Finanssialan haaste integroida ilmaston-muutoksen vaikutukset toimintaansa – mikä on tietotarve?

Esko Kivisaari, Finanssiala ry

FINANCE FINLAND

What is FFI and who do we represent?

POSITION-TAKING NETWORK
400 persons

FINANCE FINLAND
50 employees
We build an operating environment that promotes business in the financial sector

FINANCIAL SECTOR ENTITIES
180 members
~26,000 employees

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What does FFI do?

We formulate efficient positions which the sector can stand behind

We fruitfully represent the sector’s interests in Finland and in the European Union

We promote beneficial development in issues such as digitalisation and welfare financing

We are the modern financial sector’s most skilled and efficient representative

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FFI’s European umbrella organisations

EPC
European Payments Council

Lease Europe
The European Federation of Leasing Company

EBTN
European Banking & Financial Services Training Association

EBF
European Banking Federation

IE
Insurance Europe

EFAMA
European Fund and Asset Management Association

EUROFINAS
The European Federation of Finance House Associations

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Finnish financial sector supports the internationally-agreed target of limiting global warming below ~~2°C~~ 1,5 °C

FFI Board in February 2017

EU High Level Expert Group on Sustainable Finance of 2017

“The challenges currently posed by climate change pale in significance compared with what might come,” Carney (Bank of England Governor) said. “The far-sighted amongst you are anticipating broader global impacts on property, migration and political stability, as well as food and water security. So why isn’t more being done to address it?”

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A shared view on sustainable development

- The High Level Expert Group on Sustainable Finance published its recommendations on January 31st 2018.
- Connecting the financial system with the real economy.
- Strengthen financial stability by incorporating ESG factors into decision-making.
- Europe's annual investment gap of almost 180 billion EUR to achieve EU climate and energy targets by 2030.
- The financial system cannot solve the problem alone – taxes and subsidies must be aligned with the sustainability goals.

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Task Force of Climate Related Financial Disclosure

What to learn from there?

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Financial Markets and Transparency

One of the essential functions of financial markets is to price risk to support informed, efficient capital allocation decisions. Accurate and timely disclosure of current and past operating and financial results is fundamental to this function, but it is increasingly important to understand the governance and risk management context in which financial results are achieved. The financial crisis of 2007–2008 was an important reminder of the repercussions that weak corporate governance and risk management practices can have on asset values. This has resulted in increased demand for transparency from organizations on their governance structures, strategies, and risk management practices. Without the right information, investors and others may incorrectly price or value assets, leading to a misallocation of capital.

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Financial Implications of Climate Change

One of the most significant, and perhaps most misunderstood, risks that organizations face today relates to climate change. While it is widely recognized that continued emission of greenhouse gases will cause further warming of the planet and this warming could lead to damaging economic and social consequences, the exact timing and severity of physical effects are difficult to estimate. The large-scale and long-term nature of the problem makes it uniquely challenging, especially in the context of economic decision making. Accordingly, many organizations incorrectly perceive the implications of climate change to be long term and, therefore, not necessarily relevant to decisions made today.

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Core Elements of Recommended Climate-Related Financial Disclosures

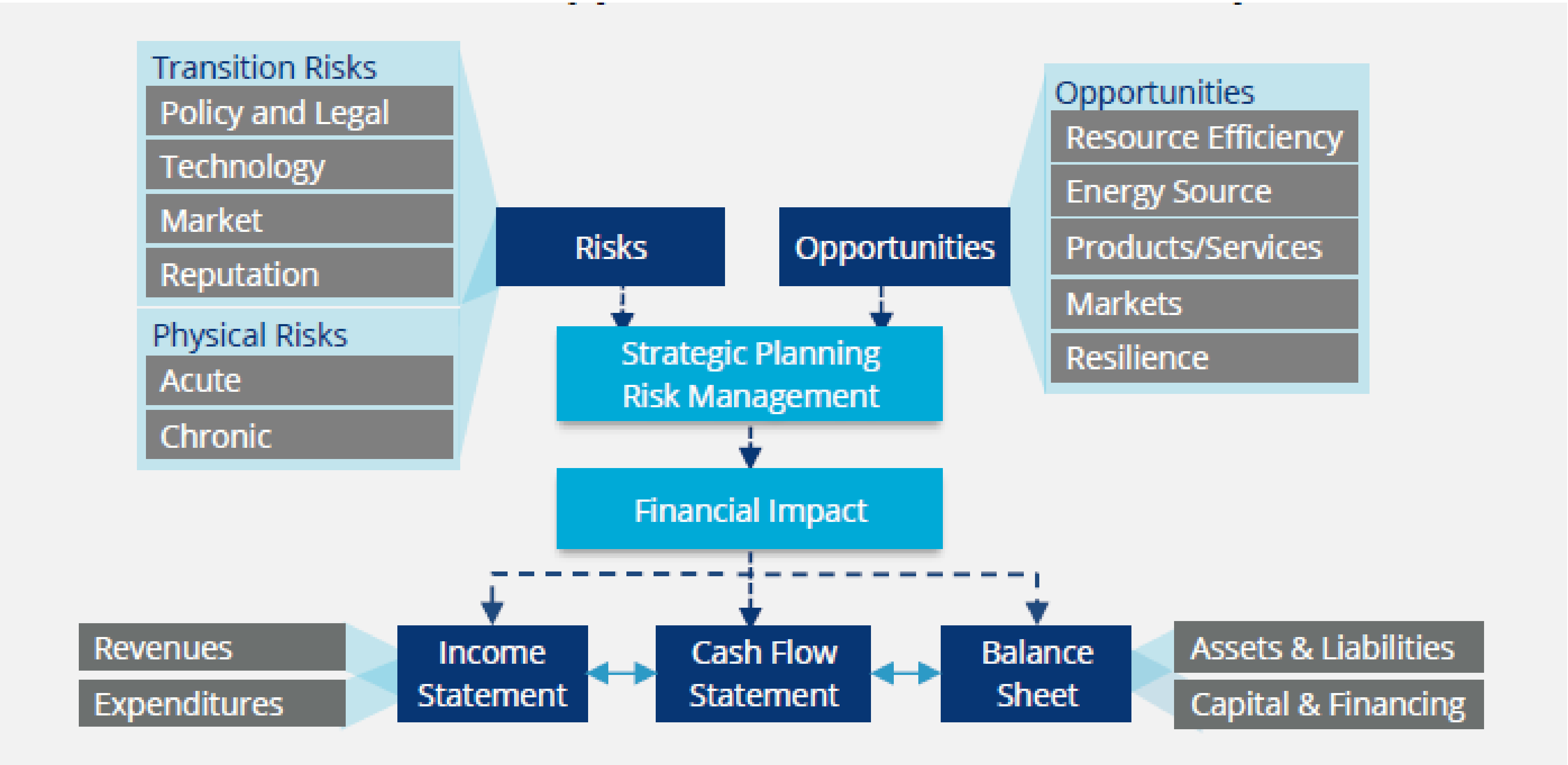
Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Climate-Related Risks, Opportunities, and Financial Impact



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Recommendations and Supporting Recommended Disclosures

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

From the High Level Expert Group

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Large-scale proposals for promoting sustainable finance

Fostering long-term investments

Empowering citizens

Monitoring investment plans

Transparency and features of benchmarks

Revision of accounting systems

Global action

Reorienting capital flows towards a more sustainable economy

Priorities of sustainable finance

Taxonomy of sustainable finance
Where is financing needed?

Information
Opportunities and risks

Responsibilities of asset managers
Time horizon
emphasis on ESG: environmental, social and governance

Sustainable investing
Possible also for retail investors

European standards
Financial instruments

Management and supervision

Sustainable Infrastructure Europe

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Proposals for different sectors to foster sustainable finance

Banks
More opportunities for funding real economy and sustainable development

Insurance companies
More equity, infrastructure and long-term investments

Credit rating agencies
Take ESG factors into account

Investment firms and insurance distributors
Take into account customer preferences on sustainable development in financial advice

Institutional investors
Integrate sustainability considerations in investment decision-making, increase transparency

Corporate governance
Lengthen the time horizon in corporate decision-making

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GOVERNANCE	STRATEGY	RISK MANAGEMENT	METRICS AND TARGETS
1.1. In which management levels are climate related factors discussed in your company: a) Board b) Chief Executive Officer C) Other Chief-level staff or head of department, specify role d) Portfolio managers e) Investment analysts f) Dedicated responsible investment staff g) External managers or service providers h) Investor relations i) Other role, specify	2.1 Describe your company's strategy for managing climate-related risks in investment, if any.	3.1 Mark which of the following activities the company applies to identify and/or reduce risk exposure to climate change: a) Targeted low-carbon or climate resilient investments. b) Reduced portfolio exposure to emissions-intensive or fossil fuel holdings.) c) Used emissions data or service providers to advise in investment decision making. d) Scenario testing e) Other, specify	4.1 Describe the metrics and tools that your company uses to measure exposure to material climate-related risks, if any.
1.2. Describe how climate related factors are handled in your company's governance.	2.2 Engagement policy: Select if described action applies to your company: a) Sought positive impact on climate change by portfolio companies. b) Engage directly or indirectly with policy makers on climate change mitigation.	3.2 Describe how your company performs climate-related risks disclosure, if any.	4.2. Describe your company's targets related to climate change, if any. (E.g. target setting for climate risk reduction.)

FFI prepared recommendations for members to disclose how they integrate climate change considerations into their investment, lending, payment services and loss-prevention activities.

Our approach is based on the TCFD report.

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EU Disclosure Regulation – sustainability definitions:

‘Sustainable investments’ mean any of the following or a combination of any of the following:

(i) investments in an economic activity that contribute to an environmental objective, such as measured by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, and on the impact on biodiversity and the circular economy;

(ii) investments in an economic activity that contribute to a social objective, and in particular investments that contribute to tackling inequality, that foster social cohesion, social integration and labour relations, or investments in human capital or economically or socially disadvantaged communities;

‘Sustainability risk’ means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment arising from an adverse sustainability impact.

‘Sustainability factors’ mean environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

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Sustainability reporting:

- In investment decisions
- In investment advice to customers

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Disclosure of negative impacts

1. Financial market participants shall publish and maintain on their websites either of the following:

   a) where they consider principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to these principal adverse impacts [...]

   b) where they do not consider adverse impacts of investment decisions on sustainability factors, clear reasons for not doing so, and, where relevant, including information as to whether and when they intend to consider such adverse impacts.

2. Information provided in accordance with point (a) of the paragraph 1 shall include at least the following:

   a) information on policies on the identification and prioritisation of principal adverse sustainability impacts and indicators;

   b) a description of the principal adverse sustainability impacts and of the actions taken and, where relevant, planned;

   c) brief summaries of engagement policies in accordance with Article 3g of Directive 2007/36/EC, where applicable;

   d) reference to the adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of alignment with the long-term global warming targets of the Paris Climate Agreement.

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Due diligence practices need to be disclosed in undertakings with 500+ employees

Art. 3: Financial market participants/ financial market participants which are parent undertakings of a large group exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year shall publish and maintain on their websites a statement on due diligence policies with respect to principal adverse impacts of investment decisions on sustainability factors.

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