



EXECUTIVE SUMMARY

The latest findings from the international scientific community on climate and biodiversity are stark. In 2019, CO₂ concentrations in the atmosphere were higher than at any time in at least two million years. The global average temperature has already increased by 1.2 °C over pre-industrial levels and is projected to rise to 2.4 °C by 2100, provided current climate pledges under the Paris Agreement are met.

Human actions, notably through habitat destruction, climate change, pollution and the overexploitation of species has already severely altered 75% of the terrestrial environment and about 66% of the marine environment. As world leaders prepare to negotiate a new Global Biodiversity Framework under the UN Convention on Biological Diversity, WWF's recent Living Planet Report showed that our planet's wildlife populations have plummeted by 68% since 1970.

These changes are unprecedented in their scale and pace, and call for unprecedented action, both to address

the root causes of climate change and nature loss, and to improve resilience to their impacts. The Covid-19 pandemic is a clear reminder that we should heed the warnings of science, halt and reverse the degradation of nature and better protect the most vulnerable communities.

In this collective endeavour, the financial sector plays an important role and must be fully mobilized. As lenders, underwriters, investors and insurers, financial institutions channel financial flows and provide the capital needed to transition towards a more sustainable future.

Central banks, financial regulators and supervisors set the rules for financial institutions and ensure the stability of the financial system. They also have a leadership role in showing market participants that a sustainable transition provides significant new economic opportunities.

As a global science-based conservation organization, WWF is engaging with financial sector stakeholders across the world, working to ensure the financial system fully accounts for climate- and nature-related risks and drives sustainable practices throughout the rest of the economy.

Under its **Greening Financial Regulation initiative (GFRi)**, WWF is deepening its work with central banks, financial regulators and supervisors, advocating for the urgent need to fully integrate all environmental and social (E&S)ⁱ risks into their mandates and operations.ⁱⁱ

In July 2021, the '**Nature's next stewards' report** published under the GFRi highlighted the urgency for central banks and supervisors to act on the risks caused by unprecedented nature loss, and provided practical recommendations on the use of existing tools to take preventive action.

In April 2021, WWF launched the **Sustainable Financial Regulations and Central Bank Activities ('SUSREG')** framework, to provide an independent assessment of how central banks, banking regulators and supervisors integrate E&S considerations into their activities.ⁱⁱⁱ

This report is WWF's **baseline assessment of current practices**, covering 38 jurisdictions accounting for more than 90% of global GDP, 80% of total GHG emissions and 11 of the 17 most biodiversity-rich countries. It delves deeper into the measures taken to date, identifying areas where more resolute and ambitious action is needed and

highlighting good practices to help speed up progress.

To access the detailed country-level assessment results, please visit the **SUSREG Tracker interactive platform:** www.susreg.org/assessments

The SUSREG Tracker platform will be updated on a regular basis to reflect ongoing developments, while the SUSREG report will **take stock of progress made on an annual basis**. In 2022, the SUSREG framework will be expanded to cover other key parts of the financial system, including the insurance sector.

Of the 38 jurisdictions assessed, 35% have regulations or supervisory expectations in place covering the integration of climate, broader environmental and/or social considerations in the governance, strategy, risk management and disclosure practices of commercial banks. While this is a good starting point, these expectations should be further strengthened, rolled out more systematically and followed by regulatory actions to ensure compliance with enacted rules.

Central banks and supervisors are making significant efforts to better understand and quantify the exposure of banks to climate-related physical and transition risks, including through the use of scenario-based stress-testing. The same should be done to understand, measure and mitigate risks associated with nature loss.

Conducting and gradually refining these complex exercises should be done in parallel with the **issuance and implementation of clear rules to ensure that financial institutions do not continue to support activities that are incompatible with global climate, environmental and broader sustainability objectives**.

In the face of accelerating and potentially irreversible changes, **a precautionary approach is necessary**.

Micro- and macro-prudential supervisory tools such as capital charges, concentration limits and liquidity requirements should already be deployed to better reflect actual risks and provide stronger incentives for banks to support their clients' transition towards more sustainable business models, as well as to reduce threats to financial stability.

Limitations around data and methodologies should not be an obstacle to rolling out some of the above measures. In many respects, there has never been more information available, and WWF believes that central banks and banking supervisors should take concrete action before risks materialize.

The integration of environmental and social considerations in key monetary policy measures, such as asset purchases, collateral frameworks or refinancing programs, is currently very limited. Only 22% of the relevant central banks have some of these measures in place, and none of them fully satisfy the related SUSREG indicators.

However, more progress can be seen in foreign exchange reserves and overall portfolio management. Making better use of these tools would ensure central banks contain E&S risks and do not slow down the sustainable transition.

While central banks and banking supervisors are making good progress on developing their strategy and rolling out concrete measures to address climate-related risks, other environmental and social risks are significantly less well covered.

Current efforts being made to build a better understanding of the financial implications of such risks, notably biodiversity loss^{iv} and its interlinkages with climate change, should be rapidly followed by concrete actions.

The leadership role played by central banks and financial supervisors should also not be underestimated. Taking a stronger public stance on the need to respond to environmental and social challenges would **support more ambitious action from governments and send the right signals to financial institutions, notably over upcoming regulatory and supervisory changes**.

IN THIS CRITICAL DECADE OF ACTION, AMBITIOUS INTERVENTION AND INTERNATIONAL COORDINATION ARE THE KEY TO SUCCESS. WWF CALLS ON CENTRAL BANKS, FINANCIAL REGULATORS AND SUPERVISORS TO FULLY MOBILIZE THEIR MONETARY POLICY, REGULATORY AND PRUDENTIAL TOOLS TO SUPPORT A TIMELY, ORDERLY AND JUST TRANSITION TOWARDS A RESILIENT, SUSTAINABLE ECONOMY.

Under the Greening Financial Regulation initiative, in addition to producing key research and providing ad-hoc support, WWF will report annually on the progress made by central banks, financial regulators and supervisors in the integration of environmental and social considerations in their activities.

i. Environmental and social risks cover in particular climate-related risks, biodiversity loss, deforestation and pollution as well as human rights violations and labour issues.

ii. For more information, please visit: https://wwf.panda.org/discover/our_focus/finance/greening_financial_regulation/

iii. Press release: https://wwf.panda.org/discover/our_focus/finance/greening_financial_regulation/?1834441/Sustainable-Financial-Regulations-SUSREG