asifma
Growing Asia's Markets

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By email
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ASIFMA Comments on the Discussion Paper on Climate Risk and Sustainable Finance

Dear Sir / Madam,

The Asia Securities Industry & Financial Markets Association ("**ASIFMA**")[1], on behalf of its members welcomes the opportunity to respond to the Discussion Paper ("**Discussion Paper**") on Climate Risk and Sustainable Finance published by the Reserve Bank of India ("**RBI**"). ASIFMA commends RBI's leadership and commitment towards climate and environmental risk management, the efforts to align with internationally agreed approaches and the open and transparent approach in consulting with the industry.

General Comments

ASIFMA acknowledges and commends the RBI's declared intention to prepare its climate risk and sustainable finance strategy by leveraging global best practices to mitigate the impacts of climate change and through learnings obtained from participation in dialogues at international standard-setting bodies.

We welcome the explicit commitment to Financial Stability Board ("FSB") principles[2] and the overall level of alignment with the Basel Committee on Banking Supervision ("BCBS")'s Principles for the Effective Management and Supervision of Climate-related Financial Risks[3], combined with a strong consideration of local circumstances. We believe that promoting consistency and best practices among jurisdictions is crucial for effective implementation of supervisory policies and for the successful operation of the financial system at national and global level.

In the last few years, we have seen Central Banks and industry regulators across Asia and globally establishing guidelines for supervisory practices and risk management. Much can be leveraged from these experiences in terms of approach and methodologies, and by reflecting on the results from the various exercises conducted so far. Jurisdictions like the Philippines[4] (2021) Malaysia (2021)[5], Singapore (2020)[6],

[1] ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive, and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the Global Financial Markets Association ("GFMA") alliance with the Securities Industry and Financial Markets Association ("SIFMA") in the United States and the Association for Financial Markets in Europe ("AFME"), ASIFMA also provides insights on global best practices and standards to benefit the region.

[2] Task Force on Climate-related Financial Disclosures (TCFD), which was established by the FSB, published the recommendations report in Jun 2017 to outline the TCFD framework for reporting climate-related financial information.

[3] Basel Committee on Banking Supervision ("BCBS")'s principles for the effective management and supervision of climate-related financial risks

[4] Bangko Sentral ng Pilipinas Circular on Environmental and Social Risk Management Framework

[5] Bank Negara Malaysia (BNM) Exposure Draft – Climate Risk Management and Scenario Analysis

[6] Monetary Authority of Singapore (MAS) Guidelines on Environmental Risk Management for Banks

Australia (2021)[7], Hong Kong (2020)[8], UK (2019)[9] and Europe (2021 by ECB)[10] are mostly aligned with the BCBS principles and are adapted to reflect their own specific circumstances. In addition, we noticed a deliberate cautiousness not to front run major developments. This approach is understandable given the nascency of the topic and the challenges it represents. We believe that RBI is following similar strategy and commend such an approach. We also encourage RBI to continue actively participating in international dialogues, sharing experiences, and adapting the lessons learned from other countries to conditions specific to India.

ASIFMA's members welcome a phased approach to policy implementation which allows banks to establish relevant capabilities, test methodologies and obtain relevant and high-quality data. Phased implementation is a reasonable way of delivering on the immense economic shift that Net Zero targets require. The process of decarbonising and building a more sustainable economy requires the development and implementation of industrial / environmental policies as well as effort from all sectors and the society as a whole. Thus, regulations and policies from various governmental bodies and industry-led initiatives should work in parallel and complement each other.

Our members strongly encourage the RBI to continue discussion in a transparent and inclusive manner and suggest considering the development of a cross-agency or cross-governmental working group to ensure the development of an effective and efficient domestic sustainability framework. We would also recommend such cross-agency working group to include representatives from the industry or at least frequently consult the industry ahead of material policy developments / decisions. This consultative structure has already been successfully tested in jurisdictions like Singapore, Malaysia, and Hong Kong SAR.

We also suggest that RBI and the other governmental and regulatory stakeholders to continue collaborating closely with the industry throughout the policymaking process of enhancing sustainable finance policies, including those relating to climate related risks, given the very dynamic landscape and the need for ongoing adjustments and capacity building.

Suggestions for Clarifications

ASIFMA and its members appreciate the way RBI is approaching this discussion by putting forth broad and open questions for consultation and thus inviting comprehensive considerations and a constructive dialogue between stakeholders.

We would like to seek clarification on the intended scope of the paper, specifically on whether RBI is considering addressing environmental and climate risk simultaneously or in a phased manner. We noticed that some parts of the paper refer to "climate and environmental risks" and others only to "climate risks". We believe it would be reasonable to focus on climate-related financial risks, ideally with a phase-in approach on supervisory expectations (e.g., see Bank Negara Malaysia's proposal which included 'basic' and 'stretched' expectations). We would recommend focusing on other environmental risks and issues at a later stage, in a phased manner with some indicative timeline for future consultations.

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[7] Australian Prudential Regulation Authority (APRA) CPG 229 Climate Change Financial Risks

[8] Hong Kong Monetary Authority (HKMA) Supervisory Policy Manual – Climate Risk Management

[9] Prudential Regulation Authority (PRA) Supervisory Statement SS3/19 on Enhancing banks' and insurers' approaches to managing the financial risks from climate change

[10] European Central Bank (ECB) Guide on climate-related and environmental risks

Furthermore, it would be helpful for RBI to provide consistent and clear definitions for key terms that were referenced in the paper. For example, the paper makes reference to “materiality”, however it is unclear whether this is to be interpreted as ‘financial materiality’ or materiality as a broader term. Likewise, a definition of the term “green” is not provided, making the proposal to set ‘green’ targets difficult to compare and verify and therefore creating a risk of greenwashing. We encourage RBI to examine international practices and adopt commonly recognised terminology. Ultimately, such definitions would need to be recognised by multiple policy makers and regulators within India and, given the need for foreign direct investment as a key driver for the transition, outside of India as well. Hence, we recommend RBI to pioneer a cross-agency / cross-institutional dialogue to facilitate this process.

ASIFMA also seeks further clarity regarding RBI’s expectations for local operations of foreign banks. We advocate for ‘proportionality to be taken into consideration and assume that RBI would be open to branches of foreign financial institutions to meet a material part of the climate-related requirements through compliance via Group level framework and processes. In relation to this, we welcome feedback from RBI on our understanding of ‘proportionality’ and a confirmation on the suitability of this approach.

Our members appreciate the level of detail, the practical case studies and good practices provided as part of the Discussion Paper, which we assume illustrate expected implementation by the industry. We would like to clarify if these would be translated into mandatory requirements or would remain examples for reference only. In this respect we would note that in Singapore, the Monetary Authority of Singapore (MAS) issued guidelines rather than legally binding requirements. MAS recognises that the scale, scope, and business models of banks can be different and expects a bank’s approach to managing and disclosing environmental risk to mature as the methodologies for assessing, monitoring, and reporting such risk evolve. A bank is expected to implement the guidelines in a way that is commensurate with the size and nature of its activities as well as its risk profile. Similarly in Hong Kong, the Hong Kong Monetary Authority’s Climate Risk Management supervisory policy manual was issued as a non-statutory guideline / guidance note.

Comments to Specific Questions in the Discussion Paper

1. What should be the immediate priorities in shaping the policy discourse on climate risk in India? What actions would help foster a more sustainable and resilient financial system?

Achieving Net Zero will require collective action by the government, corporations, individuals, non-profits, and other actors. Our members are supportive of policies that will help accelerate the transition to a low-carbon economy. Hence, we commend the work done so far by the Indian government and encourage the development of an overall comprehensive sustainable finance strategy and roadmap outlining objectives and ownership of different government agencies. We believe this will bring clarity to the leadership of sustainability / climate policies development, underpin political commitments, and will define the roles played by various financial sector regulators.

We acknowledge that India’s transition needs are significant with coal for example, which accounts for a substantial proportion of the country’s current energy needs. Therefore, we suggest climate related financial risks to focus not only on physical risks, but also strongly urge all policymakers to recognise the importance of transitional risk and the need to mitigate it through planning and establishing ambitious and measurable targets to allow proper monitoring. As transition will involve various economic sectors, it will

require coordination and simultaneous consideration of relevant industry, energy and environmental policies that should be implemented prior to or alongside the gradual implementation of climate risk management for banks.

We also encourage RBI and other governmental agencies of India to continue close cooperation with international bodies. Ideally, climate and sustainability tools and practices should be results from joint efforts under international standard setting bodies to ensure that there are interoperable global sustainability standards that national jurisdictions can use. As an example, corporate disclosure is an area where investors, asset owners, and managers, could benefit from a consistent and standardized approach. Therefore, ASIFMA recommends the adoption of the upcoming sustainability and climate-related disclosure standards by the International Sustainability Standards Board ("ISSB"), which will help promote comparability and interoperability with other jurisdictions.

To achieve Net Zero commitments, we support the development and implementation of risk-based governmental policies aimed at transitioning to Net Zero. Government policies should enhance the roles of participants from across the financial sector, including multilateral development banks, to deliver innovative financial products and services that can help reduce carbon emissions, improve climate resilience, and incentivize the development of innovative and scalable technologies.

In summary, we welcome the RBI's declared intention to prepare a strategy that is based on global best practices on mitigating the adverse impacts of climate change, and learnings from participation in standard-setting bodies and other international bodies.

2. What should be the way forward for the regulatory policy framework for climate risk in an emerging market like India keeping in view its aspects such as demography, geography, etc.? Is there any plan / contemplation in the REs to integrate climate and environmental considerations in their core activities of lending and investment?

ASIFMA and its members welcome the guideline-based approach outlined in the Discussion Paper as an appropriate method for holding banks accountable for managing risks while providing the flexibility required to guard against outcomes that might have an adverse impact in an emerging market like India. For example, the proposed guidance requires institutions to manage the physical risks to business continuity and provides a "good practice" example related to geographic dispersion of operations. This approach ensures appropriate risk management and allows institutions to set their own specific criteria for facility location and business recovery strategies, to account for local needs including workforce availability and transportation infrastructure alongside the needs of customers in the market.

We agree with the types of prudential risk identified within the paper for assessment. Climate risk is complex and will have to be assessed by a combination of historical data and forward-looking scenarios. Rather than having specific risk indicators / metrics, each bank can apply risk criteria to identify sectors with higher climate related risk and have high client level ratings to be defined by bands.

Specifically on physical risk, since India is among the most exposed countries from a physical risk perspective, we would encourage RBI and the Indian Government to consider conducting a countrywide physical risk assessment at a geographically granular level, so that the consistent outcomes of that risk assessment could be used by financial institutions in their climate risk assessment.

We encourage RBI to collaborate, where appropriate, with other regulators across the globe to focus on disclosure of a common set of metrics and tools that can be utilized to advance toward the goal of achieving a low-carbon economy. The regulatory framework should work towards encouraging greater clarity and consistency in reporting frameworks for ESG disclosures, including transparency on how metrics are calculated, weighted, and interpreted. Existing voluntary frameworks, including the widely adopted TCFD framework, provide a good model for such mandated disclosures. Alongside the TCFD framework, the greenhouse gas (GHG) accounting standards under the GHG Protocol supplies the world's most widely used GHG accounting standards, and the GHG Protocol's Corporate Accounting and Reporting Standard already provides the carbon-accounting platform for nearly every corporate GHG reporting program in the world. This would help define the rules for REs and mitigate the systemic financial risks caused by climate change.

The regulatory framework can also play an important role in promoting green investments and operations, developing, and providing sustainable finance guidelines for banks / REs, and creating an enabling ecosystem. The framework can explore green credit allocation to promote lending in climate-sensitive sectors such as agriculture, energy, and water. However, we also caution that simply adopting 'green' targets could be counterproductive or have unintended consequences with banks not providing transition finance and / or finance for exiting non-green business, which might result in systemic risks.

Significant capital investment will be needed to drive the innovation necessary to transition to a Net Zero economy. To facilitate such capital investments, the policy framework should help reduce the cost to deploy existing and emerging technologies and establish safeguards to protect workers and communities to ensure a just transition.

We also recognise the challenge that India might face in its aim to balance the social impact and the need for a Just Transition, while addressing climate change and environmental issues. We also acknowledge the geographical differences between regions and thus would suggest developing more nuances around region or country specific scenarios to aid geographical calibration.

3. What are the main challenges in integrating the climate risk framework in Governance, Strategy and Risk Management? What is needed to overcome these? Are there plans in place / being contemplated regarding the same by the Res?

ASIFMA and its members recognise that being a relatively nascent topic, climate risk integration is challenging as many banks are in the process of building capacity and understanding and incorporating it into existing systems.

A key challenge is the disclosure dependencies between various stakeholders. As requirements become more granular and refined, REs become increasingly dependent on corporate disclosures and transparency in terms of scopes 1-3 emissions, and the broader social and governance factors. Therefore, disclosure standards must apply first to non-financial corporates for financial institutions to be able to meet any disclosure regulatory requirements. To that end we encourage the RBI to coordinate with relevant agencies to ensure a cross-sectorial adoption of standards and metrics.

In relation to setting a strategy for addressing climate risks, we believe that a key challenge would be building effective reporting metrics and collecting, analysing, and validating data to measure carbon emissions across scopes 1 – 3, in addition to target setting across sectors, given the nascency of the space and lack of availability for consistent data at this time. Within this process of incorporating climate risk

within existing risk management strategies, it would be reasonable to consider clear alignment between TOH strategy, LOB strategy and sector-specific Net Zero pathways. This would also include the ability to understand and effectively react to new climate regulation and legislation globally.

The availability and consistency of both climate-related data from clients and data in the public domain, is a fundamental foundation for effective climate risk management. Since data quality and availability continues to be an evolving area, where capabilities and information will improve over time, it will be useful if the RBI plays a role in assisting the process. Disclosures from clients could be mandated through the Company Act and by further expanding on SEBI's work, which should allow banks to work towards building climate-related disclosures in standard documents from the IBA.

We recommend considering the data issue holistically to prevent disruptions in providing financial products and services and to reduce potential harm to customers. Furthermore, vendor tools may be utilized to benefit from external climate expertise. The encouragement of disclosure and standardization of data would help regulated entities consider climate risk within their processes.

We also suggest amending the wording regarding the role played by the Board, which should be 'providing oversight and setting the framework for climate risk management', and not 'identifying' climate risks and opportunities.

Lastly, we also believe that further capacity building programmes will need to be rolled out across the sector to help staff of REs to understand and implement climate change strategies and deliver climate-driven product offerings to customers. We believe such capacity building will also help banks to encourage their clients to provide relevant climate related information for disclosures and foster greater awareness of climate risk.

4. What are the potential challenges in developing climate risk stress testing and a scenario analysis framework for REs? How do you think the potential effects arising out of such exercise should be analyzed?

Recent examples of Climate Risk Stress Testing (CRST) and scenario analysis suggest regulators and financial institutions face issues mainly arising from data availability, adequacy of available methodologies and preparedness of the staff applying them.

In recognition of the above, any expectation for REs to incorporate climate-related financial risk into capital and liquidity planning at this time is premature, given the need for further maturation of the relevant quantitative tools. As such, climate related financial risks will need to be incorporated into ICAAPs iteratively and progressively to allow methodologies and data gaps to be addressed over time.

Based on experiences from some of our members in participating in supervisory-led climate scenario analysis, we would recommend at least 8 months of 'implementation' period to get meaningful results. This may take even longer in the case of India where the availability of climate-related data is likely to be lower than that in jurisdictions that have completed such exercises (e.g., the UK and EU).

ASIFMA's members agree with the scenario development having a mix of qualitative and quantitative risk scenarios over short-term and long-term for stress testing, strategic planning, and risk management purposes. However, we note that there is a lack of publicly available reference scenarios to leverage for the

development of climate scenarios focusing on the shorter horizon / risks. We suggest RBI to consider scenarios such as those suggested by NGFS or IEA pathways and adapt them to the national circumstances. It would also be helpful if RBI can define the scenarios as either mandatory for all stress tests or provide guidance to allow alignment.

The industry understands the need for some governance provisions and tailoring for local perspectives, especially for subsidiaries. Nevertheless, for both disclosure requirements and stress testing, it will be important for global firms to have the ability to rely on group-level frameworks and processes to minimize unnecessary operating burden on local branches. It should be highlighted that multinational firms usually have more detailed frameworks at global level for operational efficiencies and better resources, which might be helpful at this stage.

We would also like to highlight the need for sequencing, as there are concerns with multiple cycles of stress testing requirements across different jurisdictions, resulting in a loss of resourcing or priority afforded to other aspects of climate risk management or disclosure. We suggest RBI coordinate stress testing requirements through international platforms to reduce the impact on REs and their clients.

We would also encourage a transparent discussion around national circumstances that drive the risk appetite in India, including accompanying scenarios that are specific enough in domains of physical and transition risks, since its profile in some areas will be highly specific.

More generally, RBI should also consider how risk monitoring activities can be encouraged and enforced, i.e., requirements versus guidelines and promoting best practises over a time horizon.

5. What could be the overall timeline for implementation of disclosure / TCFD framework, and which recommendations should be prioritized? Should it begin with disclosure around the qualitative aspects first, followed by disclosure around quantitative aspects or both together?

ASIFMA's members agree on the need for timely, phase-based implementation of disclosure / TCFD Framework. We recommend setting a transitional implementation plan whereby requirements related to strategy, governance and climate-related risk management shall come into effect 18-months from the effective date of the guidelines and / or be aligned with other APAC jurisdictions, i.e., Japan (Apr-2022), Hong Kong (2025), Singapore (2023)[11]. We also consider it reasonable for RBI to wait until ISSB's disclosure framework is finalised and published before consulting with the industry on the proposed local adoption. This is similar to the approach currently contemplated by MAS. In the interim, RBI could focus on adoption of TCFD since the SEBI framework is already largely compliant with TCFD.

With respect to scenario analysis, metrics and targets and disclosure, we recommend such requirements to be considered for implementation at least 12 months after the disclosure requirements are established and entered into force, and first disclosure reports have been issued.

Given the global nature of climate risk, we would ask for locally incorporated foreign financial institutions and branches of foreign financial institutions operating in India to be permitted to leverage on group or parent company's climate-related policies and procedures to meet the local climate-related disclosure requirements. We would also ask that such entities' disclosure to be consolidated at group or head office

[11] Note that these timelines are also dependent on the nature of entity.

level (i.e., “Group report”) with the conditions that the Group report is aligned with international standards and are consistent with RBI’s recommendation. Allowing parent level disclosures would be consistent with the treatment in some other countries in Asia, for example in Singapore and Hong Kong, which both have rolled out climate-related disclosure requirements but have permitted parent-level disclosures to be considered for compliance.

We welcome the suggested recommendation in the Discussion Paper for a staggered implementation of disclosure requirements, beginning with disclosure around the qualitative aspects, followed by disclosure around the quantitative aspects.

6. What measures would you suggest that the Reserve Bank of India could consider with respect to climate risk and sustainable finance?

Overall, we support closer alignment with the BCBS Principles for the Effective Management and Supervision of Climate-related Financial Risks and would encourage RBI to adopt the principles locally in India. ASIFMA’s members also acknowledge and welcome RBI’s involvement in international initiatives including joining the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). We believe that collaborating on initiatives and with other global regulators on climate and ESG matters is vital for the future policy and regulatory development in India.

In order to facilitate increased investment in sustainable finance activities, RBI could advance policies and regulations to create an enabling environment for international capital to flow into local “Green” projects through policies that remove issues / concern around the inconvertibility of the currency. The policies should allow for both the principal and returns (including interest and dividends) of qualifying projects to be freely and fully convertible into one of the major currencies (i.e., USD, GBP, EUR, JPY), and provide assurance to the capital providers that their capital can freely flow in and out of the country for the qualifying transactions.

We also suggest considering facilitation and establishment of a fully functioning compliance carbon market (for example through a cap-and-trade scheme that is exchange-traded) complemented by a voluntary one. Compliance markets are essential as they provide a mechanism to assess and set a market price of carbon, which encourages businesses to transition and invest into renewable / green technologies to reduce their costs. Policy developments internationally are increasingly looking at carbon border adjustment mechanisms, and so a compliance market in India may assist in continuing integration of India in the global supply chain without undue disruption caused by such international adjustment policies. Voluntary carbon markets, both nature and technology-based, could also play an important role in achieving decarbonization by providing the needed capital inflows for supporting the transition.

To that end, we encourage regulators to provide clear policy guidance as to what qualifies as a high-quality carbon credit for purposes of local businesses claiming to offset their emissions and guidance on how businesses can use carbon offsets in achieving their goals. These policies should align with the international guidance being developed by the Integrity Council for the Voluntary Carbon Market (ICVCM) under its Core Carbon Principles (CCPs) and the Voluntary Carbon Markets Integrity Initiative (VCMI) Claims Code of Practice (CoP).

To facilitate international capital flows into projects, clearly defined policies and rules need to be put into place to allow cross-border transfers of carbon credits in compliance with provisions around corresponding

adjustments pursuant to Article 6.4 of the Paris Agreement. Allowing for clarity around the export of credits will support international capital to help fund the transition.

In addition, Priority Sector Loan (PSL) benefits are currently extended to a limited set of categories under Sustainable Finance with a restrictive cap. Extending PSL benefits to additional categories and their ecosystems (e.g., Electric Vehicles, Green Power, Green Hydrogen, Renewables, etc.) in the area of Sustainable Finance, expansion of the quantum of eligibility of loans in Sustainability for PSL, and inclusion of Sustainable Finance under existing sub-categories, will help plug the financing gap for the needs of this sector, provide lower cost of financing, and encourage banks to contribute more towards this sector.

We understand and commend the suggested objectives of greening the local banks' footprint and in particular, creating a 'green data centre' And agree with RBI's aim to minimise the environmental impact of operations in India.

We encourage RBI to recognise global rating systems and industry best practices for green data centres in the addition to the IGBC 'Green Data Centre Rating Systems'.

However, we would like to point out the objective must be supported by the local grid, to supply sufficient, available, and accessible renewable energy to banks and data centre operators. It could be unreasonable to hold stakeholders accountable for greening their local operations if they depend, and have no control, on the availability of renewable energy. We believe that once the national policies deliver sufficient increase of the share of non-fossil fuels in the national grid, this target would be more achievable.

Sincerely,

Diana Parusheva
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and Financial Markets Association (ASIFMA)