KEY FINDINGS AND EXPECTED ACTIONS

This page gathers the key findings and expected actions distributed throughout the report.

BANKING SUPERVISION

KEY FINDINGS	ACTIONS EXPECTED BY WWF
▪ In **35%** of the countries assessed (13 out of 38), banking regulators or supervisors have published regulations or supervisory expectations related to sustainable banking and applicable to all supervised commercial banks. In addition, voluntary guidance or recommendations have been issued by supervisors in five countries, and by national banking associations in six countries. ▪ In the 24 jurisdictions where regulations, supervisory expectations or guidelines have been issued, banks are expected to incorporate climate considerations in their strategy. Of these 24 jurisdictions, only five are limited to climate aspects, while 15 extend to the whole range of climate, environmental and social (E&S) aspects. While this is encouraging, it also shows significant room for improvement, particularly as 14 countries have no expectations in place. ▪ On average and across all geographies, regulations and supervisory expectations fulfil more indicators than guidance documentation issued by supervisors or guidelines issued by banking associations. As such, they are associated with higher expectations, in addition to being an integral part of the supervisory dialogue with banks.	▪ Regulations and supervisory expectations should be rolled out and expanded to cover the entire range of climate, environmental and social (E&S) aspects. Banking regulators and supervisors should be trained and equipped to implement these new expectations as an integral part of ongoing supervisory dialogue, with accompanying sanctions for non-compliance. ▪ Regulators and supervisors globally should continue to develop and strengthen their expectations for banks. To facilitate compliance and ensure coherent implementation, expectations should be harmonized across geographies and applicable to all banking activities. ▪ Regulators and supervisors should ensure that banks set the appropriate incentives for the management of E&S risks, in particular through appraisal and remuneration policies. Banks should be expected to provide regular training and build capacity of all relevant staff, including their Board and senior management. ▪ Regulators and supervisors should require banks to develop and publish their policies on sectors subject to high E&S risks, with reference to international sustainability standards. Banks should be expected to put in place internal controls covering such risks, and to develop formal processes to address non-compliance issues. ▪ Regulators and supervisors should require banks to develop a portfolio-level approach to the management of E&S risks. Banks should be expected to minimize the negative impacts associated with their business relationships, to progressively set science-based targets in line with existing and upcoming international climate and biodiversity frameworks, and to align with broader sustainable development goals.
▪ In most jurisdictions, banks are expected to disclose information on their E&S strategy and its implementation, albeit in varying levels of detail. Expectations for banks to disclose their exposure to E&S risks or their E&S impacts are generally limited or high level, although recently issued regulations and guidelines are more specific, with increasing reference to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).	▪ Regulators and supervisors should require banks to disclose their portfolio-level exposure to, and management of, material E&S risks. In line with double materiality considerations, banks should similarly be expected to disclose their adverse E&S impacts and the associated mitigation measures.
▪ Existing rule-based microprudential supervisory tools, such as those set out under the Basel regulatory framework, are not yet being fully utilized by banking regulators and supervisors to proactively mitigate, *ex-ante*, the financial risks derived from E&S risks.	▪ Regulators and supervisors should systematically require banks to factor E&S risks in their capital adequacy assessment and liquidity risk management processes. While risk quantification methodologies are being refined, prudential supervisors should adopt a precautionary approach and use existing supervisory and regulatory tools to set minimum capital and liquidity requirements.

BANKING SUPERVISION

KEY FINDINGS	ACTIONS EXPECTED BY WWF
▪ While an increasing number of banking supervisors are conducting or have announced climate-related stress-tests and are monitoring risk exposures, there is a distinct lack of macro-prudential measures being taken to limit the exposure of banks to certain activities and prevent the build-up of systemic risks in the financial system, particularly with regards to climate and environmental risks.	▪ In addition to micro-prudential supervisory tools, central banks and banking supervisors should make full use of macro-prudential measures to limit the exposure of banks to activities that are deemed incompatible with national or international sustainable development objectives and therefore subject to higher risks. While scenario-based stress-tests provide useful insights, they should not replace or delay the use of measures to address systemic risks *ex-ante*.
▪ A majority of banking supervisors have conducted studies to assess the exposure of banks to certain E&S risks, although almost exclusively focusing on climate-related risks. These studies are often complemented by surveys to understand how banks are managing these risks. Only a few supervisors are monitoring these risks on a regular basis.	▪ Banking supervisors should deepen their understanding of banks' exposure to climate-related physical and transition risks. They should also use existing and new methodologies to start quantifying banks' exposure to broader E&S risks. These results should be published and, combined with a better comprehension of how banks are managing these risks, should inform regulatory and supervisory action.

CENTRAL BANKING

KEY FINDINGS	ACTIONS EXPECTED BY WWF
▪ While **22%** of the relevant central banks (7 out of 32) are starting to integrate E&S considerations into key monetary policy areas, none of them fully satisfy the related indicators. Regardless of individual mandates, central banks usually have a range of relevant tools at their disposal. Although this is an area of increasing interest and research, these tools are currently largely underutilized.	▪ Central banks should make full use of their monetary policy toolkit, both to reflect the risks derived from E&S issues and to ensure that their actions do not impair the transition to a low-carbon and more sustainable economy.
▪ An increasing number of central banks are incorporating E&S considerations in the management of their financial portfolios and are starting to quantify their exposure to climate risks. However, in a majority of cases, little detail is available on central banks' responsible investment practices.	▪ Central banks should lead by example by fully integrating E&S considerations in the management of their foreign reserves as well as across all their portfolios, and disclosing their approach. Central banks should progressively set targets to align their portfolios with science-based targets, starting with climate.
▪ **92%** of the central banks and **84%** of the banking supervisors assessed are members of the Network for Greening the Financial System (NGFS). Banking supervisors and central banks are starting to roll out and implement their plans and activities to address climate-related risks, although broader E&S risks are currently less well covered. Dedicated teams and governance structures are progressively being set up to implement these actions.	▪ Banking regulators, supervisors and central banks should further strengthen their strategies and roadmaps, and notably go beyond climate-related risks to incorporate broader E&S considerations. These institutions, especially the larger ones, should also build their own capacity and develop robust governance structures to fully embed E&S aspects in their activities.

ENABLING ENVIRONMENT

KEY FINDINGS	ACTIONS EXPECTED BY WWF
▪ The development of multi-stakeholder initiatives, capacity building efforts, as well as regulations and standards on financial products all point to the gradual strengthening of the enabling environment for sustainable finance. The noticeable involvement of civil society and academia in these efforts is testament to the importance of partnerships to find joint solutions and overcome existing challenges.	▪ Harmonized sustainable finance regulations and guidelines should be issued to ensure a meaningful shift of financial flows away from harmful and towards sustainable activities that are aligned with national and international sustainable development goals.
▪ Taxonomies are being developed across all regions, usually with a focus on defining 'green' or 'sustainable' activities and increasingly with E&S safeguards in place. However, taxonomies for unsustainable activities have not yet been developed.	▪ Tools such as science-based taxonomies covering both sustainable and unsustainable activities as well as efficient carbon pricing, when designed and implemented in a consistent manner, can prove to be powerful levers to complement and reinforce other regulatory actions.