The regulatory reporting reality of making trade sustainable

The case for a coordinated approach to reporting

ITFA ESG Committee and
Dr. Rebecca Harding

itfa.org

Contents

Key findings

This report is a wake-up call to everyone who is engaged in trade or trade finance. Trade and trade finance have the potential to enable the world to transition to more sustainable ways of operating environmentally and socially by incentivising the right source of targeted and tailored lending in line with the UN's Sustainable Development Goals (SDGs) according to members of the ITFA. Enabling trade finance to achieve these goals needs to be approached pragmatically – it is often associated with hard commodities that do not play well with a specifically "green" agenda and trade itself creates externalities such as pollution that differs between sectors and geographies.

According to interviewees, if trade finance is to catalyse a fair transition to more sustainable models, there needs to be common standards of regulatory reporting, a commitment to work on consistent and generalisable data standards from within banks, and a more inclusive approach to dialogue with regulators that ensures that the social aspects of sustainability are treated equally to the environmental ones.

However, the current regulatory structures that govern sustainability reporting are creating a raft of unforeseen consequences that will ultimately militate against the long-term objective of meeting sustainability targets globally in the long run. These unforeseen consequences are the result of a market distortion that is providing perverse incentives to banks and has the potential to:

1. Disincentivise lending the transition to more sustainable business models because there is no favourable regulatory capital for Environmental, Social and Governance (ESG) or "green" deals compared to non-transition or "brown" financing.

2. Rely on a backward-looking risk-based approach to sustainability that does not model transition risk on reasonable time frames for climate change.

3. Widen the trade finance gap in emerging markets and for smaller businesses in supply chains.

4. Replace "green-washing" with "green-hushing" where minimum regulatory reporting becomes the norm where achievable, modest, targets are set to avoid accusations of green-washing.

5. Where the "S" in ESG, is under-incentivised because it is an intangible and hard to measure compared to the "E" part.

6. Where the focus on "E" creates a barrier to the development of appropriate frameworks based on "S" in emerging markets and Africa in particular.

This "regulatory paradox" is the basis of the report which is based on 40 semi-structured interviews with ITFA members and a survey representing one quarter of the organisations across the ITFA membership. To summarise:

- Nearly 60% of banks, credit insurance businesses and fintechs surveyed had ESG as one of the top Key Performance Indicators (KPI) or the top KPI for their organisation. 71% said they had become more focused on ESG matters in the last year and 51% said that more budget had been allocated to ESG. However, interviews suggested that no organisation has perfected this and that everyone is dealing with a "work in progress" in relation to regulatory reporting.

- Client facing objectives lay behind much of the work to develop internal and external ESG strategies. Nearly 90% of respondents said they saw provision of appropriate finance as a means of helping the planet to become more sustainable. 88% said it would create business opportunities and nearly 83% said it was a means of engaging with clients in a different way. 55% said an ESG focus was a new way of looking at their internal processes. Nearly 40% of respondents had a dedicated ESG cross-organisation function and for 30% responsibility for ESG was C-Suite.

- The majority of respondents were Europe-based and 65% said that the EU taxonomy was the most important regulatory reporting framework for their organisations, 59% said the EU's Sustainable Finance Disclosures Regulation was the most important, and 58% the global International Sustainability Standards Board.

- There is very little clarity on measurement standards. 78% said that the biggest challenge facing their organisation in relation to ESG was confusion over what to measure; 71% said that the biggest challenge facing their organisation was how to measure ESG. Interestingly, on 37% said that pressing regulatory pressures were a challenge.

- In terms of ESG strategy focus, 20% of respondents said that their ESG strategy would be focused on dialogue with clients, while a further 19% said that they would be focused on regulatory compliance. These were the two strongest areas of focus and points to the two roles of ESG strategy – a product based, client facing one, and a regulatory one. This was also reflected in the interviews which pointed to an organisation pivot towards more values-driven strategies internally and externally. The biggest revenue driver from ESG policies was 72% saying they saw an uplift in revenues from pricing products for transition of up to 25%.

- Trade finance was regarded as a special case within the regulatory frameworks for ESG that are emerging with 25% saying this was because of the need to have transactions-level measurements, and an additional 22% saying that the scale of the reporting requirements made it distinctive. Interviewees pointed to the fact that trade finance is not well understood by the regulatory community or the ESG community and that a united voice to regulators to explain how trade could be made more sustainable through targeted lending to deep tiers in supply chains was essential.

- Credit insurance is a mechanism for supporting trade finance through creation of appropriate risk assessment tools (33%), creation of common measurements (28%) and creation of common sustainability definitions (28%).

- Technology can help support trade finance provide transition support to their clients by automating ESG risk assessments (84%) and providing systematic and consistent data (84%). ESG measurement in deep tier supply chains was seen as a key area for Fintechs by 80% of respondents, as was data aggregation and automation of standards benchmarking. However, many saw the role of Fintechs as being restricted by the lack of common audit standards.

This was action research – to investigate and to try and address the problem of regulatory reporting and capital requirements in trade finance. The report concludes with three clear recommendations based on the ITFA membership's feedback:

1. To establish an Audit Council that takes leadership with other representative organisations for being the "single voice" to regulators that the ITFA members regarded as essential.

2. To establish a common data pool to share experience of scenario modelling and climate-related financial risk that creates common ground in defining the dimensions, data and testing requirements for environmental, social and governance parameters as they relate to financial risk.

3. To include credit insurance, African and emerging market and smaller trade finance providers in the Audit Council and approach to data modelling in the interests of preserving the trade finance ecosystem which is currently endangered by "one size fits all" regulatory incentives. This will allow appropriate weightings and measurements to be developed.

The risks of not acting quickly far outweigh the risks of doing something. There was a general sentiment amongst members that starting somewhere and adjusting methodologies was the way forward to allowing an appropriate structure to evolve that met regulatory requirements and that provided appropriate incentives for transition. Trade finance has strict governance rules that apply globally. This framework is adaptable to achieve a consensus around audit standards and regulatory reporting that can be adjusted for different socio-economic and sectoral conditions.

If this challenge is not addressed quickly by the industry there is a real risk of reputational damage and failure of trade to deliver a long-term goal of supporting sustainable global trade through the financial products it provides. This is a monumental task and will not be easy. But it is also a once in a generation opportunity that future generations need us to seize.

The regulatory reporting reality of making trade sustainable

Dr. Rebecca Harding

Report Overview

This report looks at the need for regulators and trade finance providers to collaborate on sustainability reporting and capital requirements, and capital at risk frameworks. It reports on the views of nearly one quarter of ITFA members who took part in an online survey and semi-structured interviews between April 2023 and May 2023. It highlights an emerging "regulatory paradox" that is the direct result of the current structures: while banks and insurance businesses overwhelmingly want to support meaningful environmental, social and governance (ESG) and are committing resources to that, the incentives in the regulatory system militate against effective pricing to engender enduring changes in behaviour that will enable a fair transition – not just in developed countries but also in developing markets as well.

Because of this paradox, the first question that many interviewees asked was, "what is the purpose of regulation in this space?" In pure economic terms, the purpose of regulation is to correct market failures arising specifically from behaviours in the past that have created adverse effects, or externalities, for the general public.[1] Such externalities might include income inequality, poverty, pollution, and greenhouse gas emissions and since the Global Financial Crisis, they have also included financial behaviours that put at risk the consumers or buyers of financial products. The argument runs that if behaviours won't change by themselves through supply and demand alone, then the market won't correct by itself. Regulators step in to prevent those behaviours from continuing in the interests of public well-being.

That markets have failed the planet in social and economic terms has been self-evident since Rachel Carson wrote *Silent Spring* in 1962,[2] Fred Hirsch wrote *The Social Limits to Growth* in 1978[3] and the Brandt Commission published "*Common Crisis – North-South Cooperation for World Recovery"* in 1983.[4]

Nearly a quarter of the way through the 21st Century we are at a crisis point in political, environmental and social terms and there is no understating the seriousness of this moment in time. A climate tipping point has almost been reached as was made clear by the International Panel on Climate Change.[5] Global inequalities in terms of access to wealth, resources and gender equality are worsening, according to the IMF.[6] National security policies are excluding behaviours in supply chains on geopolitical as well as human rights grounds.[7] In the words of one banker interviewed for this report, "We all know we have to do something, and soon."

Accordingly, the regulatory response to the market failure represented by the pressing challenges we face is to accelerate the existing processes around sustainability reporting. Financial Institutions will need to report on their climate-related financial exposures and calculate the financial risks that, at present are associated with climate change. This is largely an historical risk-based approach that allows for scenario modelling for the future on a 1-5 year time horizon within normal credit cycles.

Mandatory sustainability reporting requirements for corporates now cover some 29 countries around the world. The purpose of reporting is two-fold: to establish where the financial system is in terms of its risk exposures to ESG externalities and to mitigate for the financial risks that may emerge from that exposure to ESG risk. The approach is essentially risk-based.

In each country the disclosures are different in terms of what needs to be reported and how stringent the reporting standards are from "comply or explain" in the US to the obligatory "Corporate Sustainability Reporting Directive (CSRD) in the European Union (EU).[8] Alongside this, the International Sustainability Standards Board (ISSB) will generate standards for sustainability reporting for investors in 140 countries merging the International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB) and creating a partnership with the Global Reporting Initiative (GRI).[9]

All of this is before we consider Basel III, Basel 3.1 or Basel IV's climate reporting requirements[10], the EU taxonomy,[11] the Sustainable Finance Disclosure Regulation (SFDR),[12] the European Banking Association's (EBA's) sustainability reporting or the Prudential Regulatory Authority (PRA) sustainability reporting.

Such an alphabet soup of Environment, Social and Governance (ESG) reporting is at best confusing. At worst, according to the research done for this report, it is creating a market distortion that has the potential to widen the trade finance gap in emerging markets and for smaller businesses, increasing the risk of "green-hushing" - reporting the minimum amount in terms of sustainability to avoid liability - while not reducing the risk of greenwashing. The use of ESG as a cover simply for environmental reporting is misleading and neglects the importance of social drivers of sustainability, especially in emerging markets but in deep tier supply chains too. But perhaps most seriously of all, it is providing perverse market incentives to banks that make new ESG projects less financially attractive compared to "old" or more orthodox projects.

This is the regulatory paradox that forms the basis of this report. The research suggests that banks want to do the right thing (Figure 1). ESG is being measured by the trade and trade finance sector and in a survey of ITFA member organisations it represents either everything they do or one of the top five KPIs for 59% of the respondents.

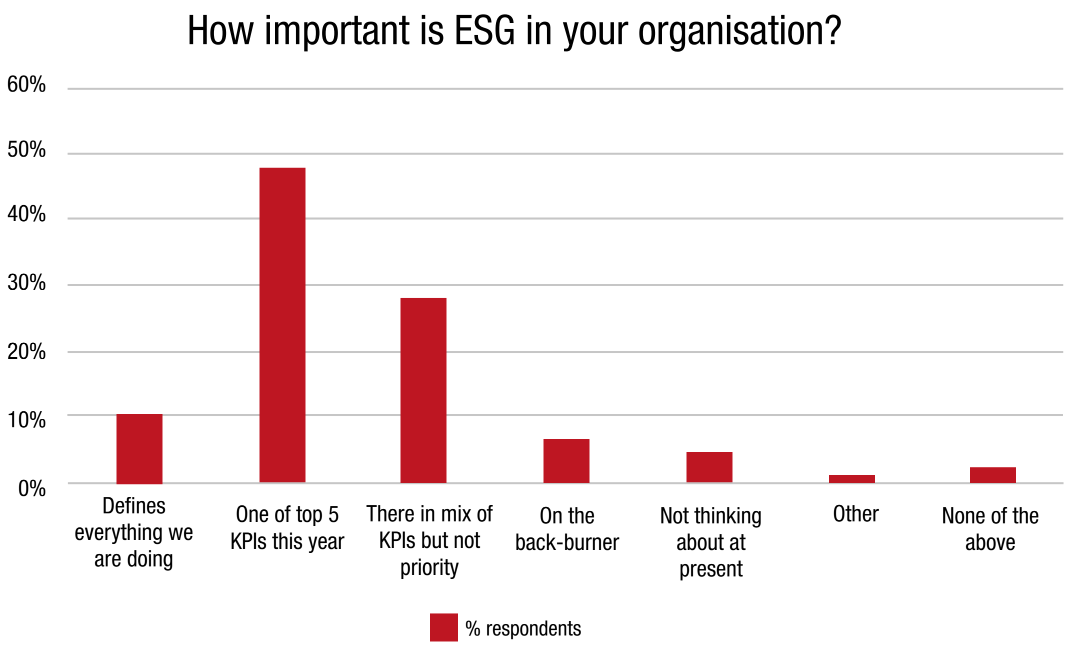

Figure 1: Importance of ESG within respondent's organisations
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

However, during the 40 in-depth interviews conducted alongside the survey, there was a very real sense that, in the words of one senior trade finance provider, "no-one has got this nailed – there is a lot of hype around the subject." The multitude of frameworks and definitions has created confusion about what needs to be reported and "there is no common methodology or language between banks, regulators and corporates that currently streamlines" or simplifies ESG reporting. In the words of one interviewee from a European bank, "the fact that ESG actually just means 'green' is a measure of how difficult this process is, how much we are potentially imposing inappropriate values on our clients in emerging markets and how long it will take to get to anything close to a solution."

This does not mean that there aren't significant efforts being made (Figure 2). Over 70% of respondents reported that there was more organisational focus on ESG, and over 50% reported that there was more budget available. In qualitative responses, survey respondents argued that clients and regulators were demanding more focus and that the resources and strategic priorities being placed on this were because of the complexity of the situation. This was, "an opportunity to be seized" but it involved a complete reorientation or pivot towards achieving values-driven goals in addition to shareholder value.

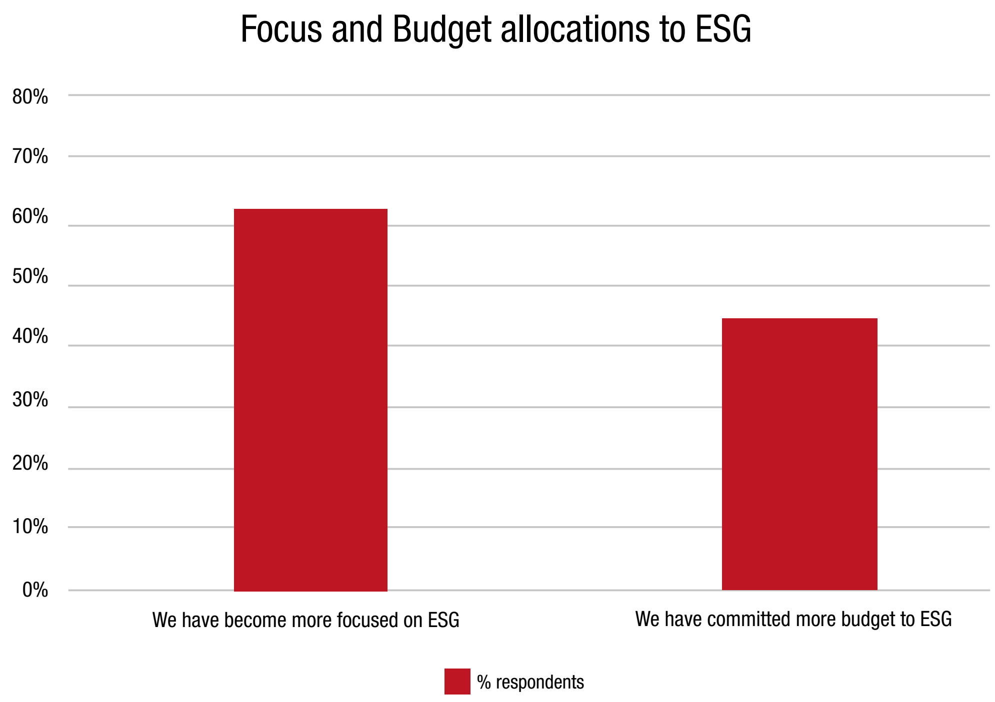

Figure 2: Focus and budget allocation to ESG, % of respondents.
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

Evidence for the confusion around defining ESG was clear in the survey and in the interviews. Nearly 90% of respondents saw ESG priorities as a way of helping the planet to become more sustainable (89%) while 88% saw it as a way of creating new product offerings and nearly 83% saw it as a way of engaging with clients in a different way. Relatively few (50%) saw ESG as a matter for compliance or operational risk.

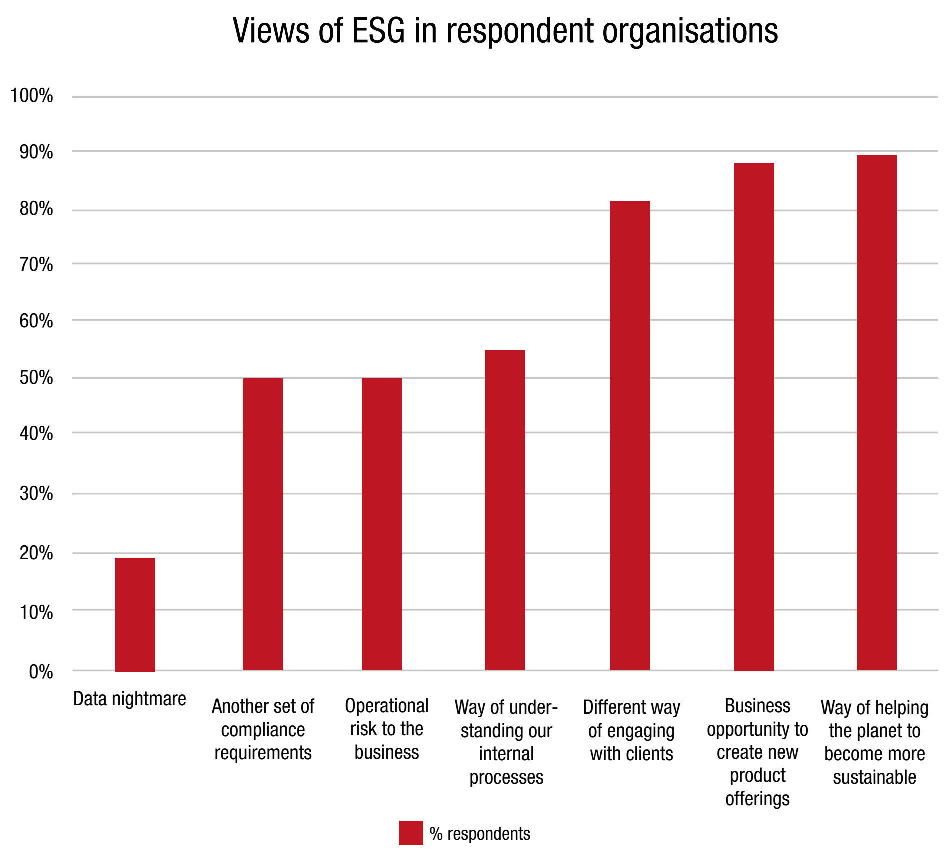

Figure 3: Views of ESG in respondent's organisations
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

Translated into financial behaviours, this means there is no clear or common definition, either from the regulators or from the banks themselves as to what a "green" loan is, how it compares to a "sustainable loan" and how the issue of shorter-term open account or supply chain finance arrangements translate into an appropriate regulatory framework compared, say, to medium- and longer-term project or infrastructure finance, or indeed investments. Many of the interviews highlighted the fact that regulations are focused on the investment market rather than on trade or trade finance.

A note on method and the usefulness of action research

The purpose of conducting both an overview of the regulatory requirements and taking such a strong sounding of trade finance providers was to enable an action-research process in the future. Action research is a specific methodology that attempts to investigate and solve an issue simultaneously and is aimed at changing practice and behaviours to resolve problems.[13]

In the context of this report, complexity in the emerging regulatory structures is undermining attempts to address the market failures of climate change and inequality. Since these are endemic externalities from the operation of markets post industrialisation, there is clearly a need to change the behaviours of all economic actors, regulators, finance and corporates alike. In the words of one interviewee, "The regulators complain that the banks don't have a unified voice to promote one method of measuring sustainability; the banks complain that they get no steer from regulators on what they need to report in relation to sustainability."

The action-research approach here identifies a communications challenge between the two parties and uses the authority of a large sample of trade finance providers to provide the first overview of the challenge from their perspective. So this report becomes such a summary for communication purposes while also laying down the foundations for delivering action through, for example, aggregating the various reporting standards and developing education programmes. For an action research approach to work, this report should be the beginning of a process and not the final word.

Report summary

The narrative so far underscores the enormity of the challenge that lies ahead. Those who took part in the research, representing nearly a quarter of ITFA's membership in total, were committed to the need to make their businesses generally, and trade in particular, more sustainable. This represents a pivot in business values and a real desire to help clients rather than simply something that has to be gone through to ensure that their operations are compliant. More resources are being thrown at the problem. However, the somewhat tongue-in-cheek comment by one respondent that reporting requirements are a "bit of a mess" globally, and the perverse incentives that the current capital requirements are creating, mean that the unintended consequence of regulatory intervention may ultimately make trade less sustainable rather than more.

This core finding is the regulatory paradox that endangers the very purpose of regulation. Many of those interviewed asked about the purpose of sustainability reporting argued that as the requirements are currently configured, there are many unforeseen consequences which will undermine their impact on climate change and a fair transition in emerging markets. This is the case for three reasons: first, there is no immediate favourable capital treatment for sustainable finance, second, there is no agreement on how to measure the "S" in ESG, and third, there is no specific treatment of short-term financing facilities that are typical for trade and supply chain finance.

The result of the regulatory paradox is a litany of unforeseen consequences which can be summarised as follows. There is limited upside to providing favourable pricing for sustainable loans generally and for trade and supply chain finance in particular. Inevitably this will bias the provision towards existing portfolios where the credit terms are less risky rather than "new" sustainable lending which is innovative, on a smaller scale and potentially more risky in credit terms.

Alongside this, the focus on the measurable "E" rather than the intangible "S" militates against provision of finance in emerging markets and to smaller businesses in deep tier supply chains. With the best of intentions to correct behaviours of the past, regulators are distorting behaviours in the future in favour of the status quo now. This excludes emerging markets, small businesses and small banks and, worse, widens the trade finance gap while doing nothing to enable effective transition at the top of global supply chains. Put alongside this, the regulatory arbitrage that is a direct result of different interpretations of the regulations in different geographies, and “a bit of a mess” sounds like a “bit of an understatement.”

Report structure

Such a conclusion has major consequences for regulators, financial services providers and corporates alike. The rest of this report unpacks the reasons why it needs to be taken seriously and actions built around it by ITFA in cooperation with regulators and all other representative bodies.

The first section is a short technical summary of the regulations and the consequences for trade finance. This framework was used to underpin semi-structured interviews with ITFA members and points to the fact that climate related financial risks have not been effectively modelled for regulatory capital purposes. Some of this is of course because of the complexity of modelling climate change’s link to financial risk. While some banks are able to do this modelling, the majority in the survey (60%) cannot. This means that there is scope for a central data repository that begins to share best practice in modelling the credit risk from exposure to climate, environmental and ultimately social risk.

The report goes on to look at reporting practice amongst those who participated in the research. It provides insights into the ESG focus within banks which are affecting not just relationships with clients in terms of tactics but also strategically with clients and investors as many pivot towards values-based approaches. It suggests that there is best practice to be shared in terms of pricing and capital risk modelling and argues that while most participants in the semi-structured interviews felt that they were unique in what they were doing, there were in practice many opportunities for learning from each other. However, the research also suggests that interviewees are nervous about what they report – not just because it might not be enough, but also because it may be too much. Many used the phrase “green-hushing” to describe under-reporting in order to avoid acceptance of liability – this could be equally as damaging as green-washing in the future.

From this the report highlights a general frustration with the regulatory requirements both in terms of reporting and in terms of capital requirements from a trade finance perspective. The transmission mechanisms for enabling transition are clear in supply chains, it was argued, but getting finance to the riskier parts of the supply chain under current capital buffer frameworks is difficult without clarity from government in terms of the strategic support they could offer in the form of policy priorities and guarantees through the likes of export credit agencies.

Much has been made of the regulatory paradoxes that are emerging and the fourth section looks at further evidence of market distortions in terms of emerging markets and Africa in particular, smaller banks, the credit insurance market and the burgeoning Fintech/Tradetech market. Failure to engage emerging markets and African trade finance professionals in regulatory conversations is clearly a frustration amongst interviewees – not just from banks in those regions but also from global banks who see limits in terms of supply chain finance activities if the issues are not addressed around reporting of social considerations. Credit insurance is one that is being under-utilised to support transition, not least because of the blunt capital requirements at present. Similarly the development and adoption of new automated and digital solutions is being restricted by lack of clarity at a global level on regulatory reporting requirements – banks are reluctant to adopt until they know what they need to report and this is potentially holding back exciting innovations in the sector.

All this leads to a discussion of the unforeseen consequences that emerge from the regulatory paradox of current regulatory reporting requirements. The focus on “E” rather than “S” will exclude Africa, emerging markets and deep tier supply chains and widen the trade finance gap. While there is no favourable capital treatment for sustainability there is no long-term incentive to offer price reductions for sustainable projects or supply chains, meaning that behaviours are unlikely to change. The perception that over-reporting or directly providing price incentives to “green” projects may be construed as “green-washing” by regulators is leading to “green-hushing” – under-reporting to avoid liability. Core geographies and segments of international trade are directly held back by the lack of appropriate and clear regulations, standards and capital treatment.

Action point: speak with one voice

So the conclusion is quite clear. Almost to an interviewee, the participants in this research said that there was an urgent need to shift the dial in terms of regulatory reporting requirements and capital adequacy ratios. This would mean one single authority or agency that:

1. Took responsibility for aggregating all the global standards into one simple framework by establishing the common features of all and adjusting them to include approaches to the “S” in ESG.

2. Created a global audit standard in partnership with all trade associations, industry partners and stakeholders from excluded geographies and groups including Africa, credit insurance and technology providers.

3. Acted as a data repository for sharing scenarios and risk modelling cases so that the experience of larger organisations could be shared with smaller organisations.

4. Developed education and training programmes built on the best practice within the industry.

5. Used learning from its membership base to communicate with one single voice to regulators.

While this is a long and complex journey, the research conducted for this report suggests there is a strong appetite to develop this framework.

A note on language

For the purposes of this report, ESG and sustainability will be used interchangeably to mean environmental, social and governance. This is important because ESG as it is captured in regulatory documents often refers only to climate change and net zero. However, a more inclusive definition of ESG to mean sustainability and to include S and G means that the findings do not exclude Africa. It was clear during the course of the interviews that African respondents felt excluded because the language of ESG often means “E” in regulatory terms. Similarly, the interviewees from developed world banks were adamant that only focusing on E was limiting the scope of regulations and discriminatory in impact. By using the terms inter-changeably this report intends to include E and S in the discussion.

Regulations, taxonomies and capital adequacy: the key technical points

The most important regulatory reporting framework for respondents at present is the EU taxonomy (65%), closely followed by SFDR (59%) and the ISSB frameworks (58%) (Figure 4). This is unsurprising since the majority of respondents were European-based. What is of more interest is that the difference between these three options is not statistically significant – in other words, the EU and the global frameworks are both being used to guide ESG reporting and ESG strategies.

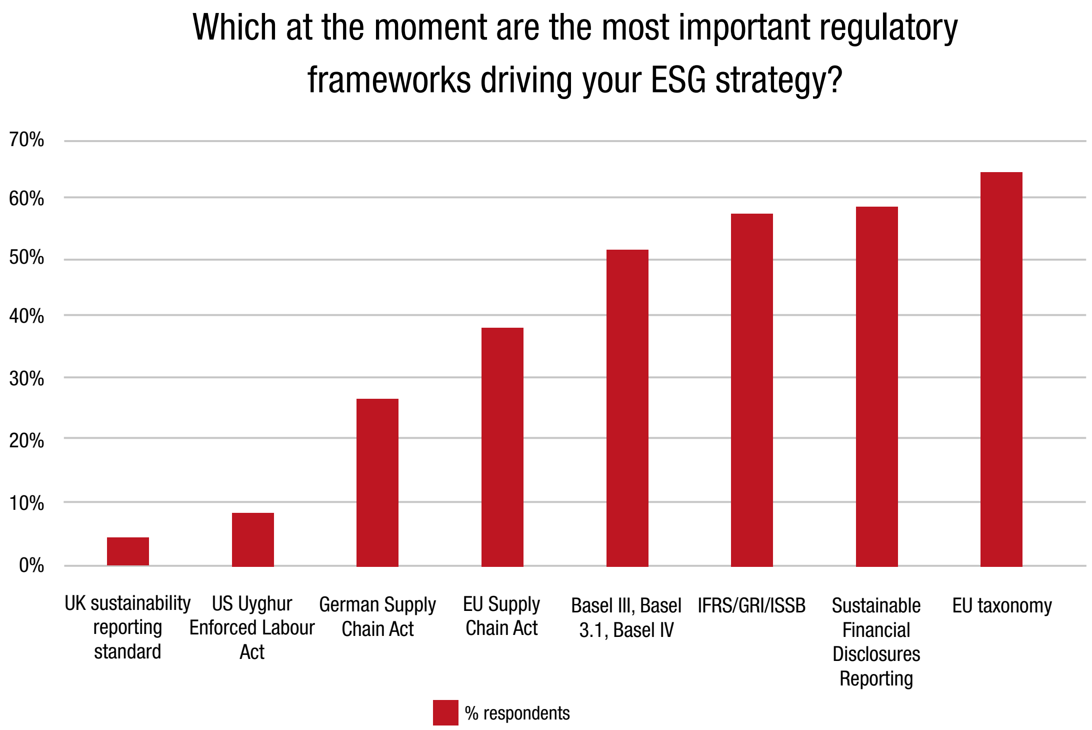

Figure 4: Most important regulatory frameworks for ESG strategy
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

What follows is unapologetically a technical summary of regulatory reporting and capital requirements globally. It is technical because the documents themselves are technical and the summary for practice that concludes this section is the framework that under-pinned the interviews and the survey.

What is immediately obvious from the summary below is that much of the current regulatory work focuses on climate change rather than the "S" in ESG. However, emerging Supply Chain regulations in Germany and the EU in particular and increasing concerns over human rights abuses in global supply chains being articulated in industrial policy in the United States, mean that the regulatory framework will need to include the "S" as well in the near future. This will add to the complexity of measurement and mitigation and will quite literally perhaps mean an entirely new way of measuring economic activity.[14],[15]

Regulatory summary

Global regulatory principles for ESG set by the Basel III and emerging Basel IV frameworks are broad[16] and acknowledge the fact that there are many uncertainties around assessing the link between climate risk and financial risks.[17] In particular the precise transmission mechanisms by which climate change will become financial risks that translate into bank losses are not known.[18]

Further, the nature of climate risk is itself not known, but it is generally assumed that it will grow over time. The complexity of climate change means that the regulators are not clear on the precise tools they can deploy or even what is the purpose of those tools. For example, the Prudential Regulatory Authority (PRA) in the UK regards the capital framework as a means of protecting the financial system from financial losses but not as a means of addressing the causes of climate change or as a "substitute for government policy.[19]"

To this extent, the capital adequacy framework is appropriate to absorb the unexpected losses that may come from climate change but which are inherently unpredictable and uncertain using the traditional approaches of backward-looking credit risk analysis.[20] The role of scenario modelling and forward looking approaches is vital but under-developed in relation to climate change for very obvious reasons, including the nature of climate change itself and the time horizons over which it becomes important for capital at risk purposes.[21]

There is still some ambiguity around the policy goals of governments and regulators alike. For example, is the goal of greater regulation to help governments achieve the Paris climate accords or to mitigate the financial losses of climate change? There is clearly a substantial role for the capital allocation framework to incentivise investments in 'green' projects and sustainable infrastructures.

This means that the "precautionary principle" is what is currently governing both the micro and macro-prudential principles around sustainability, particularly in the UK through the PRA and in Europe through the European Banking Authority (EBA). In other words, the regulatory system should "do no significant harm." Thus, the general approach of regulators is to avoid "catastrophic outcomes."[22] Regulated firms are expected to include their exposure to climate related financial risk "in the same way that they assess their own capital requirements with other drivers of financial risk."[23]

At present, and while the research on Pillar 1 and 2 capital requirements is under-developed, regulators are taking the approach that the increased capital requirements under Basel IV and the existing capital requirements under Basel III are adequate to provide appropriate capital buffers and risk weightings for specific assets. However, there is research that suggests that climate change itself may affect different assets in different ways and therefore require different types of risk weighting.[24]

The "precautionary principle' translates into Pillar 3 mandatory reporting globally. The EBA has the most comprehensive approach to reporting in that it is based on "double materiality" – that is, a bank has to confirm that its ESG strategy is both delivering on a target[25] and meeting the governance requirements of its roadmap[26] for transparency, risk-management and supervision, capital allocation, stress-testing, standards, green-washing and measurement. The PRA is similarly taking a punitive line switching its supervisory approach from assessment to "actively supervising against" banks that are not seen to be implementing climate related reporting adequately.

Within the trade, trade finance and trade credit insurance space there are two key concerns. The first is around the climate risks specifically associated with trade and supply chains – these are likely to be relatively short-term and the result of climate "events" that result in unexpected losses. However, the current Basel IV frameworks provide tighter capital allocations and risk weightings for commodity, project and "object" based finance which capture a substantial amount of the routine Pillar 1 and 2 requirements and potentially capture that risk. The second, however, is around Credit Insurance and how regulators integrate this into a bigger macro-prudential framework that includes an assessment of the impact of the withdrawal of trade credit insurance on trade and economic performance as these types of firm move away from carbon-intensive projects.[27,28]

Implications for trade and trade finance providers

1. *The current status quo hides a great deal of uncertainty*: The Pillar 1 minimum capital requirements framework for climate change is currently captured within existing Basel III requirements. However, this may not always be the case. All regulators point to the fact that there is more reporting and more understanding of the issues[29] and complexities of what needs to be done. However, there is still no precision around the way in which the transmission between climate change and climate related financial risks works or will work over the longer term. Until this is researched and understood using or adapting available credit risk modelling historically and on a forward-looking basis, the precise capital buffer and risk weighting requirements to protect the financial services sector from climate related losses cannot be known.

2. *Self-regulation needs greater direction from the regulators if the "nightmare" of Anti-Money-Laundering and Know Your Client compliance is not to be replicated:* The Financial Conduct Authority (FCA) and EBA are likely to take punitive action against banks that are not doing enough in terms of their ESG supervisory and measurement/risk mitigation approaches but are not precise on what needs to be included in their benchmarks**.** The latest "Dear CEO" letter from the PRA reported that its preliminary review of ESG benchmarks in banks was "poor" and that insufficient detail on ESG was being provided in these benchmarks.[30] However, while there is limited research on the link between the capital framework and accounting standards, and while there are legitimate questions given the deep uncertainty of the links between climate risk and financial risk, there needs to be more collaboration between regulators and banks implementing these standards.

3. *Regulatory frameworks at present are not being used universally to promote transition:* ITFA members are all regarding the market and pricing mechanism as critical to encouraging clients to move to more sustainable business models. This activity is not being replicated by commensurate effort from regulators to assess how the regulatory framework could be used to incentivise investments and pricing. The EBA and a number of European national regulators (such as Hungary) have started this process but it is not widespread. ITFA's dialogue with regulators should share best practice in this area and look at the interplay between pricing and market incentives and capital adequacy ratios.

4. *Smaller banks and emerging market (especially African) banks are disadvantaged by the current regulatory system.* An unforeseen consequence of the global regulatory standard is that it worsens the trade finance gaps in emerging markets. Large emerging market banks have to comply with the regulatory standards but these may not be appropriate for the types of businesses they work with – for example, heavy dependency on carbon-intensive commodity production in Africa may preclude funding for projects that have a high economic welfare component in those countries. ITFA members from emerging markets are aware that this is a huge challenge to the effectiveness of the regulatory regime and may work against delivering the benefits of trade for economic development in those markets. One size does not fit all and a blanket precautionary principle in regulation is inadequate to address real social and welfare consequences of such an approach.

The trade-off between risk-based approaches and transition

A corporate wish to move to a more ESG compliant business model might expect to have a preferential price on its financing. However, it was clear from the interviews was that the backward-looking risk-based approach militates against transition pricing because the market needs better risk incentives to make the business case for pricing differentials. The regulatory approach needs to factor in transition and the causes of climate change, and the current risk-based approach is too blunt to do this.

On risk modelling, practitioners interviewed were clear to stress that they were starting with climate because it was easier to model rather than because they could not see the advantages of modelling social factors. Many pointed to the fact that they had clear reporting and modelling responsibilities but did not have the capacity to influence externalities like modern slavery/human trafficking or biodiversity except through case-by-case conversations with their clients. In other words, although they wanted to take a more future-based approach to transition, the risk-based approach targeting financial exposures was likely to dominate.

Equally, it was argued that the incentives in the system are the wrong way around for transition pricing with the result that the priority would still be on maintaining traditional finance because there is more return on these than on "green" projects. In the words of one, "we should be able to charge a penalty rate that isn't taken to P&L that is used to invest in carbon credits or converted into the real economy through a transition fund. This needs common standards and specific capital treatment because our supply chains are global. It should be possible but there is currently no way to recognise that sustainability compliance is a reduced reputational risk, a lower consumer risk and potentially over the long term a lower credit risk as well. This should include the social element and as the company transitions to a more sustainable model against KPIs it should get better pricing."

Ratings and reporting

The biggest problem at present is the fact that Basel frameworks are open to interpretation regionally and nationally. This was initially intentional, according to one interviewee, but particularly in relation to sustainability, the different interpretations have created a degree of regulatory arbitrage and considerable confusion. The rules are loose and, not only can they be interpreted by national regulators, they can also be interpreted by the bank themselves giving rise to a degree of self-regulation in different jurisdictions.

To overcome this, the role of ratings agencies has been tightened by the Financial Conduct Authority in the UK[31] and is likely to come under supervisory authority in the EU as well under the current call for evidence by the European Securities and Markets Authority (ESMA).[32] This is important because it makes the need for consistent standards across ratings agencies for transparency purposes. At present, the "Aggregate Confusion" of ESG Ratings divergence is simply adding to a general confusion for both regulators and banks about what needs to be measured and how it needs to be measured.[33]

According to interviewees, the problem is that ratings agencies are making links between credit risk and climate risks in different ways, with the result that the performance of their ESG ratings differ – as one interviewee remarked, "they are poor on climate but good on credit: existing credit models are not linked to sustainability because we do not know what to measure, and which are the best correlations with financial risk."[34] The probability of default, it was argued, is calculated on a one year forward horizon in existing modelling and this technique is also applied to climate risk which means the modelling is itself on inappropriate time frames for measuring climate change or the associated risk.

Thus, the approach taken by Moody's showing that ESG considerations have a material credit impact in nearly a quarter of regulated entities, but that these could be positive or negative depending on size, geography, market risk and investment risk[35] may differ entirely to an approach taken, say, by Sustainalytics, Ecovadis, or Fitch. The regulators, by definition cannot approve one agency over another, and in the end, this casts the responsibility back to the reporting entity – in this case the bank to determine whether or not the default data will show a lower claim rate against ESG compliant businesses and whether or not ESG compliance is a predictor of credit risk.

Summary of regulations and their consequences

This section has described the origins of the regulatory paradox emerging from current reporting frameworks and capital requirements that are emerging. There are four main reasons for this paradox.

- First, the "one-size-fits-all" approach to capital requirements means that banks must treat all lending in the same way from a regulatory perspective.

- Second, this static and backward-looking risk-based approach cannot regulate for any transition to a more sustainable economy in the future. The costs of differential pricing for sustainable lending must currently be borne by the lender. This means that, for profitability reasons there is still a bias towards funding traditional transactions and investments because the risks of funding transition or "green" transactions are higher.

- Third, the lack of data and scenario models means that methodologies to assess climate-related credit risk are under-developed. While this remains the case, it will be unlikely that the regulators will be able to move substantially towards a more enabling regulatory capital framework.

- Fourth, the lack of clarity in reporting standards further adds confusion to the market creating an "information asymmetry" that is distorting it further. In its simplest form, ratings agencies are providing different assessments based on different methodologies with a focus on credit risk rather than climate risk. This means that each performs differently against regulatory requirements and this lack of clarity is adding to the general challenge of regulatory reporting.

Action point – data and modelling

At present this data is missing and there was a general agreement amongst respondents that the construction of shared databases would be helpful, not just in understanding the current regulatory requirements but also in transitioning to new modelling which was inclusive of "S" criteria and of emerging market players. As noted above, 60% of survey respondents (n=75) were not able to model their sustainability risk. Thus, such a data resource would allow learning between large and small entities and reduce the costs of those smaller entities who do not have the resource to prioritise this type of activity.

It was pointed out that the urgency of the situation means that this should be done quickly: “If we start getting into a debate about standards and processes we will never get anywhere. We have to trial and see: build a data library of scenarios to hit forward-looking and stress-testing goals perhaps coordinated with international organisations like multilateral banks and the World Bank.”

The current state of play in ESG strategy amongst trade finance providers

The interviews suggest that every organisation feels like it is doing something new or unique in its approach to ESG and there is a diversity of structures across the industry. There are, however, a few commonalities: 39% of respondents to the survey have a dedicated cross-organisational function and 30% task the C-Suite with responsibility for ESG (Figure 5).

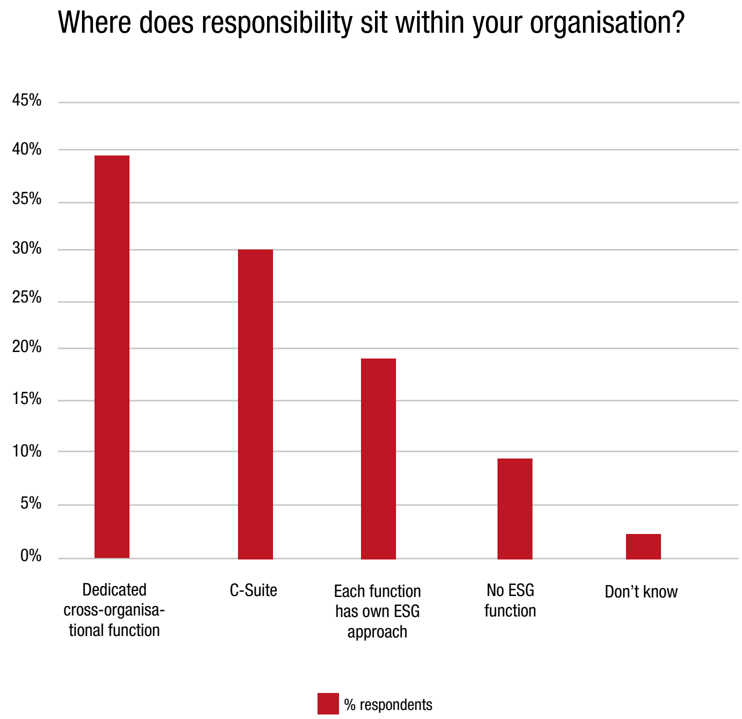

Figure 5: Location of ESG function in respondents' organisation
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

Interviewees were keen to point out that huge resources were being dedicated to ESG at a strategic level and that views across their organisations were mixed in terms of the potential upside from developing ESG products or pricing for ESG. Some pointed to the transition that is going on within banks as they go through the process of re-orienting their focus towards ESG and remarked this was creating a conflict of objectives internally, especially in relation to funding of existing fossil fuels projects where returns are higher but which are not consistent with the need to fund sustainable projects as well.

Others noted that there was an intrinsic conflict between E and S if the move out of fossil fuels was immediate; this would create job losses and social issues as a consequence and "no bank wants to be held responsible for unemployment or insolvencies." In other words, strategy, sustainability, compliance policy and profit are all polarised at present across the respondents to this survey.

What this means in practice is that ESG strategies and reporting are "Work in Progress" – many financial institutions are moving "gingerly" towards designing their own solutions but are very conscious of the fact that the regulators will be severe and punitive if what is articulated as sustainability strategy is found to be greenwashing. There was a reluctance to make huge claims for their strategies because of the risk of greenwashing with the perverse effect that some banks are making their targets reasonable but ultimately "flexible and undemanding." In the words of one interviewee, "If we set reasonable standards to cover the ESG bases, our reputational and regulatory risk is also covered but by doing the minimal amount. If you are unambitious, you are at least truthful." For some banks exposed to US markets, argued another, this "greenhushing" approach is actually to avoid any possible liability, either for greenwashing or for ESG-related externalities.

There are a few other general features of ESG within the participants in the semi-structured interviews:

1. The ESG functions were focused to a large degree on project finance and infrastructures in some cases supported by guarantees from Export Credit Agencies (ECAs) or public infrastructure funding. These were medium or long term projects which were said to be easier to define within the frameworks of regulatory reporting. This work was being supplemented in some banks to develop risk weightings at a sectoral level.

2. ESG within trade and supply chain functions was generally embryonic but was perceived as an area where a big impact could be made with appropriate pricing and guarantees. Supply chains finance is being tackled through Tier 1, or prime, corporates and ESG status across whole supply chains developed and measured on a case-by-case basis.

3. Most respondents interviewed had net zero and decarbonisation funding and targets internally and across their supply chains. Client portfolios were being aligned to match net zero and decarbonisation targets, although interestingly, 7% of respondents to the survey said they had implemented targets that were inappropriate to their region because of regulatory requirements from outside of their region.

4. Social sustainability, in particular human trafficking and modern slavery in a supply chain is commonly treated within a financial crime framework rather than through an ESG lens. The measurement of socio-economic targets through sustainable development goals (SDGs) was under-developed and many argued that this was real challenge because the "S" is intangible. In the words of one interviewee, "Social purpose and banking are strange bedfellows so 'S' is often captured outside of a regulatory framework as the right thing to do." It was clear that this was an area where interviewees felt that there was a lot of work to be done.

5. African participants deal with the S aspects all the time and wanted to stress the baby-steps approach they were taking to address issues of poverty, inclusion, human rights and welfare with clients on a case-by-case basis with clients through their supply chains. This approach takes time but overcomes many of the weaknesses in data that are common to all those interviewed for this research.

The challenges that are faced by survey respondents are highlighted in Figure 6.

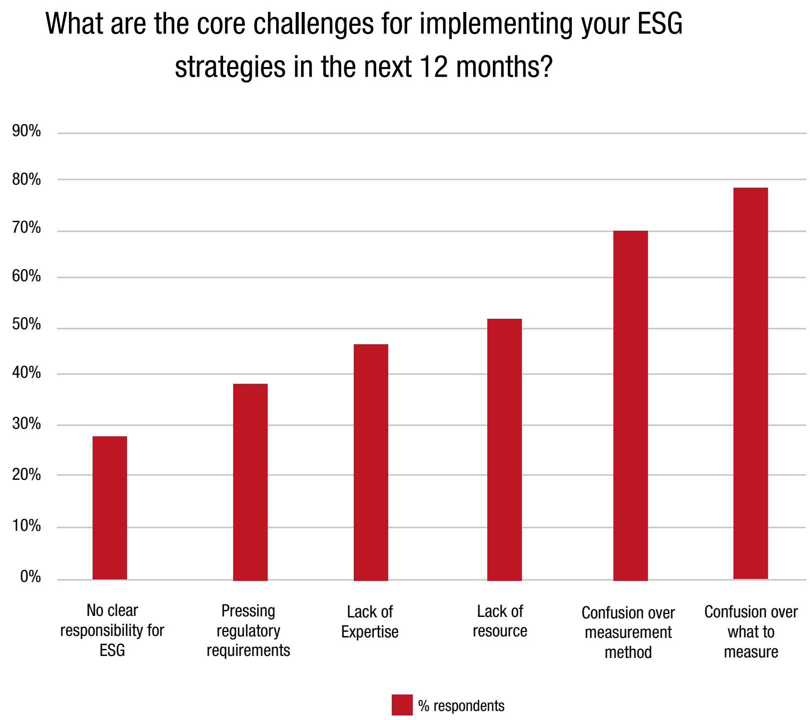

Figure 6: Core challenges for implementing ESG strategies amongst ITFA members
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

The challenge of measurement dominates the concerns about ESG strategy implementation amongst ITFA members. There is an important difference between what to measure – in other words, what Key Performance Indicators (KPIs) are important for regulatory purposes – and measurement methodology – in other words, how to make measurements consistent internally and externally so that they can be used over time in credit modelling. 78% of respondents were confused about what to measure. 71% were concerned about how to measure – in other words they were worried about methodology.

Yet while measurement was quite clearly a dominant concern, regulatory compliance was marginally less important as a focus of ESG strategy amongst respondents than dialogue with clients. In fact there was no statistically significant difference between the different types of ESG focus highlighting the internal conflict between client facing and purpose-driven targets on the one hand and regulatory compliance on the other referred to above.

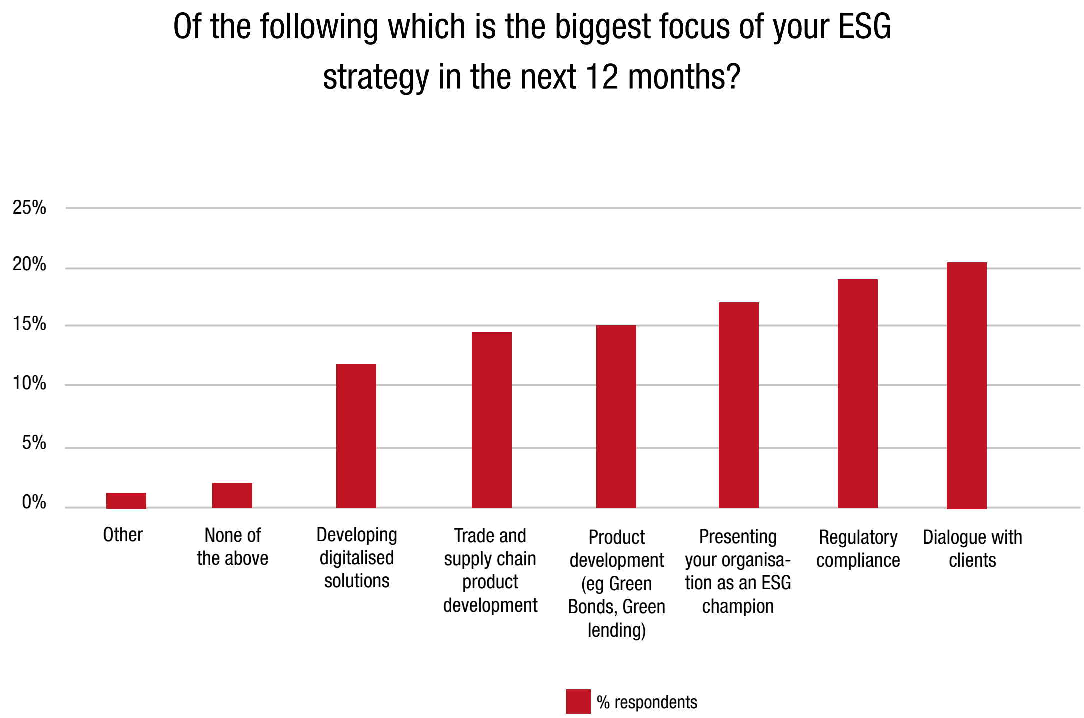

Figure 7: ESG strategy focus of ITFA members
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

Nevertheless, respondents in interviews were keen to stress the pivot that the shift to sustainability represents in financial institutions. As highlighted in Figure 3 above, "helping to save the planet", "developing new products" and "engaging in a different way with clients" were the top three ways in which banks saw ESG. The "greenhushing" issue was specific to the regulation and compliance aspect of sustainability reporting but not one raised in connection with the client-facing perspective. As one interviewee said, "this is making banks more innovative – we were frightened of having an opinion, and we are not now."

Reflecting this more upbeat perspective, 88% of ITFA members saw sustainability as a market opportunity with "pricing for transition" a clear potential revenue driver in the future with 72% of respondents saying this would generate between up to 25% additional revenue for their function (Figure 8).

Responses were evenly spread across the various ways in which ESG could create market opportunities, but interestingly, although new product development was marginally the biggest market opportunity, the biggest revenue opportunity by a significant margin was differential pricing to encourage transition to new business models.

This corroborates again the conflicts in responses that was evident from the interviews – there are a variety of views on how sustainability can be used in the market but pricing for transition is the clearest way in which survey respondents saw money being made – and also of making a material difference in terms of achieving their ESG objectives as well of course.

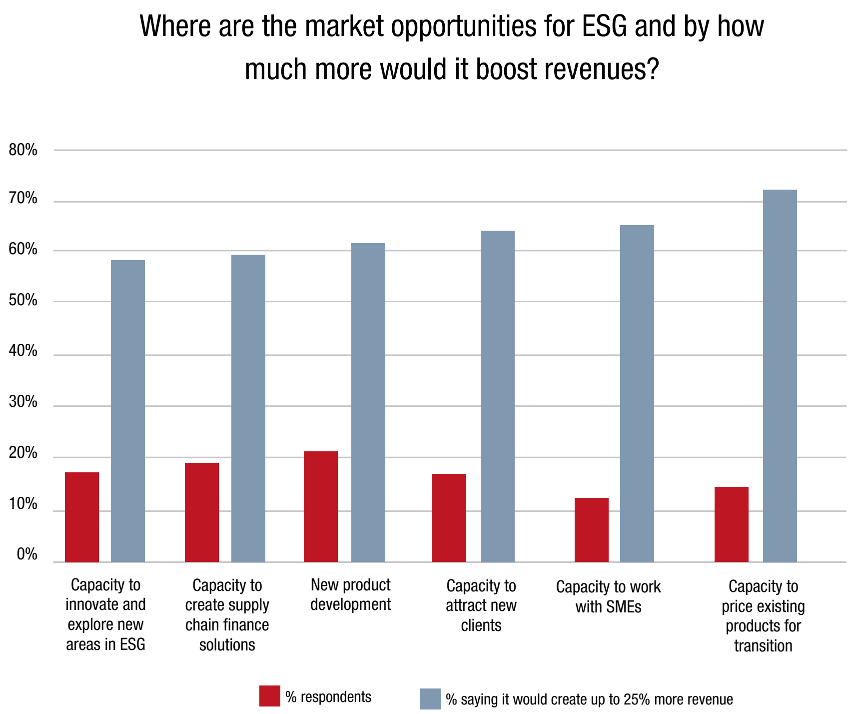

Figure 8: ESG strategy focus of ITFA members
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

Summary of current practice

This section has highlighted the commitment and energy amongst ITFA members to pursue a sustainability agenda. However, the interviews and the survey results have also highlighted three areas of concern: the risk of internal conflict or lack of alignment around ESG objectives. This is not just in areas such as funding fossil fuel where accounting profit conflicts with longer-term profit and achievement of sustainability goals, but also in the move out of fossil fuels for new projects where sustainability goals centred around “S” may be taking a back seat in the interests of meeting climate targets.

This set of conflicts has led to another paradox that is emerging from the regulatory reporting requirements: in the interests of avoiding accusations of greenwashing, financial institutions may be setting a lower bar on what they report in order to avoid either regulatory responsibility or the risk of over-promising, and therefore creating an intrinsic reputational risk.

Third, there is no clear focus of ESG strategies perhaps reflecting these internal conflicts. However, there is a clear view amongst respondents to the survey that differential pricing would create additional margin and, more importantly achieve the “double materiality” of managing risk and managing transition that European regulators in particular, want financial institutions to work towards.

Action point – resolving conflicts with measurement methodologies and differential capital ratios

The section has pointed to two areas for further actions. First there is a clear need for moving towards consistent and comparable reporting standards as quickly as possible. This goes beyond the need to standardise definitions into the area of creating audit standards against which financial institutions can benchmark practice internally and externally and against which regulators can measure progress. Second, common audit standards would mean that differential capital requirements for ESG to encourage transition pricing could be developed while resolving the “greenhushing” that may be prevalent as a means of avoiding accusations of greenwashing. Any further action should focus on audit standards and, accordingly, incentivised capital treatment and transition pricing as a matter of urgency.

Trade and Supply Chain finance – resilience through ESG?

58% of respondents felt that current regulations do not cover the specific requirements of trade finance. This was referred to time and again in interviews as well and the reasons are evident in the results of the survey as well (Figure 9).

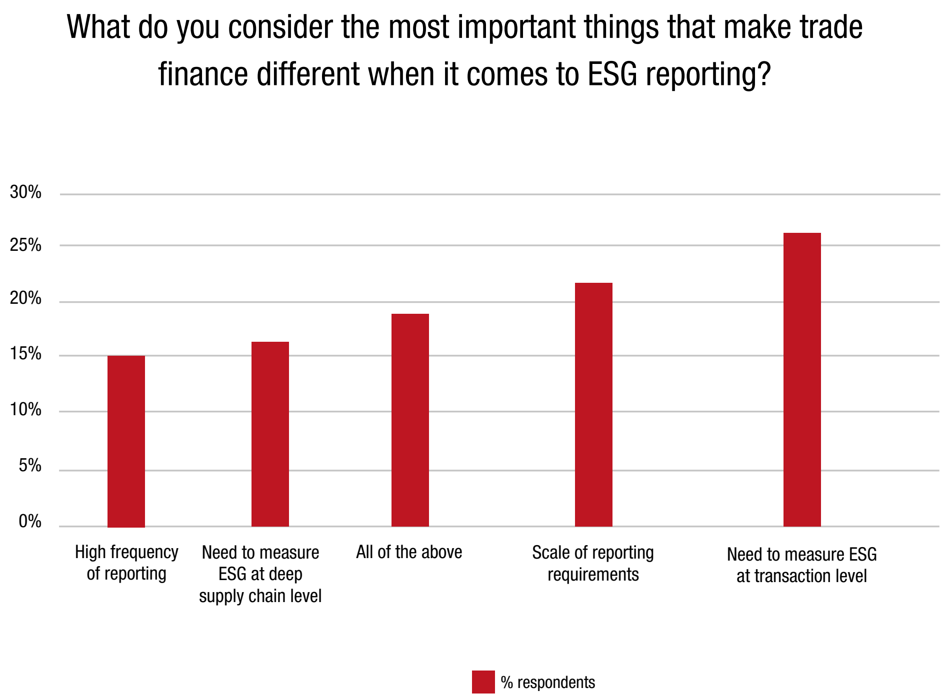

Figure 9: ESG strategy focus of ITFA members
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

The most significant reason for trade and supply chain finance needing a different type of treatment in terms of ESG reporting was the need to measure ESG at a transaction level (26%), closely followed by the scale of what needed to be measured (22%). It is also noteworthy that nearly a fifth of respondents answered that all of these factors were important and potentially required ESG approaches in trade finance to have a specific regulatory treatment.

There were several issues specifically in connection to ESG that interviewees highlighted. In the sustainability world, it was suggested by interviewees, trade finance was not well understood. Nor is it well understood in the regulatory world: despite its systemic importance for the global economy, it is treated very conservatively by regulators. It was argued that there is huge scope within trade and supply chain finance in particular to capture UN sustainable development goals (SDGs) because trade supports, for example, decent work, employment, innovation, poverty reduction and zero hunger through enabling export-led growth. By using trade and supply chain finance to enable fair transition to more sustainable business models in every sense of the word, the SDGs can be achieved more quickly and inclusively.

However, this needs to be approached pragmatically for several reasons. Not least of these are the fact that trade finance is often associated with hard commodities that do not play well with a specifically "green" agenda, and second because there are inevitable externalities in trade finance that differ between sectors and this needs to be considered in any regulatory treatment.

As with capital requirements in relation to ESG more generally, the challenges that were described were around definitions and capital treatment generally. However, seen through a trade finance lens there was one critical difference to point out. Even if you can define and agree with regulators what a "green bond" or a "green loan" is, it is very difficult to carry that definition into trade finance because so much of it is short-term and based on non-standardised products. Not all trade finance products, such as forfaiting or inventory or supply chain finance are done "on balance sheet" and this means that it is both a huge opportunity and a huge risk:

- The opportunity is that the nature of off-balance sheet trade finance is that it can be done outside a regulatory framework by smaller boutique finance providers in collaboration with senior debt in larger trade finance providers and systemic banks.

- The risk is a reputational and a cost one. Because the deals are often riskier, making sure they are defined within an agreed audit standard for regulators is imperative. As one interviewee argued, "we need this for transparency purposes and we desperately need to know what this audit method is. But it will also push up our costs, and this could push us out of business."

In the view of many interviewees, the fact that short term trade and supply chain finance are treated in the same way in terms of capital ratios means that the underlying tension between "E" and "S" that was stressed throughout most of the interviews conducted is unlikely to be resolved quickly or easily. Yet because a large amount of trade finance is done within the commodities space, this is something that does need to be addressed with some urgency. Put simply, funding something that may on the face of it look bad for the environment, such as mining, fossil fuels or palm oil, may actually be working to achieve socio-economic goals such as job creation and economic development.

There is scope within the frameworks that the interviewees highlighted. The Basel regulations are global and implemented globally, albeit with different national and regional interpretations. Trade Finance is also global and its compliance rules and governance structures are strict and adhered to everywhere, especially Africa. In fact, were there have been challenges, changes and losses, according to some, "these have been in relation to China and not in relation to smaller emerging economies or Africa."

In other words, putting together a capital treatment framework that works with the global compliance rules that exist in the industry should eliminate both the lack of clarity on audit requirements and the risk of regulatory arbitrage with different interpretations. This is because the governance of trade finance itself is very rigid.

This again comes back to the role of definitions, audit standards and credit scoring methodologies to create appropriate risk weightings and capital buffers. If as sustainability regulations develop, shorter term working capital, trade finance and supply chain finance are treated in the same way as medium or long-term project or infrastructure finance, then inevitably this will push up the price of trade finance. More expensive trade finance will mean that smaller entities providing finance cannot be competitive, and, even more importantly from trade perspective, smaller businesses cannot access cheap and flexible trade finance when they need it.

The effect will be to widen the trade finance gap and run the risks of creating insolvencies in the supply chains within trade finance itself.

Using the industry's expertise with regulators though, there are ways of dealing with this issue. Practitioners were keen to point out that the obvious solution to the "fair transition" problem is to put in place a "brown" weighting on the deals and transactions that may be environmentally detrimental while not discriminating in terms of pricing for deals which are "green". In other words, the price goes up for brown transactions rather than down for green ones. The burden of proof is on the client to prove the transition is happening, and therefore the company also has the price advantage as the transition evolves; the process of transition from brown to green would be funded through discounting the interest paid as the transactions in a supply chain improved both their environmental and their social KPIs.

What is really important within this though, is the need to use the excess profit from the "brown" transactions to resource the smaller businesses in the supply chain. Getting money to the right places, often at deep tier levels, ensures that the value creation within these supply chains is economic but also sustainable as well. This would involve more involvement from governments in shorter term trade and supply chain finance by way of guarantees to cover the risks associated with smaller and more transitional businesses. These will be explored in the next section.

Meanwhile, there is still the need to develop all of this around the very specific conditions of trade finance aside from its short-term nature. These are summarised as follows:

1. Definitions are hard in a trade finance deal because of the complexity of supply chains. Can we define a "green" letter of credit for example, and even if we can, what are the mechanisms and methodologies for measuring it? There was a

general frustration that this would take an inordinate amount of time, howsoever necessary, and meanwhile the reporting requirements which are already implemented or pending would stifle the industry's capacity to fund smaller and riskier transactions.

2. Interviewees wanted to point out that if it is possible to apply ESG standards to transactions, the frequency and materiality of reporting requirements in trade finance mean that the qualitative and self-reporting approach taken by many ratings agencies at present are misleading and inappropriate to what needs to be measured at a transactions level. The qualitative approach being used in investment deals are insufficiently dynamic and standardised to be useful in the real-time world of trade finance.

3. Trade finance products are complex and what works in terms of definitions for, say, a letter of credit will not work for, say an open account or supply chain finance arrangement. Project or infrastructure finance deals are different again. The shorter time to maturity in some products over others means that discounting is also over a shorter time period so the risks appear higher and the benefits lower. This creates the market distortion in trade finance generally when it comes to capital buffers – a distortion which is amplified once an ESG reporting requirement is added.

To summarise this section, from a public good perspective it is clear that the market for trade finance needs to function well. Trade is systemically important to the global economy and trade finance represents a significant potential catalyst to fair transition globally to more sustainable business models. Trade finance, because of its role in funding the majority of global trade is an under-represented part of the financial ecosystem and this means the regulatory structures are inappropriate to its very specific requirements. As ESG reporting requirements tighten, without appropriate treatment of capital for shorter-term facilities in particular, there is a risk that the trade finance gap will widen and that this could in the end damage trade itself.

For a long while now, the ICC's Trade Register report has provided evidence on the lower default rates within trade finance. Its most recent report, suggests that defaults rose in the wake of the Covid pandemic but that the increase was not out of line with historical averages and, most importantly of all, trade finance as a market appeared to be able to withstand severe economic stress conditions.[36] Trade finance has strong governance and compliance structures and these, alongside its resilience more generally, can be used to create a workable structure for sustainability reporting and capital treatment.

But perhaps the final point is the most important one – interviewees argued that the trade register does an excellent job of measuring default from the bottom up, but perhaps in the case of trade finance and ESG, there needed to be a top down approach as well: deciding which products were best suited to an ESG lens, which parts of trade and supply chain finance is the most important (to address the short and medium-longer terms finance aspects) and to ask difficult questions like, "is there a product or supply chain mix that can deliver ESG in the optimum way?" Here there was less certainty: "Everyone is afraid to be the first mover, argued one. Someone has to do this but no-one wants to go first."

Action points – educate the regulators

The trade finance sector has made clear the need educate regulators about its processes and governance frameworks. To do this, the actions from the three previous sections need to be prioritised – creating a single, cross-industry voice, creating a shared dataset for scenario modelling and learning purposes across the industry, and creating common audit standards that cover the minimum requirements of each reporting standard globally.

In addition, this section has shown that there is a specific advocacy element to this work if trade is to be used to enable the world's economy to become more sustainable in the future. In particular, the "E" and the "S" elements need to be assessed in parallel in supply chain finance and transactions assessed according to their achievement of "fair transition" KPIs. The rules and frameworks exist within trade finance to do this and there is scope to educate the regulators on the global standards that the industry has already achieved.

To do this effectively will require favourable capital treatment for trade finance. There is an accumulating and substantial evidence base emerging that this is a justified approach. Educating the regulators on ESG reporting from a trade finance perspective is a prerequisite to ensuring that the lasting potential damage from the regulatory paradox of current frameworks does not materialise.

Gap Analysis

Several areas of focus were highlighted during the process of the research that were regarded as frequent omissions from regulatory conversations. To reflect this feedback, and as a reflection of the action-research methodology, these are included as specific areas of analysis here:

1. *Africa*: with its 54 nations, the continent of Africa should not be treated as a single block, but it was cited frequently during interviews as such when describing specific weaknesses within regulatory structures themselves and across trade and supply chain finance. One respondent suggested that there was definite, "discrimination there against emerging markets in trade finance" and referenced Africa as a specific case where a more inclusive approach was necessary. This was highlighted in the survey: 54% of respondents said that the emerging ESG frameworks do not cover the requirements of emerging markets and Africa in particular.

2. *Trade credit insurance*: this area represents a report in its own right and thus the summary presented here will simply highlight the need for specific capital treatment alongside trade finance providers and the need for governments, and specifically ECAs to think more "entrepreneurially" about how to incentivise fair transition through guarantees targeted at deep tier supply chains and the S components of ESG.

3. *Small banks*: there was a general concern amongst interviewees that the capital requirement structures are inappropriate for this group of trade finance providers and that many would be pushed out of business under the current regime. These organisations are finding compliance costs prohibitive and because of their importance especially in providing solutions with higher risk profiles, their survival is critical to ensuring that the trade finance gap does not grow.

4. *Technology*: The need for common and inclusive standards is a precondition to the emerging solutions for these markets which lies in technology and digital solutions. Particularly in Africa these solutions will not be quick to deliver and interviewees felt that ESG frameworks and reporting requirements were facing similar challenges of interoperability and standardisation being seen in the move to create digital standards. There is scope for the digital and the ESG agendas in technology to be more closely aligned.

Each of these areas warrants a report in its own right in relation to the regulatory reporting and capital requirements challenges faced. The purpose of this section is to highlight the systemic role within an effectively functioning trade finance system that each plays and to suggest a provisional framework around the interests of each can be developed.

Africa

There is a widespread frustration with the emerging regulatory frameworks and discussions around standardisation that they do not include an African voice. One interviewee argued that "no-one knows what they are doing but what we do know is that everything has to be appropriate for the requirements of African society and economic development." There is a real perception that this is currently not the case and that any further regulatory conversations urgently needed an African voice at the table.

African-based interviewees pointed out that the way in which the regulatory paradox was working in their continent directly conflicted with the need for economic development and achievement of SDGs aimed at eliminating poverty, hunger and unequal access to resources globally. They argued that the focus on the "E" aspects of ESG both by regulators and by ratings agencies meant that there was over a longer term likely to be a shift away from the mining, fossil fuels and commodities businesses that created jobs in emerging markets. As has already highlighted it was felt that this would widen the trade finance gap and, in the words of one, "increase the likelihood that we work with nations that do not represent the Washington Consensus of the IMF, World Bank and the US Treasury."[37]

The specific challenges that Africa faces are well-documented. This is described in the Kleos Advisory and ITFA report as "unconscious bias"[38] and this was reflected in interviews where many felt that a value system was being imposed on the region that, because it prioritised "E" would ultimately make it worse off. Yet lifting people out of poverty is critical – the SDGs were designed to do this, and this means that there should be a more inclusive look at what needs to be done to include "S" as well.

This is not to say that there was universal support for shifting away from the current focus on environmental aspects entirely. Many of those interviewed from within the region and from outside argued that, rather than setting different standards, those standards needed to be appropriate to the African context and the timeframes that Africa would need in order to adapt. Support has to go into capacity building and infrastructure. This means that:

1. KPIS have to be about appropriate SDGs with an understanding that many of the businesses in African supply chains, or in supply chains originating outside of Africa but which include African businesses, do not have the capacity to collect vast amounts of data. There is, argued one, a “duty of care” outside of a contract that should include the social context of any transaction.

2. Regulations need to understand the compliance of African financial institutions providers with the stringent compliance requirements of the trade finance industry.

3. Regulators and financial institutions need to understand that in order to comply over a longer term, African infrastructures need to be built both physically and digitally. There is a role for technology and digital trade within this but it will take time to deliver.

The most important conclusion from all of this is that trust in emerging African frameworks need to be developed. Several banks working with African clients or based entirely in Africa described their strategies to work with client supply chains to work off the existing and enhanced due diligence that already exists within trade and working capital globally. In other words, on a case-by-case basis these banks were developing their own systems in partnership with their clients to identify social and economic return from trade and supply chain deals as well as longer-term project and infrastructure finance.

This is similar practice to that identified amongst trade finance providers in other regions: a staged and bottom-up approach developing appropriate tools and measurements for the regulatory and supply chain environment in which their clients are based. And, as with other regions of the world, there was a general acceptance that, “no-one has independent verification sorted” but the punitive measures focused around E that are being introduced for large corporates are distorting the market and producing perverse incentives.

Indeed, one interviewee from an African bank described the process that they were going through to include an ESG dimension and the regulatory constraints that were emerging. Their point was that at the moment they are introducing sustainable loans but they are very expensive, they don’t have any real social impact (which was fundamental to their values) and there was a real reputational risk of greenwashing in what they were doing. What was needed was a regulatory framework that matched the glidepath identified by the bank, suited its investors and creditors, was suitably aligned globally in terms of KPIs for benchmarking purposes, and was built on a basis of custom and practice with individual clients.

This almost sounds like the same narrative that has developed over the past few pages with one critical difference. The values are ultimately about the “S” in ESG, not the “E”.

Action point – the social place at the regulatory table is African

So how does this translate into a meaningful and inclusive way forward?

Here interviewees were quite clear. First, regulators need to look at SDGs as well as green KPIs as a pre-requisite for rebalancing the values systems between the green agenda of the global North and a more inclusive definition of sustainability that has S as its focus. In practical terms, this is about re-weighting portfolios and assets, not just for sectors as described above, but also to include geography and stage of economic development.

Second, there is an absolute need to learn from the experience of African corporates to understand what the market is doing and to generalise from there. This takes time and would mean building scenarios and cases exactly as has been described in relation to climate and credit risk modelling amongst global banks described above.

Third, the OECD modernisation framework for export credits[39] was deemed by respondents to have been "disappointing" in relation to provision for "S" in export finance. Yet, they argued, 90% of deals in sub-Saharan Africa are more suitable for identification as socially rather than environmentally aligned because they relate to water, health or power infrastructures. The issue is less of a regulatory issue than of a definitional one and understanding this will enable a swifter and more efficient process for accessing Export Credit Agency (ECA) funding.

Smaller banks

The appropriateness of regulations and more stringent capital requirements under Basel IV frameworks has already been discussed but it is nevertheless worth noting that this was seen as an existential problem for some smaller trade finance providers. The frameworks in Basel 3.1, it has been argued, are about de-risking Tier IV players and because in the current economic and interest rate environment many of these, including correspondent banks, are looking simply to survive, there will be some that "go under as a consequence of the regulatory requirements."

Not least amongst the worries of smaller providers are the costs of the reporting requirements. These are prohibitive and interviewees from smaller organisations pointed out that the larger banks have huge departments and increased budgets to cope with the amount of data that needs to be collected. This is prohibitive, particular for smaller trade finance providers operating mainly in emerging markets and Africa. If there are penalties for non-compliance, as is currently on the regulatory horizon, the smaller firms will be hit disproportionately because they do not have the capital base or the size to absorb this. There is a real risk that smaller or niche providers in these markets will be excluded.

Smaller financial institutions are focusing on technology solutions to cover off their information requirements and to be seen to be doing something. This is because many of the ratings providers supply data that is qualitative or interview-based which is inappropriate to the fast-moving and real-time aspects of their business. It was suggested that within their specific context, one score was inappropriate because the nature of the buyer or the seller or even the type of financial arrangement could not be predicted.

Action point: Include smaller and niche trade finance providers in regulatory conversations

Interviewees argued that trade finance depends on smaller trade finance providers for its ecosystem – that is, smaller providers are "eco-systemic" because they take higher risks and provide innovative atypical solutions that larger organisations cannot. This role must be understood and, as such, it is imperative that they are included in regulatory dialogue, not least because they are existentially challenged by current ESG frameworks.

Trade and Trade Credit Insurance, Export Credits and Multilateral Banks

Credit insurance is a critical feature of complex trade and supply chain finance but ESG does not feature much as a regulatory driver within the insurance market because they are not subject to Basel reporting requirements in the same way, and the market is not subject to capital requirements as a cost of doing business in the same way as banks are. Indeed, Banks and insurance businesses in trade have very high potential default losses, it was argued, and the priority with any loss or default is always to the insured, i.e. the banks. So Loss Given Default (LGD) is now zero for banks if that bank is insured within a European framework.[40] This does not yet have an ESG component however.

As a result, according to interviewees, insurance providers are largely driven by the needs of their clients for insurance rather than their need for insurance for specifically ESG transactions. At present this is still heavily weighted towards commodity markets because that is where a large proportion of trade finance is as well. Insurance providers are not likely to be able to push banks to focus more on transition or green financing because the market is small. There is less scope for banks to be selective on who they work with but equally less scope for insurance providers to be selective about the deals that they underwrite.

However, there are differences in the insurance market by geography. For example, the EU credit insurers are much more attuned to the full spectrum of ESG because the banks are required to report on all aspects, including social, while the US industry is very differently positioned with a focus on risk management.

The focus on risk mitigation is one where the credit insurance market could perhaps most help the trade finance market in its approach to ESG (Figure 10).

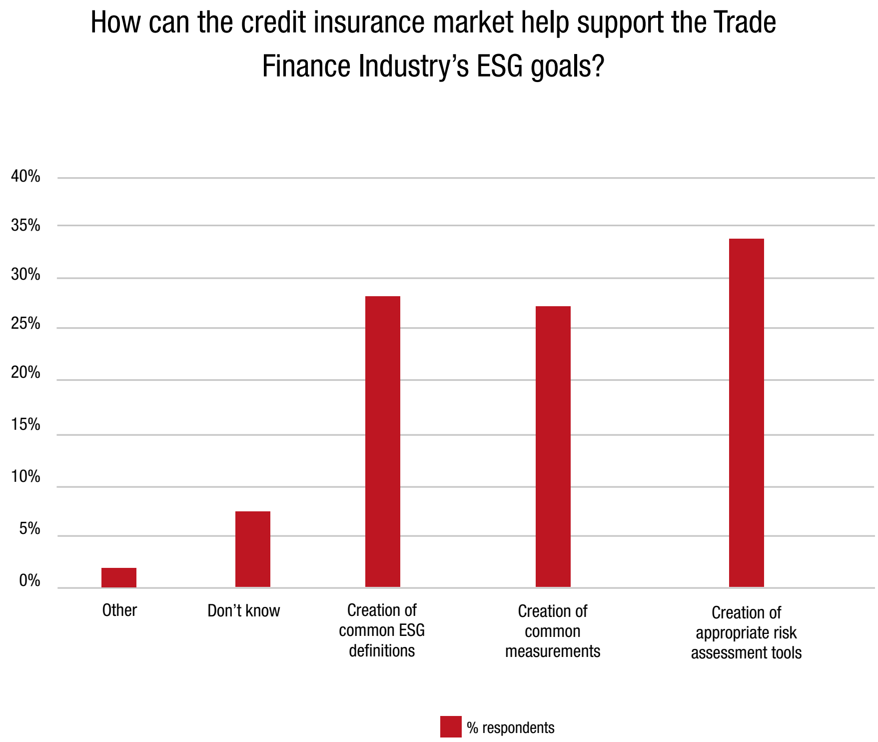

Figure 10: How credit insurance can help the trade finance industry's ESG goals
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

Risk assessment was seen as the most important means by which credit insurance could help trade finance with its ESG ambitions, with creation of common measurements and definitions in ESG with 28% of respondents each.

As with elsewhere in the research, however, individuals from the credit insurance market pointed to perverse incentives in the way capital ratios were currently incentivising credit insurance in the trade finance market. It was argued that as there are no funding costs for insurance, they can assume some of the risk. But the core question is how to incentivise this in a market where banks, because of the tendency to "greenhush" are setting themselves unambitious targets, reducing pricing on "green" projects which reduces their margins on transactions. This is intuitively correct and banks pointed to the fact that they are carrying that cost internally but, because credit insurance is always a proportion of that margin, it reduces the profitability of the sector unless they can get favourable capital treatments as well.

This puts a capital premium on sustainability in both the banking and insurance markets. The relationship needs to be built collaboratively and in a clear and understandable way, argued interviewees, and clear audit standards are a pre-requisite of making this work. Until these are in place, the dial will not shift. In the words of one credit insurance provider, "we all know that this is a problem and that it will take time. We all need to see where this is going, what targets we need to achieve, and to have a "shopping list" from regulators on what they need to see."

In the export credit market represented by ECAs, there is a similar risk-based approach but they can afford to be more entrepreneurial or "forward-leaning" aligned with government targets. However, in the words of several interviewees, these tend to be very limited in the social domain of ESG, and prone to the same unambitious KPIs evident elsewhere in the industry. There was a general feeling that guarantees could be used more effectively by governments to prioritise strategic ESG goals and transition through a more sophisticated approach to KPIs in supply chain finance, but even though ECAs can potentially take more risk within these strategic areas, "everyone appears to be erring on the side of caution." This is an approach that limits the development of a more inclusive and social aspect to what is supported by passing the responsibility to the banks themselves for developing the KPIs.

As with elsewhere, the core challenge is again that reporting requirements are diffuse and open to interpretation, data is limited, reporting and audit standards are not agreed, and pricing for transition is weak and contradictory given the focus on green aspects of ESG rather than social ones.

Action point – define the burden of responsibility

The key action here is the credit insurance and export credit industry is to create a clear delineation of where the "public good" of addressing issues of climate change and social injustice and inequality end and the "private return" of commercial benefit starts. This will address the issue of who pays between governments, corporates and financial service providers.

Such a delineation should not be done through multiple organisations, and will be a long and complicated process to develop, not least because it requires clear definitions and standards, consistent and comparable data and a commitment to pay by whoever the ultimate beneficiary is. This will involve the collaboration of all parties across the spectrum, including Multilateral Banks who have made considerable inroads into creating common reporting requirements already.

Technology

Technology to address sustainability is facing the same set of challenges that have been identified elsewhere. It is apparent that, especially amongst smaller trade finance providers there is a very real cost challenge of meeting ESG reporting standards that can be streamlined and delivered effectively through automation. However, there are two clear difficulties that emerged from the research:

1. Without clear audit standards and definitions, the banks are unwilling to adopt systems that may only partially address the reporting requirements as they develop.

2. As regulators like the Prudential Regulatory Authority and the European Banking Authority become more stringent in their assessment of ratings agencies, "Trade Tech" companies that produce scores are likely to fall under increasing regulatory scrutiny themselves.

Against the backdrop outlined above where the costs are high and the returns are unclear, argued one interviewee, "corporate and banking clients alike are weighing up the value versus effort balance." The banks cannot see an immediate benefit for them in terms of revenues and there are no common audit standards as yet, thus progress towards automating ESG scores into new technology solutions is restricted at present. The interviewee went on to say, "there is no use case for technology at present but it will add huge value if we can define audit standards and create clear lines of responsibility for those reporting standards."

Further, it was suggested that the current economic and interest rate climate, banks are cutting back on spending while venture capital backed trade-tech businesses are finding funding difficult. "Put bluntly," argued one, "there are many tech companies that could do something, but many are simply keeping the lights on at the moment."

If technology solutions within the sector are to be able to address the trade finance market, then they are going to need to establish which core problem they are trying to solve, since both are obstacles to further development at present:

1. *Payment flows*: in the absence of clear audit standards, how can technology make the addition of ESG into a set of information requirements and KYC protocols simpler, cheaper and more efficient to speed up transactions? This, it was argued had to be through automation since it was the only way of making ESG strategies economically viable, especially in supply chains and transactions.

2. *Regulatory Reporting*: Is the automation of transactions level scoring at a sufficiently detailed level to provide adequate information to regulators and, if so, should the technology business be regulated? Many trade finance providers from larger organisations argued that they would not be able to buy solutions without the presence of common audit standards; but once those standards were delivered through a technology solution, this would mean regulation of the provider itself.

Whichever problem is being addressed, automation remains key and for many smaller trade finance providers, technology solutions were the only way of delivering on the complexity of data and measurement at a transactions level to meet regulatory requirements. However, they, along with their larger counterparts, and technology providers themselves argued that an automated reporting solution does have to be consistent in both how it measures ESG and how it analyses and interprets the results of that automated reporting.

It remains “astonishing” according to interviewees that even in trade finance the more static and company-based qualitative approaches are being adopted because they hit modest regulatory reporting requirements. They were not viewed as solutions that could be adopted to the trade finance market because of the high frequency of reporting at a transactions level required in ESG.

Data and automated risk assessment were the two areas where the most usefulness for automated solutions (Figure 11) but there were no significant differences between responses suggesting that there is scope for technology to address many of the challenges that the trade finance market faces in relation to measuring, standardising and automating ESG risk globally.

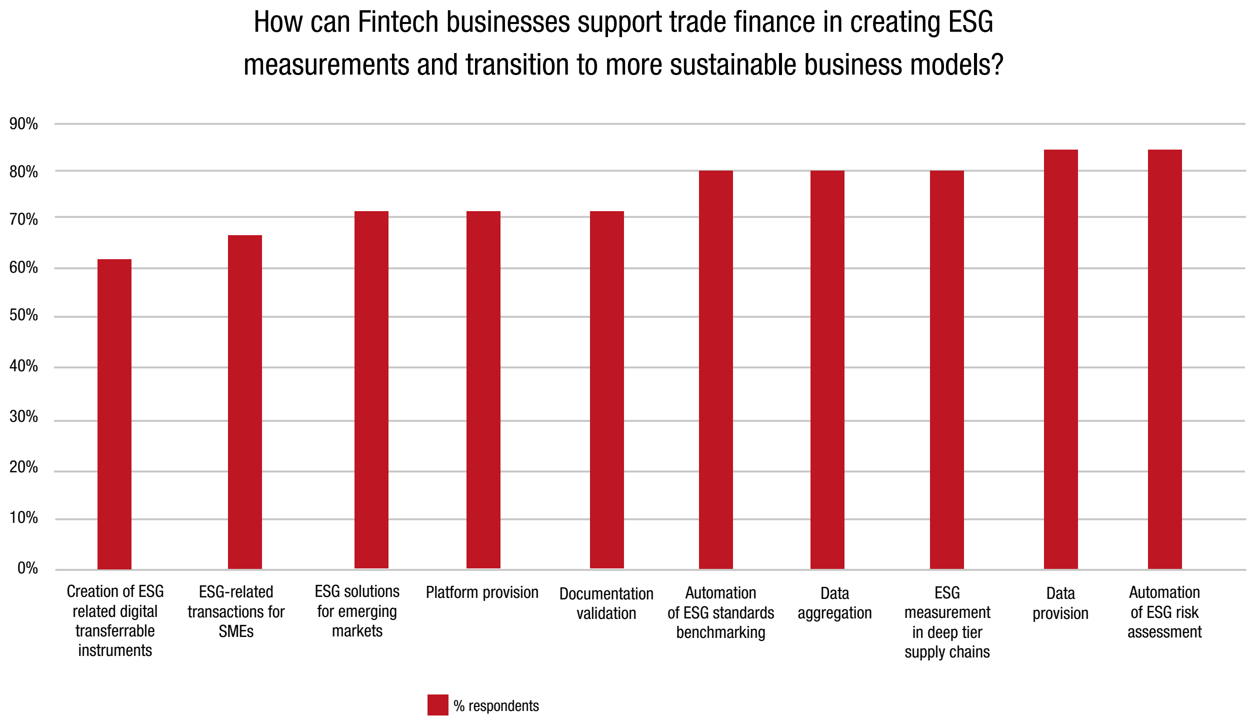

Figure 11 How technology can support moves to make trade sustainable
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 72

In summary, the section has shown that there are huge gaps in the trade finance market that are omitted from current regulatory structures because of the blunt instrument that is the current capital buffer and ESG reporting framework. Whether African trade finance, smaller trade finance providers, credit insurance businesses or technology businesses, the challenges were the same – inconsistent and inappropriate approaches to data and reporting that excludes the S component of ESG, perverse incentives that disincentivise the transition to ESG and an approach to capital requirements, ratings and risk that is restricting the growth of technology solutions where these might be the answer to the complexities of transactions level reporting.

Somewhat worryingly, these four areas are fundamental to the way in which trade operates through deep tier supply chains. Yet current structures will directly restrict trade finance to emerging markets and Africa in particular and potentially push smaller providers out of the trade finance market altogether.

Action points: shared learning for supply chain finance

The discussion leads to several key areas for further action:

- Large players from developed markets within the trade finance space have learned about reporting requirements and data acquisition, especially in the E space, that can be shared with providers from emerging markets and Africa where data collection challenges are likely to limit the extent to which organisations from these countries can become compliant.
- Equally, players from Africa know more about the measuring the S in ESG which is regarded as an intangible in developed markets and therefore inherently unmeasurable. That experience should also be shared with larger developed world organisations.
- Smaller finance providers can learn from both groups in order to create appropriate solutions.
- There is an identified need in the research for technology to be at the heart of future solutions because only through automation can the measurement task be scaled to a transactions level within trade finance. There is huge scope to use technology to develop products, for example to match in with larger banks' approaches to carbon offsetting or, more particularly to build on digital platforms and make the digital bill of lading a document from which ESG measurements can directly be derived.

Concluding remarks – the law of unintended consequences

This research was based on action research which analyses issues and attempts to resolve them at the same time. Resolving the issues identified here will be the next steps in the process around some, if not all, of the identified areas of action above. But any resolution and further action has to be collaborative across international organisations, across the ITFA membership and with a "single voice" approach to the regulator.

The research has explored the core challenge within the emerging ESG reporting requirements of a regulatory paradox by which more stringent reporting requirements in ESG and inappropriate capital allocations create disincentives for achieving a transition to more sustainable business models around the world.

This is creating a barrage of unintended consequences which, unless addressed quickly, will undermine the reputation of the industry and potentially mean that it does not achieve its long-term goals of supporting sustainable global trade through the financial products it provides. The research has highlighted several of these consequences which are worth summarising here:

1. *Greenwashing* fears are leading to greenhushing to avoid liability or the reputational risks of over-reporting and under-delivering. All agreed that the industry needs high levels of transparency and stringent disclosure requirements that include environmental and social goals. However, at present, as one interviewee asserted, there is clear evidence that greenhushing is happening – issuance of green debt has increased but green assets have declined.

2. *Perverse incentives* that are pushing the largest players out of the highest risk ESG propositions because "one-size fits all" capital requirements limit the capacity of banks to price for transition.

3. *The potential to widen the trade finance gap* because the S of ESG is not covered well in global regulations which impose Environmental values on emerging markets and which are inappropriate to the need to further decent work and social sustainability as a priority.

4. *Geography and regulatory arbitrage* which will render European based trade finance providers uncompetitive because of the costs of compliance with double materiality standards. Global regulations are interpreted differently regionally and nationally and where requirements are more stringent, the costs of providers rise.

One interviewee argued that ESG requirements insert a degree of friction into all financial engagements with clients whether it is a loan, trade finance or supply chain finance. The costs associated with providing sustainable products means that there is an externality that the regulations themselves are creating in the fact that the backward-looking risk-based approach with one-size-fits-all capital treatment directly hinders a more dynamic approach to sustainable business models and fair transition.

There is a hope that there will be a future gain for the general public in terms of climate, poverty, social injustice and inequality to name but a few. However, at present there is no clarity on who gains at which stage in the process and therefore bears the burden of payment: banks, corporates or governments. In trade finance this is accentuated because the environmental and social gains across whole supply chains are difficult to measure and there is even less clarity around who benefits from a sustainable supply chain or transition to more sustainable supply chains from an economic point of view.

It is imperative to address this underlying friction since the market failure will worsen unless the sector itself takes direct action to address it. We are at a moment in time when the dial needs to shift quickly for environmental, social and geopolitical reasons. There is a big opportunity to make regulations work if the trade finance community can pull together to address the market failure that is emerging from the very attempts to correct it! If we cannot do this as a community, then we may well be asking ourselves again in ten years time, "what is the purpose of regulation in this space?"

Action-oriented next steps

The research has clearly identified some urgent next steps from the conversations with trade finance professionals. There is evidence of confusion and conflict within banks and the trade finance sector around the benefits and costs of moving to a comprehensive approach towards ESG compliance. In the words of one interviewee, "there is a profound need to simplify reporting requirements and make them actionable through the correct allocation of capital so that profit from transition can be used to make a difference in terms of the environment and in terms of society." Another added, "this needs to be innovative and creative, and use money in a different way for different values."

That this message comes loud and clear from many interviews is remarkable. Banks want to see themselves as champions of ESG in all its guises, not just compliant in "green" terms, but can only work within the regulatory framework that is in front of them. This is currently producing unforeseen consequences which could undermine the ultimate goal of sustainability regulation.

Interviewees made many recommendations which have been summarised through this report and the survey produced some interesting findings on where ITFA should be taking action as well. The most important point was a resounding echo of the sentiment that there needed to be a single voice for banks to speak to regulators and 87% of respondents to the survey felt that is was "very important" or "important" that the ITFA worked with other industry associations in anything that is does in the future. This avoids the potential for duplication – in the words of one interviewee, "We don't have time to replicate other people's work."

In general though, there was not much consensus on where ITFA should focus its attention. For example, the ITFA's ESG committee now has a multitude of tasks ahead of it, with one fifth of the respondents answering "all of the above" to the question as to how it could support members sustainability and ESG agendas generally (Figure 12).

There is more granularity when it comes to exactly how ITFA should work with other organisations, however (Figure 13). In particular it seems clear that ITFA should focus on sharing best practice, creating common standards for ESG measurement in trade finance and creating common measurement methodologies in ESG.

Comparing Figure 12 and Figure 13, on the other hand, may suggest that ITFA's ESG committee could focus on education and training for its own membership base in the first instance since this was seen as less important to be done in collaboration with other organisations.

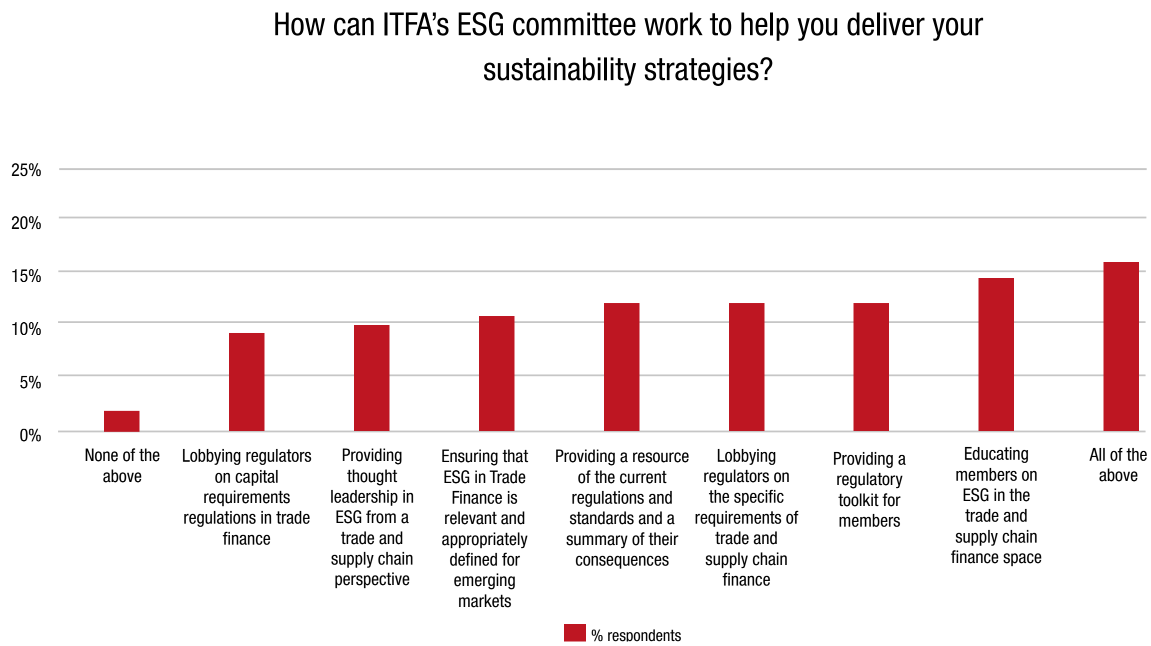

Figure 12: ESG committee support for members
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 70

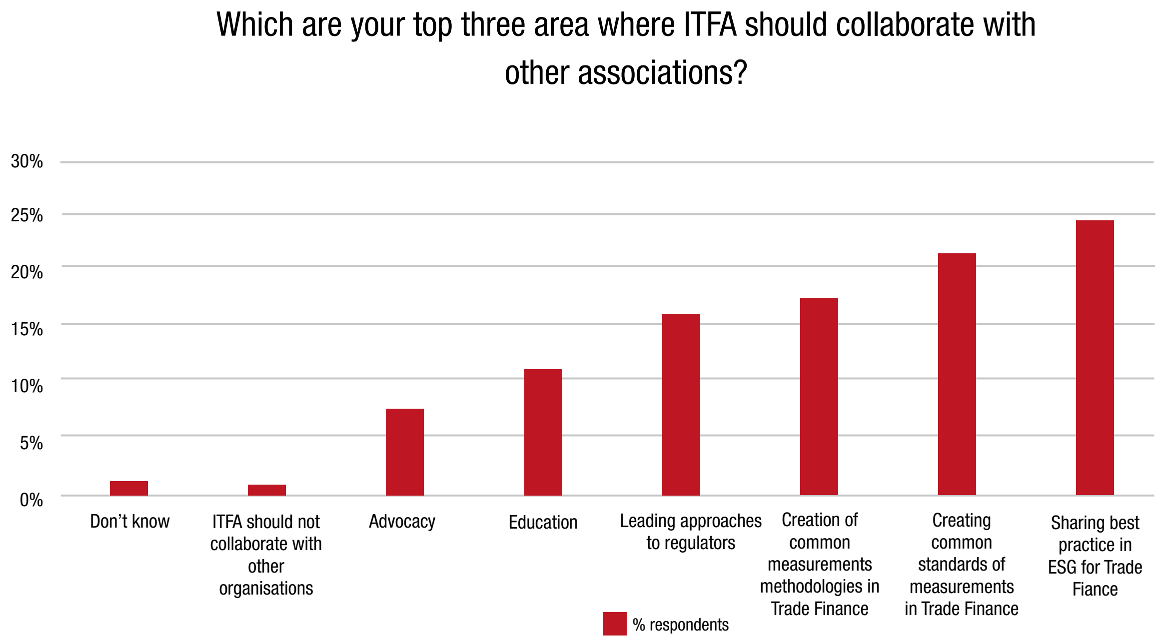

Figure 13: ESG committee priorities for working with other organisations
Source: ITFA survey conducted between April 17th and May 8th 2023
N = 70

There are, then, three clear actions from members that would shift the dial in terms of dialogue with regulators very quickly and that, in the spirit of action research should be prioritised in conversations across ITFA:

1. *Creation of an Audit "Council"* to set inclusive audit standards for the industry. This should be a cross-industry body and include all the initiatives from other industry bodies and representative organisations that are currently ongoing. This is a very different structure to those that exist already. Standardisation to make trade sustainable is work that is conducted by the ICC and there is no intention to duplicate this here. Rather, the action suggested by interviewees was that ITFA was uniquely placed because of its global reach, its size and its membership base to move swiftly to coordinate efforts and begin the process of developing audit standards with regulators as a "single voice" for the sector. This Council would also work with the ESG committee to define and develop mechanisms for sharing learning across members in relation to reporting on ESG and would take the guidance of the Africa committee to develop innovative solutions for including "S" in emerging and developed markets across global supply chains. This will not be a simple or straight-forward organisation to establish as it will be fraught with governance difficulties. Nevertheless, a working group to do this should be established quickly in order to give it the priority and profile it needs.

2. *Creation of a data repository* as a tangible means of enabling a) dialogue with regulators and b) scenarios that can be used to address the links between climate risk and financial risk, and ultimately social risk and financial risk. A comparative dataset for scenarios to compare like-with-like does not currently exist and is a pre-requisite of modelling environmental and social risk as they relate to financial risk. This repository has to be driven by those in the industry rather than outside consultants in order to model the socio-economic, geographical and size sensitivities that are intrinsic to trade finance. This would create a consistent and inclusive across commodity types, sectors, stage of economic development and geographies, but also bring the learning from work in Africa to model social aspects of ESG from the bottom up. This repository would need to be based on a simple matrix of data supplied by banks so that it could be the resource from which banks could create models and cost-benefit analytics. This process would enable the industry to start somewhere and provide a detailed road-map over time for climate and social risk measurement and, accordingly, weightings adjustments. It is recommended that action on this starts quickly to define the common dimensions, data and testing concepts to create a modelling engine room as soon as is feasible. Given that this has been such a priority identified throughout the research, a first next step could be a working group to move this forward.

3. Committing to an inclusive approach to regulation and sustainability: ITFA's main capability in the ESG space is the diversity of its membership, including smaller niche providers. It has global coverage, and an Africa committee which is the guarantor of an Africa-centric approach to trade and supply chain finance. Its insurance and fintech committees are

similarly representative of their domains. The result is that ITFA can uniquely bring all voices into a complex conversation and, in the views of respondents to the survey and the participants in the interviews, it should both commit to this inclusive approach and use it as a mechanism for ensuring that regulatory reporting and capital requirements can enable a fair transition towards the achievement of Sustainable Development Goals, and not just addressing the issues of climate change.

Appendix 1:
Research objectives and methodology

The action-research approach was conducted in three stages (the second two in parallel):

1. A review of the regulatory literature to identify the principles and the weaknesses of emerging ESG reporting and capital requirements.

2. A survey of members to test the responses from semi-structured interviews and establish ITFA members' attitudes to regulations and ESG.

3. A series of semi-structured interviews with 68 individuals from 40 organisations to identify key challenges, current practice in response to regulatory requirements and suggestions for action in the future.

Figures A1 – A3 show the key sample statistics. Note ITFA consists of some 300 member organisations, so the survey is of 24% of ITFA membership.

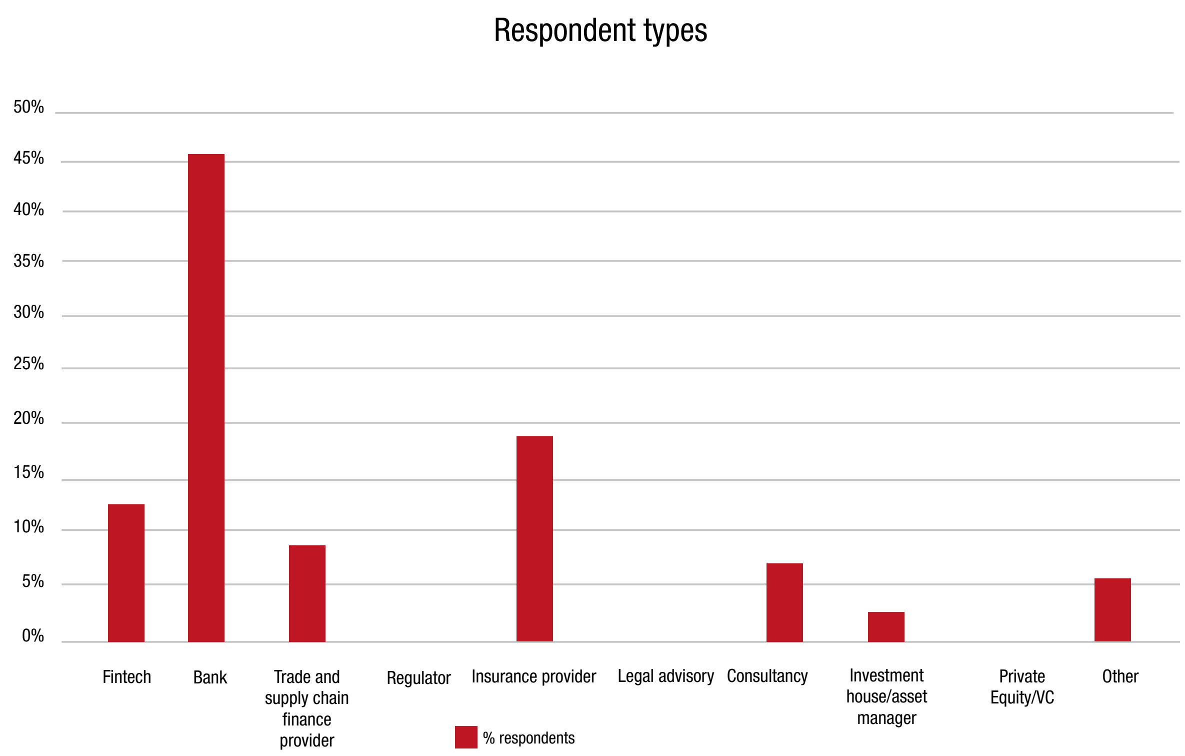

Figure A1: Types of respondent
N = 72

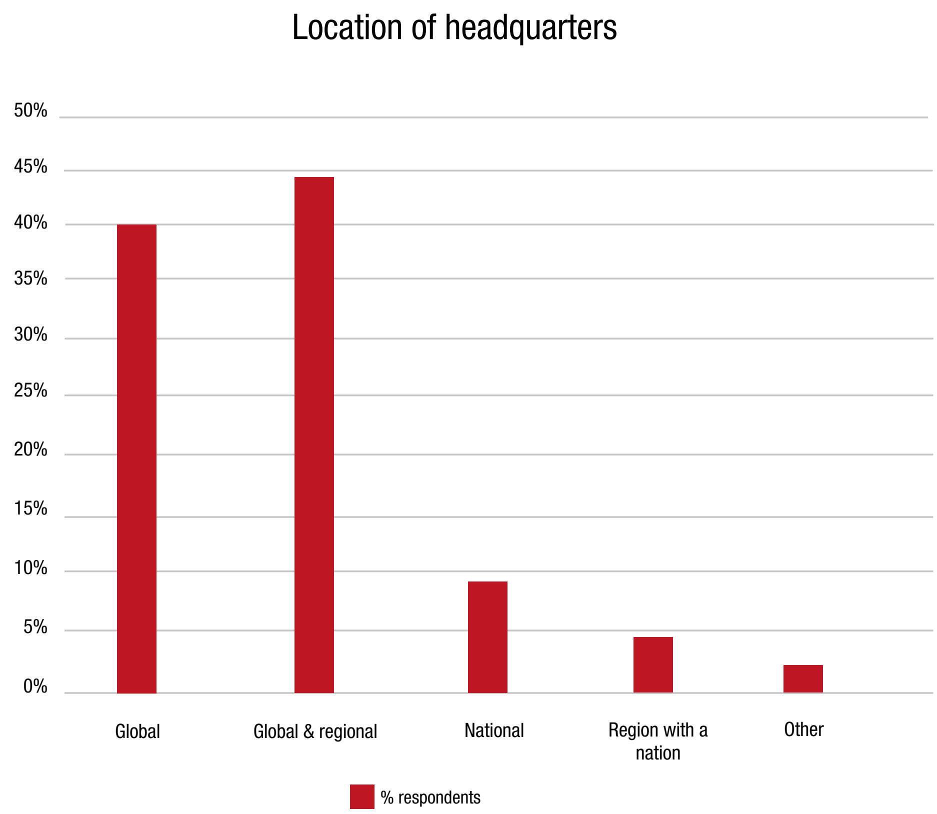

Figure A2 Location of respondents
N = 72

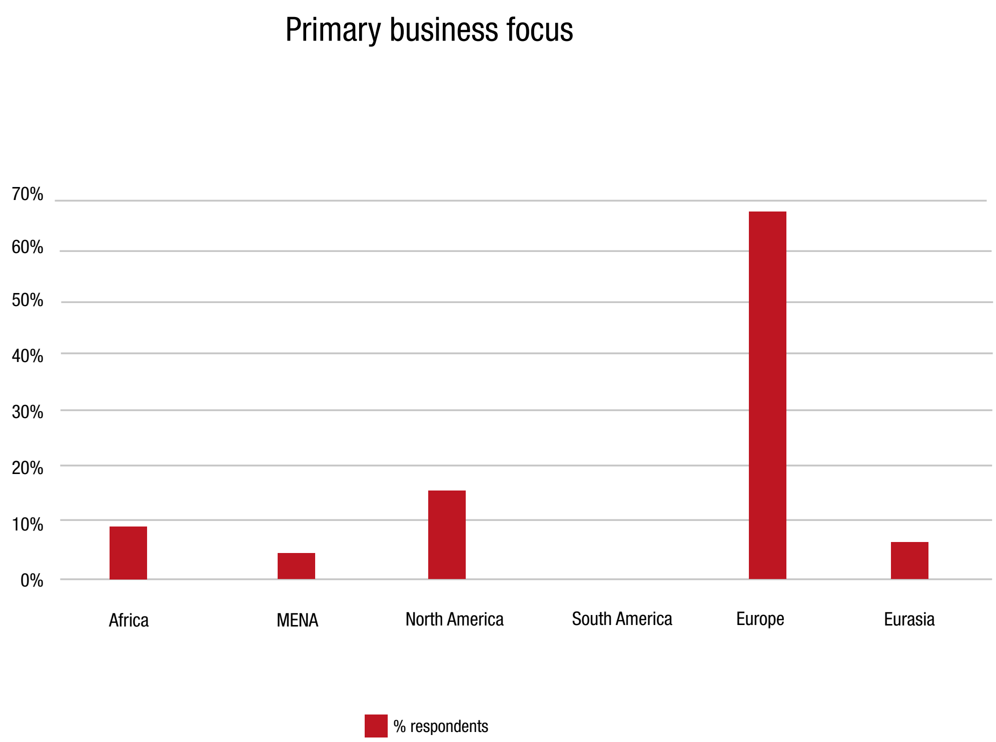

Figure A3 Geographic reach of respondents
N = 72

Endnotes

1 CFA: The economics of regulation: https://www.cfainstitute.org/en/membership/professional-development/refresher-readings/economics-regulation#:~:text=Regulation%20has%20also%20developed%20in,end%20users%20from%20market%20failings.

2 Rachel Carson (1962): "*Silent Spring*" Penguin Modern Classics, London

3 Fred Hirsch (1978): *"The Social Limits of Growth"* Routledge, London

4 The Brand Commission (1983): "*Common Crisis – North-South – cooperation for world recovery*" Pan World Affairs London and Sydney.

5 IPCC report March 2023 https://report.ipcc.ch/ar6syr/pdf/IPCC_AR6_SYR_SPM.pdf

6 Andrew Stanley (March 2022): "Global Inequalities" IMF Finance and Development, https://www.imf.org/en/Publications/fandd/issues/2022/03/Global-inequalities-Stanley

7 Sujai Shivakumar, Gregory Arcuri and Charles Wessner (2022): "The Great Rewiring – how Global Supply Chains are Reacting to Geopolitics" https://www.csis.org/analysis/great-rewiring-how-global-supply-chains-are-reacting-todays-geopolitics

8 Abigail Yu (November 2022): The Global State of Mandatory ESG Disclosures https://www.azeusconvene.com/esg/articles/the-global-state-of-mandatory-esg-disclosures#:~:text=The%20ISSB%20will%20generate%20global,investors%20in%20140%20participating%20countries.

9 Reuters Insight (January 2023): Simplify your reporting strategy with the GRI and ISSB: https://insight.reuters.com/sustainable-business/articles/simplifying-your-reporting-strategy-with-gri-issb-2023-01-16

10 Basel Committee on Banking Supervision – Principles for the effective management and supervision of climate related financial risks (June 2022): https://www.bis.org/bcbs/publ/d532.pdf

11 European Commission (December 2022): Sustainable finance: guidance on reporting under the taxonomy https://finance.ec.europa.eu/news/sustainable-finance-guidance-reporting-under-taxonomy-2022-12-20_en

12 Anthesis Group (April 2023): Sustainable Finance Disclosure Regulation for Financial Institutions: https://www.anthesisgroup.com/a-guide-to-the-eu-sustainable-finance-disclosure-regulation/#:~:text=What%20is%20the%20EU%20Sustainable,governance%20(ESG)%20considerations%20publicly.

13 https://www.sagepub.com/sites/default/files/upm-binaries/36584_01_Koshy_et_al_Ch_01.pdf

14 Rebecca Harding (2023): "Measuring the World – economists can't ignore sustainability." https://rebeccanomics.com/rebeccas-blog/f/measuring-the-world-economists-cant-ignore-sustainability

15 Society for Professional Economists, Meeting 27th March 2023 "Achieving a Green Transition" https://vimeo.com/813466843

16 Basel Committee on Banking Supervision – Principles for the effective management and supervision of climate related financial risks (June 2022): https://www.bis.org/bcbs/publ/d532.pdf

17 BIS methodologies: Basel Committee on Banking Supervision – Climate related financial risks – measurement methodologies (April 2021): https://www.bis.org/bcbs/publ/d518.pdf

18 https://www.reuters.com/legal/legalindustry/upcoming-sec-climate-disclosure-rules-bring-urgency-esg-data-strategy-planning-2023-01-30/#:~:text=The%20new%20disclosure%20rules%20would,Scope%201)%20and%20indirect%20emissions

19 Update to PRA climate change report March 2023: https://www.bankofengland.co.uk/prudential-regulation/publication/2023/report-on-climate-related-risks-and-the-regulatory-capital-frameworks

20 Holscher, Michael, David Ignell, Morgan Lewis, and Kevin Stiroh (2022). "Climate Change and the Role of Regulatory

Capital: A Stylized Framework for Policy Assessment," Finance and Economics Discussion Series 2022-068. Washington: Board of Governors of the Federal Reserve System, https://doi.org/10.17016/FEDS.2022.068. https://www.federalreserve.gov/econres/feds/files/2022068pap.pdf

21 https://www.eba.europa.eu/eba-publishes-binding-standards-pillar-3-disclosures-esg-risks

22 ibid

23 Update to PRA climate change report March 2023: https://www.bankofengland.co.uk/prudential-regulation/publication/2023/report-on-climate-related-risks-and-the-regulatory-capital-frameworks

24 Yanis Dafermos and Maria Nikolaidi (2022): "Greening Capital Requirements" https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2022/10/INSPIRE-Sustainable-Central-Banking-Toolbox-Policy-Briefing-Paper-8.pdf

25 Targets are environmental at present and will be social as well under the EU's sustainable finance taxonomy (https://ec.europa.eu/sustainable-finance-taxonomy/).

26 https://www.eba.europa.eu/eba-publishes-its-roadmap-sustainable-finance

27 Sponsored statement 02-12-21 (Olivier David, Atradius and Jess van Cleef, Atradius): https://www.gtreview.com/supplements/gtr-credit-political-risk-insurance-2021/sustainability-trade-credit-insurance/

28 ESRB (European Systemic Risk Board) August 2022: Issues note on macroprudential aspects of trade credit insurance: https://www.esrb.europa.eu/pub/pdf/reports/esrb.issuesnoteonmacroprudentialaspectstradecreditinsurance202208~eaa8c9c764.en.pdf

29 https://assets.bbhub.io/company/sites/60/2022/10/2022-TCFD-Status-Report.pdf

30 Financial Conduct Authority: https://www.fca.org.uk/publication/correspondence/dear-ceo-letter-esg-benchmarks-review.pdf

31 https://www.fca.org.uk/news/news-stories/code-conduct-esg-data-and-ratings-providers

32 https://www.esma.europa.eu/press-news/esma-news/esma-publishes-results-its-call-evidence-esg-ratings

33 Florian Berg, Julian F Kölbel, Roberto Rigobon (April 2022): "Aggregate Confusion: The Divergence of ESG Ratings" *European Finance Association*, Oxford University Press.

34 Ibid

35 Moody's Investor Services (April 2023): Measuring the Credit impact of Environment, Social and Governance Risk

36 https://iccwbo.org/news-publications/news/icc-trade-register-trade-defaults-rise-amid-pandemic-but-performance-remains-consistent-with-long-term-projections/

37 Douglas A. Irwin and Oliver Ward (Peterson Institute for International Economics, 2021): "What is the Washington Consensus?" https://www.piie.com/blogs/realtime-economic-issues-watch/what-washington-consensus

38 Kleos Advisory and ITFA (2020): "Sustainable Trade Finance and African Trade: giving and African voice to the evolving standards on sustainable finance and trade" https://itfa.org/wp-content/uploads/2022/10/ITFA_Sustainable-Trade-Finance-and-African-Trade_final_04102022.pdf

39 https://policy.trade.ec.europa.eu/news/oecd-members-agree-eu-initiative-modernise-export-credits-2023-04-03_en

40 https://itfa.org/itfa-position-paper-2022-by-the-itfa-insurance-committee/