizational change
- Climate change risk digest | Deloitte US
- Center for Regulatory Strategy | Deloitte US

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

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

Liz Festa
Senior research specialist | Deloitte Services LP
lfesta@deloitte.com

Additional contributors

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

Nikhilesh Parashar
Lead solution advisor | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
niparashar@deloitte.com

Nilanjan Ghosh
Senior solution advisor | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
nilghosh@deloitte.com

Simran Lavi
Solution advisor | Deloitte Risk & Financial Advisory
Deloitte & Touche LLP
slavib@deloitte.com

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