

Sustainable Finance

Considerations for practitioners and business in general

The phrase 'Sustainable Finance' is becoming more frequently used, albeit often it describes two differing aspects of sustainability, and while there are overlaps there are distinctly different applications: one relating to a category of products, the other to an attitude towards regulated financial businesses.

For the wider business community, not operating in the regulated financial markets, sustainable finance is often used to describe the growing availability of funding and finance products related to sustainable initiatives. These being offered to provide finance for a "green" or sustainable investments which will help an organisation reduce its carbon footprint, its environmental impact or support a change in the business model to transition to a lower impact operational approach.

In many situations, the interest rates within these finance products are linked to some sustainability metrics, such as emissions reduction and when these metrics are achieved, this results in enhanced terms or reduced interest rate margins; thereby providing an incentive to ensure the initiative and action being funded delivers and helps a transition to increased sustainability and lower emissions.

The range of such sustainable financial products offered by banks and financial entities will undoubtedly increase in the coming years as these organisations strive to find ways to reduce their scope 3 emissions, especially financed emissions – these being emissions arising from the banking services and finance facilities being provided to their customers.

For the main banking groups, most are currently focussed on reducing their internal Scope 1 and 2 emissions, and the emissions from suppliers through their purchased goods and services. All striving to ensure they are internally Net Zero by 2030, or well advanced in that respect. Thereafter, their focus will turn to their customers. As one senior banker has confirmed to me, a customer's approach to emissions and sustainability will begin to impact whether they will be offered banking services and influence their access to finance.

Within the finance sector itself, sustainable finance is also a phrase being used by financial regulators across the British Isles, and by that I include, the UK, and the Crown Dependencies of Jersey, Guernsey and the Isle of Man. These regulators are seeking to shape the rules and regulations to ensure their respective licensed entities consider the impact of climate change and the need for greater sustainability in their business and operational models. These steps being in part to manage risk and encourage resilience planning for the sector.

In that respect, while these regulators may not be rolling out new rule sets or specific regulations, they are releasing road maps and guidance highlighting how these businesses need to apply for existing rules to consider all aspects of sustainability. For license holders in all jurisdictions, this includes the need to consider the risks of climate change and nature related risks on their businesses and more widely on their customers.

One approach which regulated entities may consider is that of a Materiality assessment to help them consider both strategy and risk. Some businesses may wish to consider a Double Materiality assessment whereby the climate and nature risks are considered as one aspect and the financial risks more traditionally considered are another aspect of the assessment. Whatever approach is considered, it is clear regulators in all regions are expecting risk processes to consider and prepare for climate risks as part of ensuring the finance sector is sustainable and that it has considered potential unexpected shocks and operational challenges. This will lead to enhanced risk frameworks, monitoring, controls and ultimately reporting to regulatory bodies.

For some regulated organisations, they will be looking at sustainable finance from both perspectives, having finance products in the market and needing to ensure they have considered the risks of climate change across their operations to ensure they have a sustainable business model.

For everyone else who relies upon the banking and finance sector, these sectors will help shape the transition to net zero and the earlier companies adopt and implement transition plans, the more time they will have for these to take effect and the greater opportunity to access finance in this emerging landscape.

Asesoria's Perspective:

Having been supporting clients for over 10 years with all aspects of sustainability, Asesoria has the experience to advise and support businesses within the finance sector providing consultation and services relating to risk, such as Double Materiality assessments.

Our practice supports clients with their emissions reduction planning and target setting. This is a core aspect of our competencies and skills. In this regard, we are working with clients who are part of the wider finance sector supply chain, who need to ensure they are moving to net zero to maintain their business relationships and in doing so are applying similar requirements on their suppliers; all of which leads to supply chain due diligence; an area in which Asesoria's sister company, ESG Benchmark, supports.

