International Trade
and Forfaiting Association

itfa.org
info@itfa.org

ITFA WEBINAR AIMS TO SHED LIGHT ON ESG AND CLIMATE CHANGE REPORTING

*Written by **Rebecca Spong**, Editorial Consultant, March 2024*

Deciphering the vast and ever-changing regulation related to environmental, social and governance (ESG) and climate change can be overwhelming for banks and financial institutions, given the number of frameworks, directives and acronyms in place. With this in mind, ITFA held a webinar in March aiming to help its members better understand this so-called "alphabet soup" of legislation.

"In my 35-year career I have never seen regulation move at the pace and scale it is moving at the moment," said Kevin Bourne – the key webinar speaker and head of markets at climate intelligence platform Vyzrd.

"What is happening is breathtaking," he said to attendees of the webinar entitled "Debunking ESG and climate reporting myths".

Regulators around the world are ramping up their efforts to safeguard the financial sector and wider economy against risks of rising temperatures, resource depletion and the degradation of the natural world.

In the last year there has been a wave of new legislation coming into force – much of which was outlined in the webinar. For example, the Securities and Exchange Commission (SEC) in the US announced new rules in March governing climate disclosures - including scope 1 and 2 emissions - made within public companies' annual reports.

Just a day after the webinar took place, the EU's long-awaited Corporate Sustainability Due Diligence Directive was approved by the European Council – following a lot of debate about the challenges large European corporates are likely to face when trying to collect the required data from their extensive network of suppliers. The UK is set to bring in its Sustainability Disclosure Requirements later this year.

Another landmark piece of EU legislation – the Corporate Sustainability Reporting Directive (CSRD) – came into force back in January 2023. This directive enhanced rules regarding what social and environmental information companies of a certain size need to disclose – and to ensure this information is available to investors who need to calculate the financial risks related to climate change.

Against the backdrop of mounting regulation, ITFA is stepping up to the challenge of helping financial institutions in trade and supply chain finance improve their ESG reporting, which in turn will support their interactions with regulators.

The webinar provided members with an opportunity to hear updates on ITFA's efforts and the current hurdles banks face.

As webinar chair and independent economist Rebecca Harding explained, the challenge for trade banks is that there are no accepted audit standards on how to report ESG – meaning financial institutions cannot benchmark themselves against others.

This means regulators are unable to apply different capital ratios to sustainable lending or sustainable trade finance, she added. "Current ESG and climate change regulation doesn't incentivise long-term transition," she said. Harding produced a number of reports for ITFA detailing this challenge last year.

One piece of research found that 13 of the 15 banks analysed by Harding were using their own approach to regulatory reporting rather than applying one of the specific frameworks such as that of the widely-used Sustainability Accounting Standards Board (SASB) . This – coupled with a lack of data – makes it impossible to model scenarios and enter negotiations with regulators, according to Harding.

Speaking at the webinar, ITFA chair Sean Edwards said ITFA has set up a working group that will decide upon a framework on reporting standards and how data may be collected and treated. The working group is set to have its first meeting on 10 April.

This framework will create minimum common, comparable and consistent reporting standards across the various regulations. There is already an AI-based automated framework in a “testing” mode in place, said Harding.

“At present, this is mostly focused on net zero and carbon emissions as this is doable, but from a trade finance perspective, we also need to consider the “S” element because this effects how we do business in countries like Africa,” she explained after the webinar.

The ‘S’ aspect means that frameworks will need to consider the ‘social’ impact of a transaction – for example whether a new factory or new trade contract will support the creation of local jobs.

Eventually incorporating nature-based and social sustainability targets within the framework will be vital for financial institutions working in developing regions, especially in Africa, according to Harding.

Edwards added: “We need to look a little beyond climate…we at ITFA with broad membership do need to look at everything including the “S” in Africa.”

“I was speaking to people at a conference in Cape Town recently - and many find it unfair that as relative non-polluters they are being voted down, when in fact some of their polluting activities have significant and beneficial ‘S’ effects – this is something we need to grapple with,” he told webinar attendees.

Once a framework has been decided upon, a ‘Sustainable Audit Council’ will be created – acting as a separate entity from ITFA that will lead interactions with regulators.

When asked how best ITFA should tackle this initiative, Bourne told the webinar that any industry looking to collect data and put together a framework needs to seriously consider their motivations.

“If you decide you want to collect data from your process – what are you going to do with it? And how is it going to inform your actions? Ask yourselves what it is going to inform,” he told attendees.

“There are a lot of frameworks out there for the sake of being there. Ask yourself why you are doing this when so many tools are in the marketplace. If it is because you believe your business process is not served well, make sure you quantify that before you decide what it does and what it contains,” he said.

Reflecting on the wider regulatory landscape, Bourne said he has seen a shift in regulators’ focus away from ESG and towards specifically tackling climate change.

“ESG has been the primary focus of the narrative and debate – but over the last 24 months it has changed. Climate change is now the primary driver of legislation, regulation and unregulated initiatives.”

This shift is related to the systemic and material risks climate change poses – as well as it being an easier risk to model, he said.

“Climate modelling is much easier to do – you can create an impairment ratio for a company which is difficult to do with ESG,” he explained. “ESG is hard to define as an impairment to a value,” he added.

Bourne added that there is also an increasing awareness around how companies might impair natural capital – natural capital being the natural assets of a country such as air and water.

To gain a deeper insight into current and pending ESG and climate change legislation, members can re-watch the webinar here.

To find out more about ITFA's planned Sustainable Audit Council – Click here. For more information on the working group - contact Lorna Pillow and Johanna Wissing on info@itfa.org