



ADDRESSING THE GIANTS

INTEGRATING NATURE IN REGULATIONS
FOR SYSTEMICALLY IMPORTANT BANKS

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About WWF and the Greening Financial Regulation Initiative

WWF is one of the world's most respected and experienced conservation organizations, with over five million supporters and a global network active in more than 100 countries. WWF's mission is to stop the degradation of the planet's natural environment and to build a future in which people live in harmony with nature. WWF has worked with the finance sector for more than a decade via innovative collaborations that seek to integrate ESG risks and opportunities into mainstream finance, to redirect financial flows in support of the global sustainable development agenda. Through its Greening Financial Regulation Initiative (GFRI), WWF engages specifically with central banks and financial supervisors as well as insurance regulators on the need to fully integrate climate and environmental risks into mandates and operations. For more information, visit panda.org/gfr or contact us at gfr@wwf.ch

About CDP

CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 740 financial institutions with over \$136 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 24,000 organisations around the world disclosed data through CDP in 2023, with more than 23,000 companies – including listed companies accounting for two-thirds of global market capitalization – and over 1,100 cities, states and regions. Aligned with the International Sustainability Standards Board, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. For more on our work in policy, visit <https://www.cdp.net/en/policy>, and see our latest [High Quality Mandatory Disclosure](#) policy brief.

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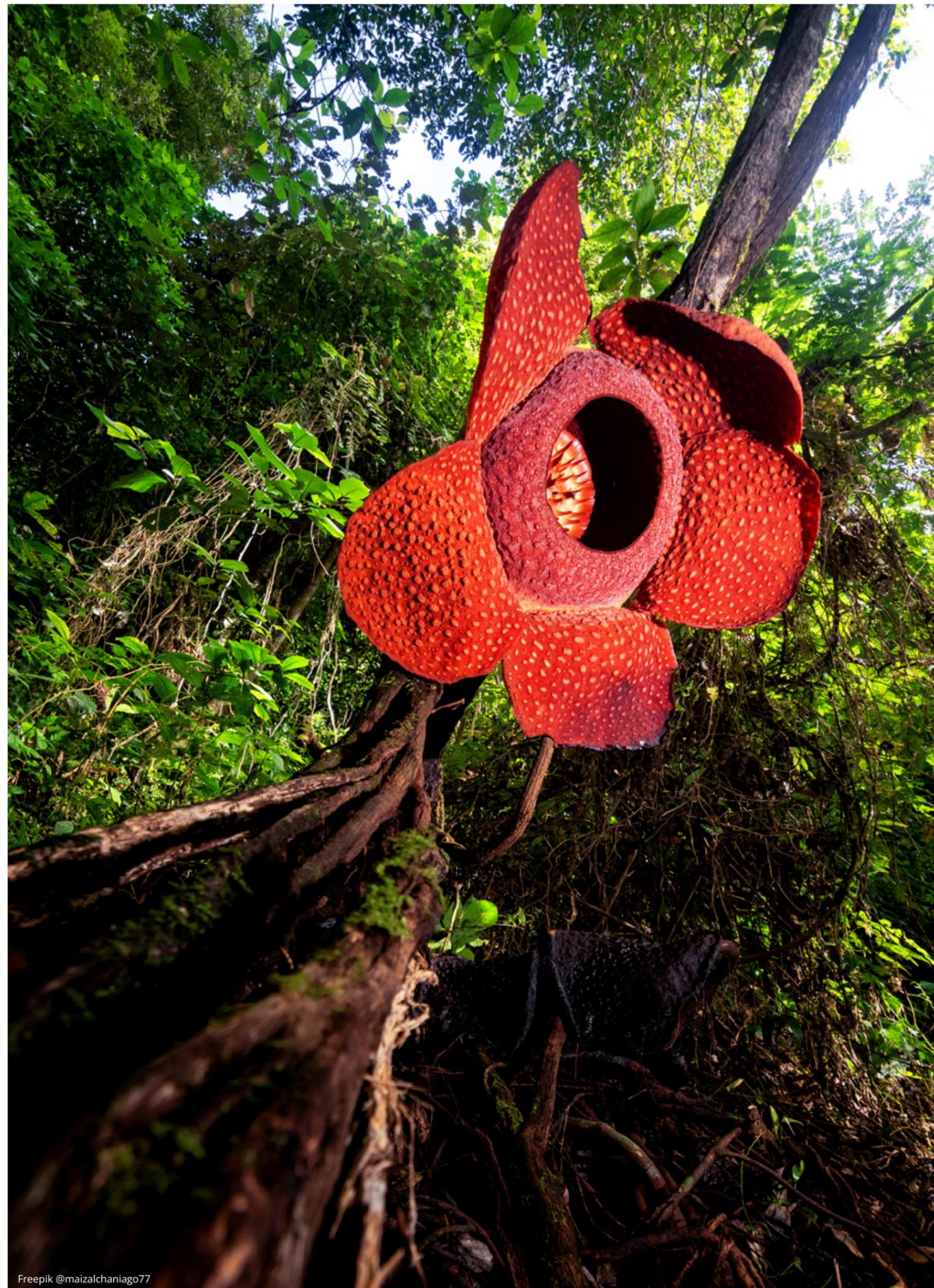


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FOREWORD

“The environment is an ‘externality’ which the banking system can and should price in, albeit with due recognition for entities in transition. Nature-related risks are already material to investors’ allocation decisions and therefore can impact the overall health of a business. The banking system needs to take heed of this and factor this into lending decisions.”



Richard Metcalfe
Head of Regulatory Affairs at the World Federation of Exchanges

“Understanding, measuring and managing nature-related financial risks is a key priority both for individual financial institutions and global financial regulators. This paper details a set of actions that need to be taken to bring these considerations into the regulatory environment for systemically important banks. Therefore it provides an important piece into mosaic of solutions required.”



Nina Seega
Director of the Centre for Sustainable Finance at the Cambridge Institute for Sustainability Leadership (CISL)

“CDP data shows that major banks are still flying blind to the swathe of risks posed by nature loss. We have heard before that big banks are ‘too big to fail’, but a failure to disclose and act on nature is likely to prove the opposite. Regulators must show they have learned the lessons of the financial crash and act swiftly to mandate comprehensive, holistic environmental disclosures and safeguard financial stability.”



Pietro Bertazzi
Global Director for Policy and External Affairs at CDP

“The market’s recognition of the importance of nature-related risks was a driving force behind the creation of the TNFD framework. In less than a year since the release of the TNFD disclosure recommendations in September 2023, 25% of G-SIBs have already committed to start reporting on their nature-related issues aligned with those recommendations. Nature-related risks are highly relevant for all systemically important banks to incorporate into their risk management and decision-making.”



Emily McKenzie
Technical Director, Taskforce on Nature-related Financial Disclosures (TNFD)

“Systemically-important banks are those banks classed as ‘too big to fail’. From our own research, we know that our natural systems are similarly too big to fail, yet many are approaching critical tipping points as a result of human activities like deforestation that are financed by those same banks. Banks are ‘shooting themselves’ (and us) in the foot. I really welcome this new research by the CDP and WWF that draws a vital link between systemically important natural and financial systems and recommends how regulation can help drive more virtuous circles between nature and finance. I hope that regulators and governments take note and recognise their own vital role in securing both financial and ecological security for all.”

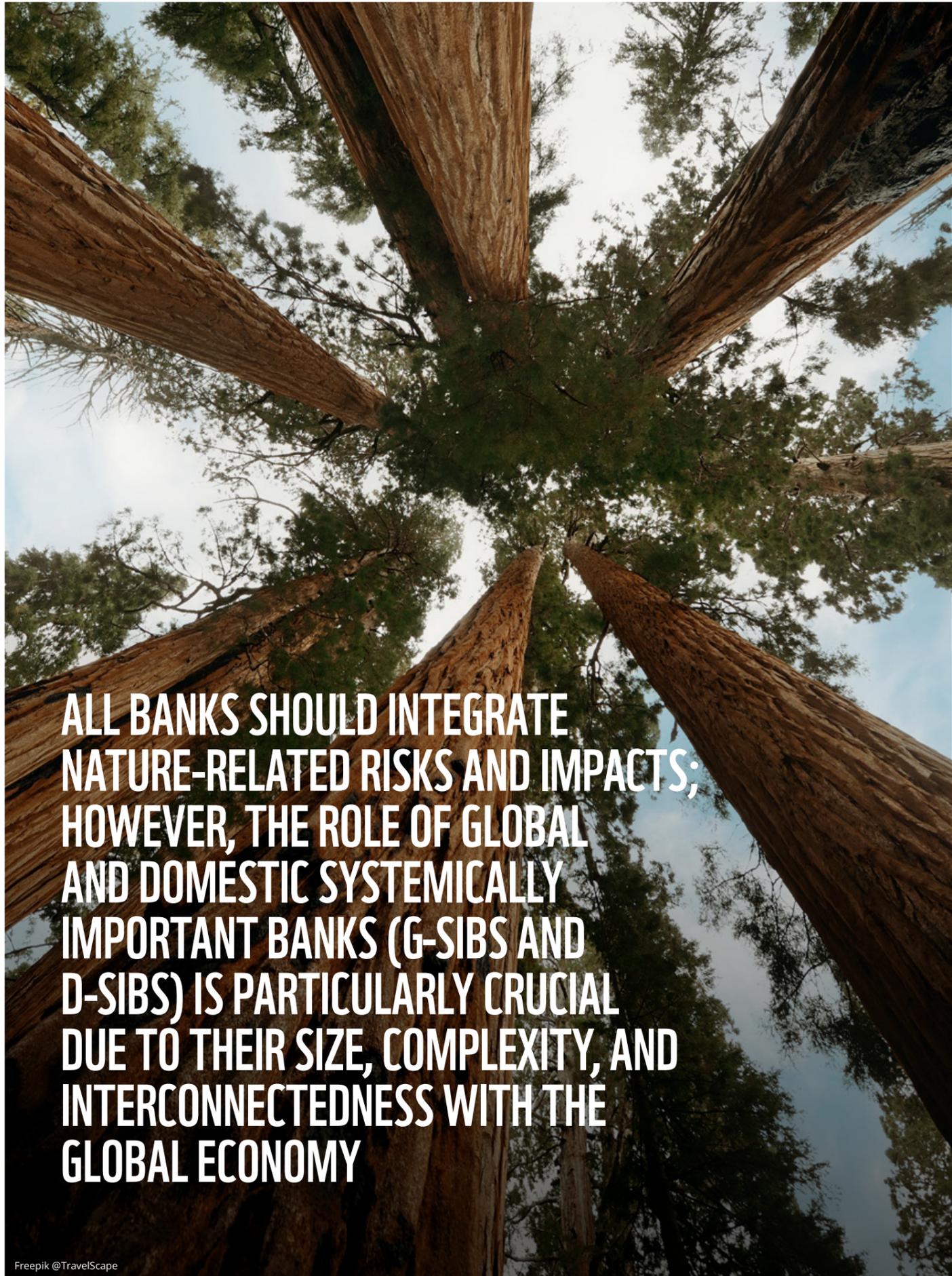


Nicola Ranger
Director of the Global Finance and Economy Group & Resilient Planet Finance Lab, Environmental Change Institute, University of Oxford

“Systemic banks hold immense influence over global financial stability, making their role in addressing nature-related risks crucial. Regulatory bodies like the FSB and BCBS must act now to ensure these banks incorporate nature-related risks into their frameworks. This report calls for coordinated global action to align the financial sector with sustainable practices. By strengthening oversight, we can ensure systemic banks not only mitigate these risks but also drive the global shift toward a resilient, nature-positive economy.”



Aaron Vermeulen
Global Practice Lead, Finance, WWF-International



ALL BANKS SHOULD INTEGRATE NATURE-RELATED RISKS AND IMPACTS; HOWEVER, THE ROLE OF GLOBAL AND DOMESTIC SYSTEMICALLY IMPORTANT BANKS (G-SIBS AND D-SIBS) IS PARTICULARLY CRUCIAL DUE TO THEIR SIZE, COMPLEXITY, AND INTERCONNECTEDNESS WITH THE GLOBAL ECONOMY

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EXECUTIVE SUMMARY

There is an urgent need for regulatory focus on the intersection of climate change, nature loss and global financial stability. Systemic risks arising from climate change and environmental degradation pose significant threats to financial stability and have the potential to trigger cascading effects across global financial systems and economies. This risk makes clear the need for harmonized approaches across jurisdictions.

In recent years, significant progress has been made in integrating climate-related risks into financial regulations, driven by international bodies like the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS). These two institutions are tasked to develop, coordinate and promote the implementation of effective regulatory, supervisory and other financial sector policies globally. Currently, these entities have created frameworks for enhancing climate-related financial reporting and risk management for banks. Broader environmental dimensions, such as ecosystem degradation and biodiversity loss, remain inadequately addressed (FSB, 2024).

All banks should integrate nature-related risks and impacts; however, the role of global and domestic

systemically important banks (G-SIBs and D-SIBs) is particularly crucial due to their size, complexity, and interconnectedness with the global economy. These banks are often at the heart of financial systems, meaning their stability is essential to avoid cascading failures that could lead to widespread financial crises. The importance of prudential measures is underscored by the fact that these systemic banks, if left unregulated or inadequately supervised, could amplify the impact of environmental risks, potentially triggering the kind of financial crises witnessed in the past. By incorporating nature-related financial risks (NRFR) into the regulatory frameworks for these banks, we can ensure that they not only withstand environmental shocks but also contribute to a more resilient and sustainable global financial system.

This report, developed by WWF and CDP, underscores the need to incorporate nature-related financial risks into regulatory frameworks governing G-SIBs and D-SIBs. By drawing on WWF's Sustainable Financial Regulations and Central Bank Activities (SUSREG) assessment, CDP's financial disclosures and the Basel G-SIB framework, the report advocates for a coordinated, systemic approach to foster a sustainable, resilient and nature-positive global economy.

It makes the following recommendations:



TO THE FSB AND THE BCBS

Integrate nature-related risks into the FSB and BCBS's framework on G-SIBs, requiring them to:

- **Adapt and strengthen the G-SIB risk management frameworks:** Require G-SIBs to integrate nature-related risks into their risk management processes, governance structures and internal controls, including the use of environmental data in risk aggregation and reporting systems, and conduct rigorous nature-related financial risk assessments and stress tests against severe nature scenarios.
- **Integrate nature-related risks into capital buffers:** Enhance supervisory expectations for G-SIBs to include nature-related risks in their capital buffer calculations, setting higher capital requirements for activities or companies with significant unmanaged nature-related risks and those lacking transition plans, ensuring banks hold sufficient capital to cover potential environmental losses.
- **Incorporate environmental risks in annual assessments:** Update the FSB and BCBS annual assessments to include metrics and indicators for climate and nature-related financial risks, publishing data on G-SIBs' environmental exposures and risk management practices, and adjusting assessment methodologies to integrate all environmental risks into G-SIB evaluations.
- **Adjust bucket allocation criteria:** Modify bucket allocation criteria to account for the systemic impact of nature-related financial risks, requiring higher loss absorbency for banks with significant environmental risk factors and developing guidelines for incorporating climate and nature-related considerations into bucket allocation decisions.



TO NATIONAL REGULATORS AND SUPERVISORS TOWARDS G-SIBS AND D-SIBS

- **Integrate NRRFR into systemically important banks risk management framework:** Within supervisory frameworks, require D-SIBs integrate nature-related risks into their risk management processes, governance structures and internal controls, including the use of environmental data in risk aggregation and reporting systems
- **Develop risk scenarios:** National regulators should create scenarios that reflect specific vulnerabilities of D-SIBs and G-SIBs, including financial, operational and extreme nature-related risks, as well as potential contagion risks.
- **Implement systemic risk buffers:** Introduce systemic risk buffers to address broader financial stability concerns and the broader implications of nature-related risks, acting as preventive cushions to absorb potential losses.
- **Coordinate supervision and regulatory frameworks:** Ensure consistent management of D-SIBs and G-SIBs across regions through coordination between national supervisors, and develop regulatory frameworks that integrate nature-related considerations into risk management strategies.
- **Incentivize risk management and disclosure:** Provide incentives for D-SIBs and G-SIBs within the country to assess and enhance nature-related risk management practices adapt business models, adopt nature-positive practices and improve nature-related risk disclosure.
- **Develop monitoring processes:** Implement closer supervisory monitoring processes for environmental vulnerabilities, adjusting risk bucket criteria and developing assessment methodologies to include environmental risks.



TO GLOBAL SYSTEMICALLY IMPORTANT BANKS (G-SIBS)

- **Enhance nature-related disclosure and collaborations:** Increase the scope of public disclosures on dependencies, impacts, risks, and opportunities (DIRO) related to nature across banking operations and client activities, adhering to frameworks like the Taskforce on Nature-related Financial Disclosures (TNFD). This includes setting stringent guidelines and targets for engagement with clients to improve their environmental management and transparency.
- **Strengthen alignment across nature and climate:** Align existing climate policies and nature-related risk assessments to enhance synergy and address the climate-nature nexus comprehensively. Build on relevant existing strategies, policies, targets and transition plans on climate, integrating nature considerations in already defined climate strategies.
- **Integrate environmental considerations in business practices:** Embed nature-related considerations into all strategic decision-making and risk management frameworks to ensure an organization-wide approach to environmental risk. Align products and services to recognized taxonomies to ensure they are intentionally designed to empower clients to navigate nature-related risks and opportunities.
- **Adjust financial practices for resilience:** Revise capital and liquidity requirements to account for nature-related risks, integrating a minimum cost of capital and employing advanced modelling and stress testing. Implement higher systemic buffers in jurisdictions with acute environmental impacts, under the guidance of financial regulators, adjusting the cost of capital accordingly to balance risk and encourage sustainable investments

The recommendations above could also be applicable to Domestic Systemically Important Banks (D-SIBs) and internationally active banks.



TO INTERNATIONAL FORUMS AND PARTIES TO INTERNATIONAL CONVENTIONS:

- **Group of 20 (G20):** Direct the FSB and the BCBS to integrate nature-related risks into the G-SIB framework, mandate enhanced transparency and reporting requirements, and require rigorous nature-related financial risk assessments and supervisory monitoring for G-SIBs and D-SIBs, supported by a multi-stakeholder engagement platform.
- **Convention on Biological Diversity (CBD) Conference of the Parties (COP):** Encourage national governments to develop and enforce global standards for environmental risk management for G-SIBs, facilitate international cooperation for consistent application of these standards, and promote research and development to enhance environmental risk assessment and mitigation.
- **UN Framework Convention on Climate Change (UNFCCC) COP:** Collaborate with the FSB and the BCBS to integrate climate and biodiversity risks into a comprehensive risk management framework, harmonize efforts with the CBD, and ensure climate-related financial disclosures are aligned with the goals of the Paris Agreement and the Global Biodiversity Framework.

ABBREVIATIONS

BCBS	Basel Committee for Banking Supervision	G20	Group of 20
BIS	Bank for International Settlements	HQMD	CDP's High-Quality Mandatory Disclosure Principles
CBD COP	Conference of the Parties to the Convention on Biological Diversity	ISSB	International Sustainability Standards Board
D-SIBs	Domestic systemically important banks	NGFS	Network for Greening the Financial System
ECB	European Central Bank	NRFR	Nature-related financial risks
EU	European Union	SUSREG	WWF's Sustainable Financial Regulation and Central Bank Activities
FSB	Financial Stability Board	TCFD	Task Force on Climate-related Financial Disclosures
GBF	Global Biodiversity Framework	TNFD	Taskforce on Nature-Related Financial Disclosures
G-SIBs	Global systemically important banks	UNFCCC	United Nations Framework Convention on Climate Change



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INTRODUCTION

The intersection of climate change, nature loss and global financial stability is increasingly recognized as a critical area for regulatory focus. Over recent years, significant strides have been made in integrating climate-related risk into financial regulations, reflecting a growing recognition of the systemic risks posed by environmental factors.

Progress has been made in integrating climate-related risks into financial regulations. For example, the Financial Stability Board, through the Task Force on Climate-related Financial Disclosures (TCFD), made recommendations in 2015 to enhance climate-related financial reporting (TCFD, 2017). In 2023, the BCBS opened a public consultation on a disclosure framework for climate-related financial risks, recognizing the need for an integrated approach with other standard-setters, including the International Sustainability Standards Board (ISSB) (BCBS, 2023). Meanwhile, the Network for Greening the Financial System (NGFS) has provided key guidelines for supervisors, such as the revised guide on climate-related disclosure for central banks (NGFS, 2021), and has helped foster international cooperation for sustainable finance.

Despite these advances, there remains a critical gap in addressing broader environmental dimensions, such as the degradation of terrestrial, freshwater and marine ecosystems and biodiversity loss. It is widely understood that our global economy's survival is intricately linked to the health of the natural world. Studies show over half the world's GDP is dependent on nature (WEF, 2020; PwC, 2023), detailing vast economic consequences from ecosystem collapse, with the poorest and most vulnerable countries disproportionately affected (World Bank, 2021; Dasgupta, 2021).

Integrating nature into global financial governance is crucial, in light of evidence that declining nature and biodiversity loss could harm financial stability (WWF, 2022). The degradation of ecosystem services, critical for human well-being and economic sustainability, and breaches to six of nine planetary boundaries, heralds a point of no return for Earth's ecosystems (IPBES, 2019; Rockstrom et al., 2009; Steffen et al., 2015). In addition to this, the relationship between nature and financial stability has been highlighted by a number of central bank studies (e.g., those of the Netherlands, France, Malaysia and Mexico), demonstrating growing concern among regulators.

This report, jointly developed by WWF and CDP, addresses the need to incorporate nature-related financial risk considerations into the regulatory frameworks governing systemically important banks, both global (G-SIBs) and domestic (D-SIBs). These banks, with their important role influencing the global financial system and economy, require bespoke prudential treatment and rigorous oversight. Their failure could jeopardize the broader economic and financial landscape, underscoring the need to adopt proactive measures by regulators to address nature-related risks. At the same time, these systemically important banks also have the potential to reduce their own negative impacts, and enable widespread positive change on climate and nature, including by helping address the large gap in financing needed to restore and protect nature.

For G-SIBs in particular, coordination and consistency in supervisory practices are essential to tackle nature-related systemic risks. Fragmented disclosure and inadequate microprudential and macroprudential supervision of nature-related financial risks (NRFRs) among G-SIBs can lead to systemic and stability risks. Recognizing the substantial investment and deep engagement needed, it is crucial for G-SIBs to work in partnership with their corporate clients to not only meet the immediate financial needs but also to future proof their operations and safeguard balance sheets. It is imperative that all G-SIB supervisors move in a coordinated manner to genuinely contribute towards global financial stability.

Drawing on three foundational pillars – CDP's financial services disclosures, WWF's Sustainable Financial Regulations and Central Bank Activities (SUSREG) assessment, and a critical appraisal of the Basel G-SIB framework for sustainability – our recommendations are geared towards creating a regulatory ecosystem that champions a sustainable, resilient and nature-positive economy.



01: DIAGNOSIS OF THE ISSUE

NATURE LOSS AND RISKS TO FINANCIAL AND ECONOMIC STABILITY

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Nature, through the ecosystem services it provides, supports human well-being and economic activity. These services include provisioning (e.g., food and water), regulating (e.g., climate control) and cultural benefits. Many of these support our economies. Half of the world's GDP is generated by sectors that moderately or highly depend on nature (WEF, 2020). Major industries such as construction, agriculture, and food and beverages are highly and directly dependent on nature for raw materials. Many sectors with lower direct dependency still rely on nature through their value chains (ACF, 2022). In essence, all economic activity ultimately depends on nature.

However, nature is under threat, due to human activities (IPBES, 2019). The dependency and impact of our economic activities creates a negative feedback loop, leading to reductions in the quality and availability of these essential services (Kedward et al., 2021). This has led to the unprecedented biodiversity loss and environmental degradation we see today (WWF, 2022).

Nature loss poses a critical risk to global economic and financial stability through several interconnected channels, as shown in Figure 1 (NGFS, 2023).



DEFINING KEY TERMS

Nature: The natural world, with an emphasis on the diversity of living organisms (including people) and their interactions among themselves and with their environment – adapted from the Taskforce on Nature-related Financial Disclosures (TNFD) (from Diaz, et al. 2015)

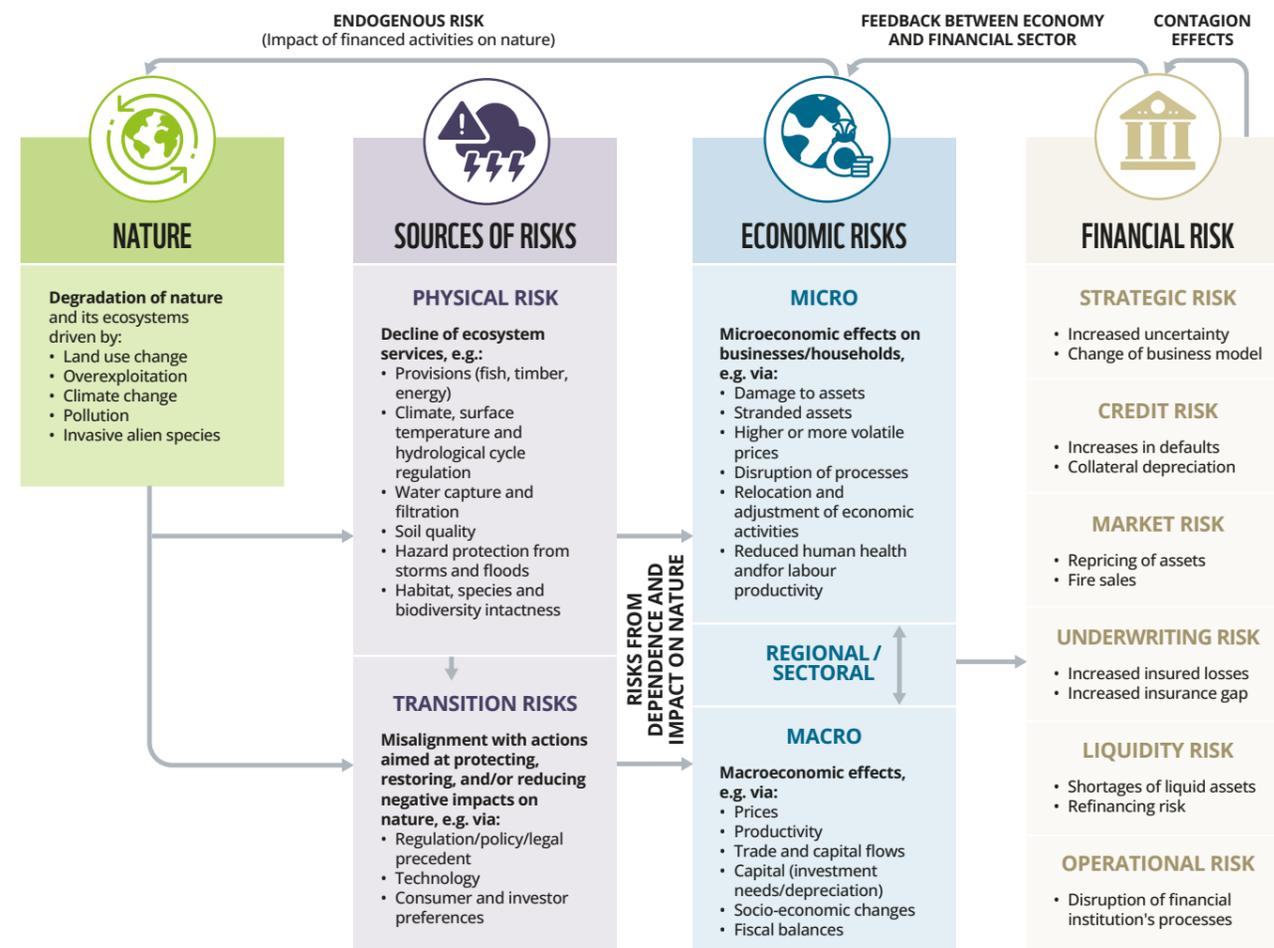
Nature-related financial risks: Risks of negative effects on economies, financial systems, individual financial institutions, companies and individuals that result from (i) the degradation of nature, including its biodiversity and the loss of ecosystem services that flow from it (i.e., physical risks); or (ii) the misalignment of economic actors with actions aimed at protecting, restoring and/or reducing negative impacts on nature (i.e., transition risks) (NGFS, 2023)

Ecosystem services: The contribution of ecosystems to the benefits used in economic and other human activity (UN, 2021). It should be noted that ecosystem services do not provide a full account of how nature adds value to humanity. (IPBES, 2022)

Biodiversity: The CBD defines biological diversity as the variability among living organisms from all sources, including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part (CBD, n.d.). This diversity exists at different diversity scales: regional, ecosystem, species and genetic. Each of these species and organisms works together in ecosystems, like an intricate web, to maintain balance and support life.

For the purposes of this paper, nature-related risk focuses on environmental and biodiversity risks, and the terms are used interchangeably, whilst climate-related risk is addressed as a separate term.

FIGURE 1: NATURE-RELATED RISK TRANSMISSION CHANNELS

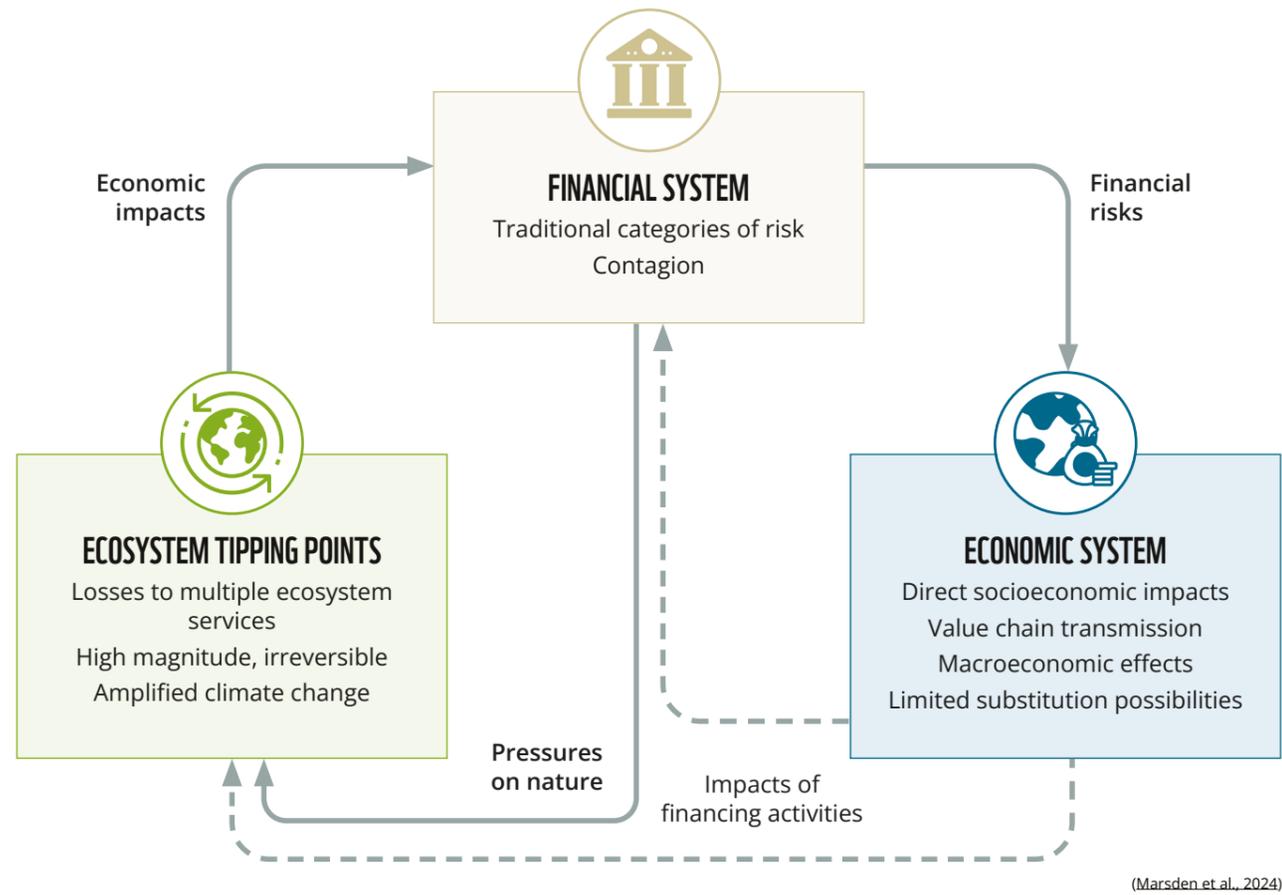


(NGFS, 2023)

The stability of the global economy and financial system is intricately tied to the health of our planet's ecosystems. Negative impacts on nature translate into economic and financial risks, including transition and physical risks to financial institutions. For example, declines in ecosystem services – such as pollination, water purification and climate regulation – can directly affect firms' output, revenues and profits, thereby weakening their financial position. The agriculture and forestry sectors are particularly vulnerable, as they rely heavily on these ecosystem services. Consumer goods industries also face significant risks, due to their dependence on natural resources.

In addition, misalignment with transition policies aimed at promoting sustainable practices can lead to increased operational costs and regulatory penalties. These challenges manifest as market risks, due to fluctuating asset values, credit risks stemming from firms' inability to repay loans, and underwriting risks as insurers face higher claims. Large-scale exhaustion of natural resources and ecosystem services has already resulted in economic and social instability in many regions. For example, the Green Finance Institute highlights how biodiversity loss and ecosystem degradation have led to material financial risks for the UK financial sector, emphasizing the urgent need for integrated risk management approaches (GFI, 2024). Collectively, these risks pose significant threats to the stability of individual financial institutions and, by extension, the broader financial system.

FIGURE 2: HOW THE FINANCIAL SYSTEM IS LIKELY TO EXACERBATE OVERALL RISKS



G-SIBs are particularly important as their idiosyncratic risks (credit, market, liquidity, and underwriting risks faced by individual financial institutions), can also pose systemic risk, due to their size and interconnectedness. Furthermore, G-SIBs are sources of vast financial flows to the real economy; by enabling economic activity, they influence its direction and future opportunities and risks. In addition, systemic risks and tail risks,¹ which are often insufficiently factored into risk assessments, pose significant threats (Bressan et al., 2024). It is therefore crucial to specifically address the proactive management and integration of environmental considerations by G-SIBs, due to their potential to amplify systemic risks and ensure sustainable growth.

Studies show that climate- and nature-related risks are not sufficiently priced-in, creating high uncertainties with significant stakes for the economy and the financial system (Eren et al., 2022; Senni et al., 2024). As noted by the Bank for International Settlements

(BIS), while these risks are starting to be priced, current prices do not fully reflect the full magnitude of potential risks. On climate-related risks, investors face three major challenges: the aggregate nature of climate risks limits risk-sharing and hedging; high uncertainty about climate risks and policy actions complicates modelling; and available information is often incomplete or imperfect. On nature-related risk, Kedward et al. (2023) highlight the limitations to the “measure in order to manage” approach towards this risk and, given imperfect information, emphasize the importance of identifying and reducing flows of finance to environmentally-harmful economic activities. Given its systemic and endogenous nature, Kedward et al. (2020) argue that, because risks cannot be sufficiently managed through market-fixing approaches based on disclosure and quantitative risk estimates, a precautionary policy approach is needed. This uncertainty and importance, as well as limited evidence that financial institutions are pricing these risks, suggests a need for focus by financial supervisors and regulators.



The importance of G-SIBs cannot be overstated.

The microprudential risks associated with these exposures can be considerable. These risks can significantly impact the stability of financial institutions by affecting their loan portfolios, asset valuations and operational costs (CISL, 2022).

Recent evaluations of banks' efforts to address biodiversity and nature-related risks, based on 2022 disclosures and analyses, reveal that action is needed on this front:

- According to the global Forest 500 assessment, the three financial institutions providing the most finance to Forest 500 companies² without a single deforestation commitment are G-SIBs: including J.P. Morgan Chase (US\$27 billion), Bank of America (US\$23 billion) and Mitsubishi UFJ Financial (US\$21 billion) (Thomson, E. et al., 2024). In addition, five banks have been included in the Forest 500 analysis for the past decade without publishing any deforestation commitments.
- The WWF Sustainable Banking Assessment (SUSBA) for 2022 sustainability disclosures shows that, while 83% of Asian banks recognize the risks of environmental degradation and biodiversity loss, only 13% have set and disclosed targets to mitigate these impacts (WWF Singapore, 2023).
- European banks are falling short in addressing biodiversity loss, according to ShareAction's 2022 assessment (ShareAction, 2022). The average score for biodiversity strategies is 35%, with some banks scoring as low as 20% or less. Only three of the assessed banks have set any biodiversity-related targets, and there is a widespread lack of detailed strategies and integration of biodiversity criteria.

Voluntary sustainability commitments, while a good starting point, have generally proven insufficient to address environmental risks (ECB, 2024). In addressing climate change, voluntary measures by financial institutions and corporations have not achieved the necessary scale or urgency to effectively mitigate financial risks associated with environmental degradation. This trend is mirrored in nature-related risks where, as seen above, voluntary commitments similarly fall short. Mair et al., (2024) argue that voluntary and unstandardized disclosures are insufficient and may obscure true biodiversity impacts. Without mandatory regulations and stringent enforcement, these initiatives lack the robustness required to protect against significant nature-related financial threats.

More positively, in less than a year since the release of the TNFD disclosure recommendations in September 2023, 25% of G-SIBs have already committed to start reporting on their nature-related issues aligned with the TNFD recommendations (TNFD, 2024), although that leaves the remaining 75%, which need to enhance their efforts in disclosing and managing nature-related risks.

This study is the first to link regulatory performance by central banks and financial supervisors to the implementation of nature-related actions by banks.

Using WWF's SUSREG data and voluntary CDP disclosures by the world's biggest banks, along with additional desk research, this report aims to provide insights into how regulatory frameworks influence banks' environmental practices and to identify areas for improvement in policy and implementation. It does this by matching the assessment questionnaires from CDP to WWF's SUSREG framework, looking into: (1) whether regulators of G-SIB host countries provide any guidelines or supervisory expectations towards banks on a nature-related topic (using SUSREG); and (2) whether the banks implement supervisory expectations (using CDP data).

1. Tail risks in environmental degradation refer to low-probability but potentially catastrophic events that could result from climate change and environmental damage, characterized by non-linear effects, irreversibility, and global impact, which are often underestimated in traditional risk models but could lead to severe, far-reaching consequences if they materialize.

2. The Forest 500 tracks the 500 most influential companies in the global forest-risk commodity supply chains, as identified by Global Canopy. These companies are integral to forest-risk commodity markets, such as palm oil, soy, beef, leather, and timber, which are major drivers of deforestation. The activities of financing these companies without deforestation commitments are significant in the context of the risk transmission channels discussed above. Specifically, these activities represent transition risks for individual G-SIBs, as they may face financial repercussions from shifts towards more sustainable practices.

THE POWER OF INTERNATIONAL STANDARD SETTERS AND G-SIBS



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The FSB and the BCBS hold significant power to mitigate environmental risks through their regulatory influence, especially at a time when we are facing critical ecosystem tipping points. The FSB and the BCBS have a mandate to coordinate global banking regulations, as seen with the implementation of Basel III standards on disclosure following the 2008 financial crisis. The FSB coordinates national financial authorities and international standard-setting bodies, promoting effective regulatory policies and frameworks, such as systemic risk monitoring and macroprudential regulation, which are adopted by major economies (FSB, 2024). Similarly, the BCBS establishes minimum standards for banking regulation, known as the Basel Accords, which shape global banking practices by ensuring consistency and stability across international markets (BCBS, 2011). By integrating NFRSs into these standards, the BCBS could ensure that

environmental considerations are embedded in the core of banking regulation and supervision.

The power and impact of these bodies are evident through their actions in the past, particularly the introduction of regulations for G-SIBs. Basel III, introduced after the 2008 financial crisis, aimed to strengthen the resilience of the global banking system by imposing stringent capital and liquidity requirements, with G-SIBs subject to even higher standards (BCBS, 2011). G-SIBs must maintain large capital buffers, meet the total loss-absorbing capacity (TLAC) standard, adhere to more rigorous liquidity and leverage ratios, and undergo regular stress testing to assess their capacity to withstand major economic disruptions (FSB, 2023). These measures, updated annually, aim to maintain the resilience of G-SIBs against economic shocks.

TABLE 1: G-SIBS AS OF NOVEMBER 2023 ALLOCATED TO BUCKETS CORRESPONDING TO REQUIRED LEVELS OF ADDITIONAL CAPITAL BUFFERS

Bucket	Required level of additional common equity loss absorbency	G-SIB in alphabetical order within each bucket (in brackets is the host country of the G-SIB headquarters)
5	3.5%	(Empty)
4	2.5%	<ul style="list-style-type: none"> J.P. Morgan Chase (USA)
3	2.0%	<ul style="list-style-type: none"> Bank of America (USA) Citigroup (USA) HSBC (UK)
2	1.5%	<ul style="list-style-type: none"> Agricultural Bank of China (China) Bank of China (China) Barclays (UK) BNP Paribas (France) China Construction Bank (China) Deutsche Bank (Germany) Goldman Sachs (USA) Industrial and Commercial Bank of China (China) Mitsubishi UFJ FG (Japan) UBS (Switzerland)
1	1.0%	<ul style="list-style-type: none"> Bank of Communications (China) Bank of New York Mellon (USA) Groupe BPCE (France) Groupe Crédit Agricole (France) ING (Netherlands) Mizuho FG (Japan) Morgan Stanley (USA) Royal Bank of Canada (Canada) Santander (UK) Société Générale (France) Standard Chartered (UK) State Street (USA) Sumitomo Mitsui FG (Japan) Toronto Dominion (Canada) Wells Fargo (USA)

(FSB, 2023)

3. TLAC is an international standard designed to ensure that G-SIBs have sufficient equity and bail-in debt to absorb losses, to minimize the risk of a government bailout. The standard was finalized by the FSB in November 2015 and is intended to ensure orderly resolution processes for G-SIBs, reducing the risk of contagion in the financial system.



CURRENT BCBS G-SIBS REQUIREMENTS

- **Higher Capital Buffer:** G-SIBs are required to hold extra capital based on their level of systemic importance. This buffer provides a financial cushion, ensuring the bank can absorb significant losses and remain solvent during periods of stress.
- **Total Loss-Absorbing Capacity (TLAC):** G-SIBs must maintain sufficient capital and other loss-absorbing instruments. TLAC ensures that, in the event of failure, these banks can be resolved in an orderly manner without triggering broader financial instability or requiring taxpayer-funded bailouts.
- **Resolvability:** G-SIBs need to have credible and detailed resolution plans—commonly known as "living wills." These plans outline how the bank can be dismantled or

restructured in a crisis, minimizing disruptions to the financial system and avoiding chaotic, expensive bankruptcies.

- **Enhanced Supervision:** Due to their size and complexity, G-SIBs face more stringent supervisory expectations. This includes higher standards for risk management, data aggregation, governance, and internal controls, all aimed at reducing the likelihood of risk-taking that could lead to financial distress.

On monitoring and transparency, the BCBS tracks and publishes key data on G-SIBs, including the criteria used to classify them and their systemic importance indicators. This transparency helps regulators and market participants monitor these banks and understand their potential impact on the global financial system.

The proactive engagement of the FSB and the BCBS in scaling environmental and nature-related actions is crucial. Their ability to set globally recognized standards can drive financial institutions to allocate capital more sustainably, reduce funding for "always environmentally harmful activities" (WWF, 2022), and enhance transparency through improved disclosure requirements.⁴

Coordinated action between central banks, financial supervisors and policymakers in ministries of finance, industry and environment is essential to fulfil their primary mandates of price and financial stability. This collaborative approach is necessary to address the profound risks posed by ecosystem tipping points and ensure a resilient and sustainable global financial system.

Recent regulatory initiatives led by the FSB and the BCBS have promoted action on climate change. Such efforts, while an important first step, currently do not cover the full spectrum of NFRs (FSB, 2021; BCBS, 2022; BIS, 2023). This limited focus risks not only missing crucial

opportunities for enhancing financial resilience but may also result in ineffective or incomplete regulatory responses. It is to be noted that the FSB has conducted a stocktake on supervisory and regulatory approaches on nature-related risks (FSB, 2024). Encompassing wider nature risks is crucial for a resilient financial system (NGFS, 2023).

Comprehensive integration of all NFRs is crucial for ensuring a resilient financial system that can sustain itself in the face of a variety of environmental uncertainties. Extending regulatory frameworks to encompass the full spectrum of environmental risks will ensure that financial institutions can better safeguard against unexpected financial shocks driven by ecological factors, thus preventing the loss of valuable progress made in other areas of environmental and financial reform (FSB, 2021; BCBS, 2022; BIS, 2023). The global scale of G-SIB activities necessitates a common international supervisory framework and aligned supervisory practices to ensure consistent global implementation and prevent regulatory arbitrage.



DOMESTIC SYSTEMICALLY IMPORTANT BANKS (D-SIBS)

The Basel Domestic Systemically Important Banks (D-SIB) framework is essential for maintaining financial stability and mitigating systemic risks within a country's banking sector. Unlike the Global Systemically Important Banks (G-SIB) framework, which focuses on the global impact of bank failures, the D-SIB framework is tailored to address the risks posed by banks within a domestic context. It requires D-SIBs to hold additional capital buffers and be subject to more stringent regulatory oversight to absorb losses, reduce moral hazard and promote sound risk management practices. By ensuring that systemically important banks are robust, the framework aims to prevent significant disruptions in the domestic economy.

The current D-SIB framework primarily addresses financial metrics and overlooks the significant impact of environmental risks. Integrating nature-related risks into the D-SIB framework is crucial, as environmental challenges such as climate change, biodiversity loss and ecological degradation can profoundly affect the financial stability of banks. These risks can lead to asset devaluation, operational disruptions and broader economic instability, posing a threat to the financial system.

4. See CDP's Ten Principles for High Quality Mandatory Disclosure (2023) for a comprehensive breakdown of HQMD for regulators: [Mandatory environmental disclosure - CDP](#)

02: METHODOLOGY



INDICATORS AND THEMES

This report looks at both the regulatory landscape and the actions of G-SIBs. It does so by utilizing WWF's 25 SUSREG assessment indicators, organized into four primary themes. Each indicator is matched to specific questions from the CDP questionnaire for the Financial Services on forests and water security. A comprehensive list of these indicators and their corresponding questionnaire items can be found in the Annex. This matching exercise was developed to evaluate the sustainability practices of financial institutions, particularly in the context of regulatory and supervisory practices related to sustainable banking and nature-positive financial measures.

ASSESSMENT APPROACH

WWF's SUSREG methodology focuses on assessing regulatory and supervisory practices in 10 countries where the headquarters of G-SIBs are located, with a specific emphasis on their environmental scores, filtering out climate and social scores. The assessments rely solely on publicly available information, such as regulations, supervisory expectations, guidelines and measures issued by central banks and financial regulators. Indicators are scored based on predefined criteria and consider factors such as enforceability and scope in determining whether each country has met expectations (using a fully met, partially met, not met scoring matrix). For countries like France, Germany, Spain and the Netherlands, the scores are derived from the policies of the European Central Bank (ECB) and the European Union. For more information on methodology, please see [SUSREG's methodology document](#).

CDP's methodology complements this by evaluating G-SIB disclosures on forest and water security, as proxies for environmental progress, using the selected SUSREG indicators to gauge preparedness for regulatory changes and the management of NRRFs. Two approaches were used by CDP for this analysis: (1) disclosures submitted through CDP under its questionnaire for the Financial Services (for 16 G-SIBs, not including those headquartered in the USA, Canada or China); (2) desk research for G-SIBs not covered under CDP disclosures. Forests and water scores were combined to show a 'nature' score, which was used to compare with the SUSREG score.

More information on the methodology and indicators can be found in the Annex IV.

DISCLAIMER ON FINDINGS

It is important to note that the results are not quantitative, to demonstrate a definitive relationship or correlation, but rather a preliminary analysis that can be built upon. While we draw out recommendations based on what we have found from WWF's SUSREG and CDP questionnaire for the Financial Services disclosures, we also rely on the wealth of evidence in this body of work, including assessment results by other institutions and studies on the risk that nature presents to the economy and financial stability. As such, the analysis presented here serves as a foundational step for further detailed investigations and should not be interpreted as conclusive evidence.

The background of the page is a 3D rendered scene of a vast, layered ice cave. The walls and ceiling are composed of numerous horizontal layers of translucent, blue-tinted ice, creating a sense of depth and scale. A person is standing in the distance, silhouetted against a bright light source, providing a sense of scale to the massive structure. The overall lighting is a deep, cool blue, with some areas appearing more vibrant and others more shadowed.

03: KEY FINDINGS

The WWF SUSREG assessment and CDP's questionnaire for the Financial Services disclosure data reveal critical gaps in systemic risk management of NRRs in the global economy, underscoring the urgent need for collaborative efforts to address these shortcomings.



THEME 01:

Freepik @evening_tao

THERE ARE INSUFFICIENT NATURE-RELATED DISCLOSURE REQUIREMENTS BY REGULATORS AND A RELATED GAP IN DISCLOSURES BY G-SIBS

Our regulatory assessment found that nature-related disclosure requirements for G-SIBs are inadequate.

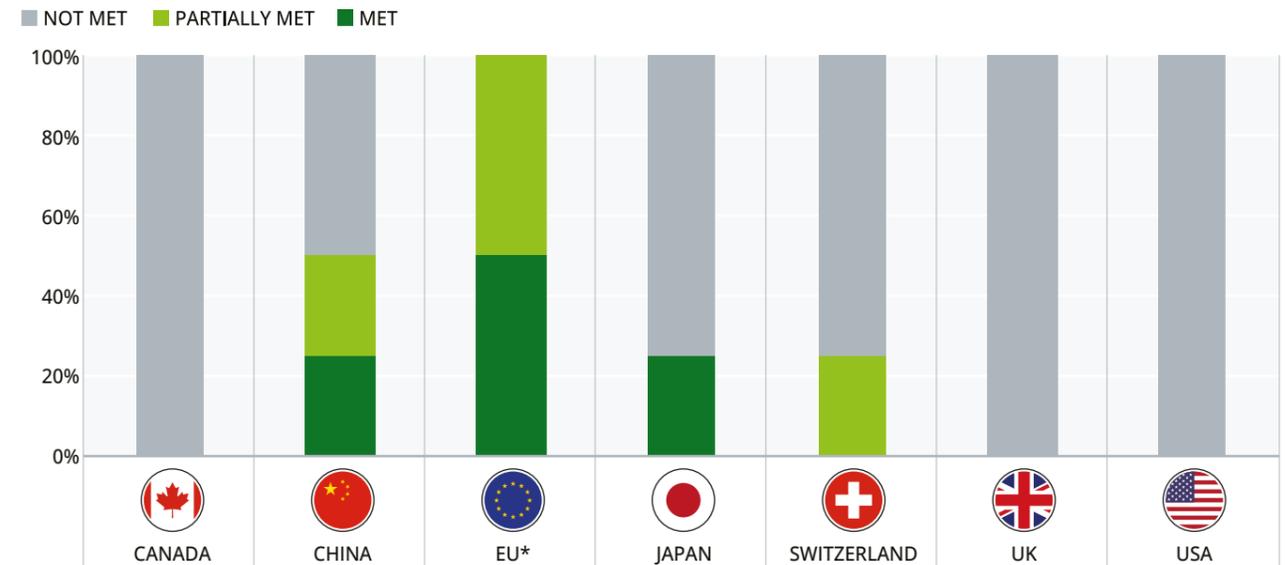
In examining various jurisdictions, it is evident that most countries fall short in requiring comprehensive disclosure. For instance, Canada, the UK and the USA lack specific regulations on this topic, achieving 0% across all environmental disclosure indicators. (However, these results were based on 2023 disclosures, and we note that, in April 2024, the UK published updated guidance regarding its Sustainability Disclosure Requirements framework.)

The European Union (EU) is taking a more proactive approach, with most of the required disclosure indicators met, while Japan and China show some initial progress. The EU requires integration of environmental considerations into business policies and processes, as well as reporting on environmental strategies in annual reports. The implementation of the Corporate

Sustainability Reporting Directive (CSRD) in 2024 further strengthens the EU's framework, by mandating more detailed standardized sustainability disclosures from companies for greater transparency and compatibility (EC, 2022). However, disclosure on portfolio-level exposures to material environmental risks and the alignment of lending portfolios with sustainability taxonomies could be strengthened.

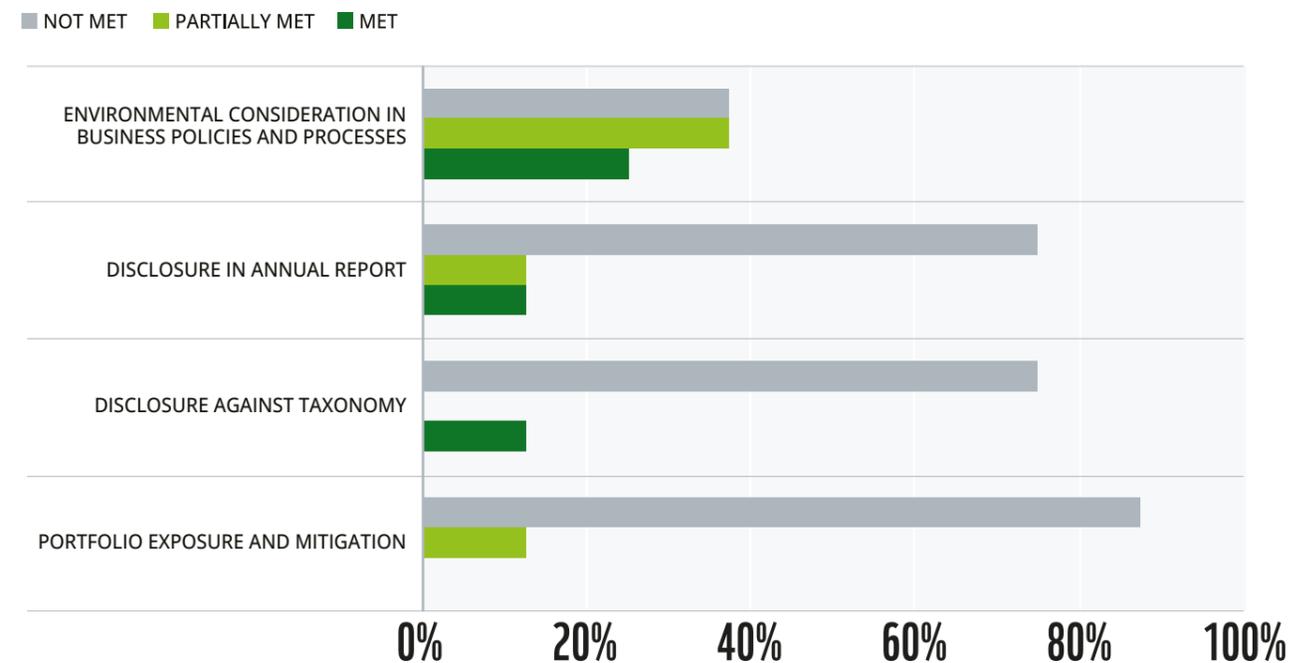
The inconsistency in regulatory frameworks globally highlights an urgent need for robust, standardized and interoperable disclosure requirements. Requiring banks to disclose their environmental strategies, portfolio exposures and alignment with sustainability taxonomies will ensure that stakeholders have access to critical information. This will not only enhance market discipline and ensure a level playing field, but will also foster a more resilient and transparent banking sector, capable of managing long-term environmental risks effectively.

FIGURE 3: ENHANCED REGULATORY DISCLOSURE REQUIREMENTS ON ENVIRONMENTAL TOPICS IN G-SIB HOST COUNTRIES (PERCENTAGE OF SUSREG INDICATORS FULFILMENT)



Based on four assessment indicators. See Annex IV for details
*For France, Germany, Spain and the Netherlands, scores are based on ECB/European Union's policies and therefore combined under 'EU'

FIGURE 4: ENHANCED REGULATORY DISCLOSURE REQUIREMENTS ON ENVIRONMENTAL TOPICS IN G-SIB HOST COUNTRIES (AVERAGE FULFILMENT OF SUSREG INDICATORS ACROSS 10 COUNTRIES)



Based on four assessment indicators. See Annex IV for details.

On the financial services side, G-SIBs have made progress in meeting disclosure expectations, although at various degrees across environmental themes.

Attainment percentages across the five SUSREG indicators assessed against the CDP questionnaire for the Financial Services 2023 dataset for Theme 1 are displayed below:⁵

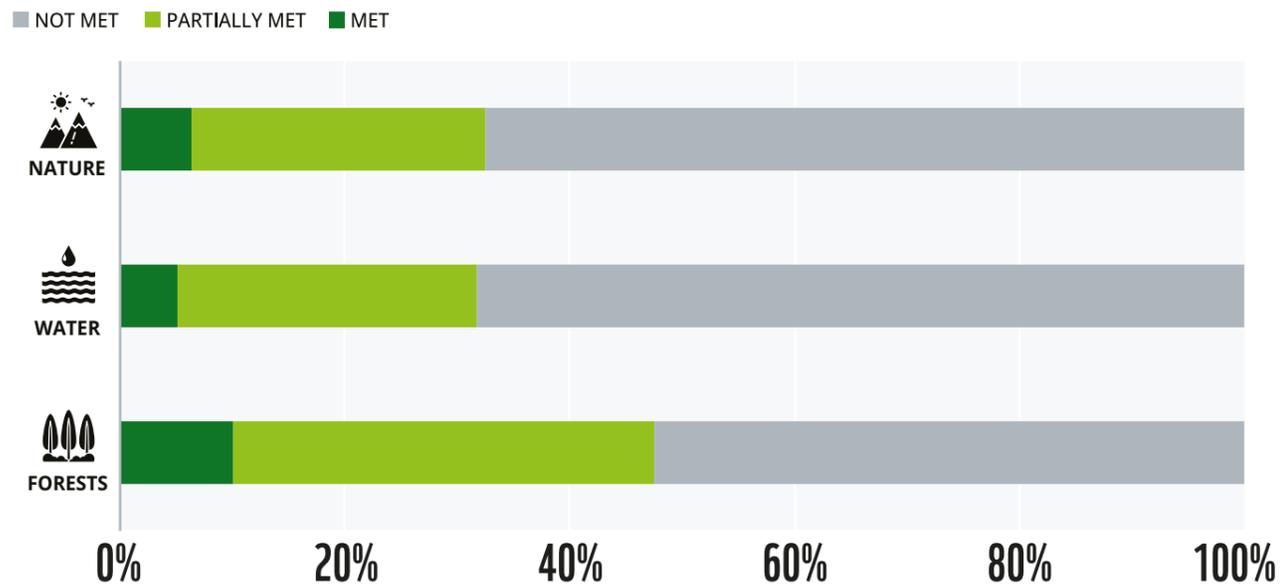
Forest-related disclosure is more common among G-SIBs than disclosure on water security. In responses to the questionnaire for the Financial Services, eight G-SIBs (50% of the sample) disclosed information related to forest management, compared to only two (12.5%) for water security. When given the opportunity to comment on the inclusion of these topics in publications, the primary reason cited was to address nature or biodiversity-related dependencies, impacts, risks and opportunities. This could

reflect an understanding of the importance of forests within the broader nature context. The linkage between water security and nature, instead, might be still at nascent stages.

Eight disclosing G-SIBs report that they offer products and services aimed at mitigating deforestation and water insecurity. Of those, four report products and services aligned with widely recognized taxonomies, such as those of the EU or UK.

Among those disclosing G-SIBs that do not offer products or services to mitigate deforestation and water insecurity, nearly half have indicated they have no plans to do so over the next two years. This suggests a de-prioritization of tailored nature-related support, despite the significant opportunities to address the growing demand of the real economy to mitigate and adapt to increased intensity and frequency of nature-related impacts.

FIGURE 5: LEVEL OF ATTAINMENT FOR THEME 1 ON DISCLOSURE OF NFRF BY G-SIBS, WHICH INCLUDES DISCLOSURE ON TAXONOMY-ALIGNED PRODUCTS AND SERVICES. FULL ASSESSMENT INDICATORS IN ANNEX IV



5. G-SIBs were evaluated on their performance on forests and water separately. G-SIBs receive a 'Nature' score if they receive the same score for both forests and water. Therefore, the only way to achieve a 1 score for Nature is to achieve a 1 score for both forests and water.

FIGURE 6: G-SIBS DISCLOSING ENVIRONMENTAL CONSIDERATIONS IN ANNUAL REPORTS

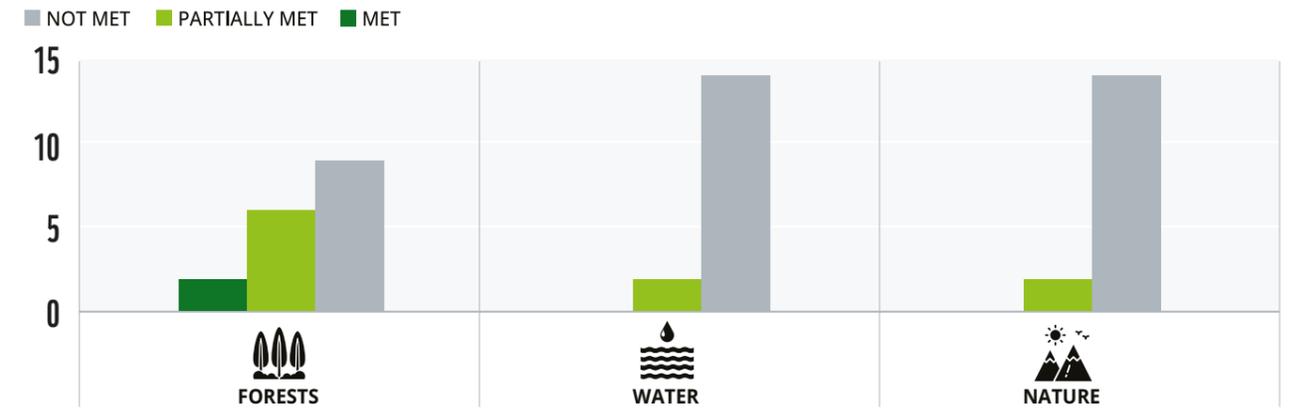
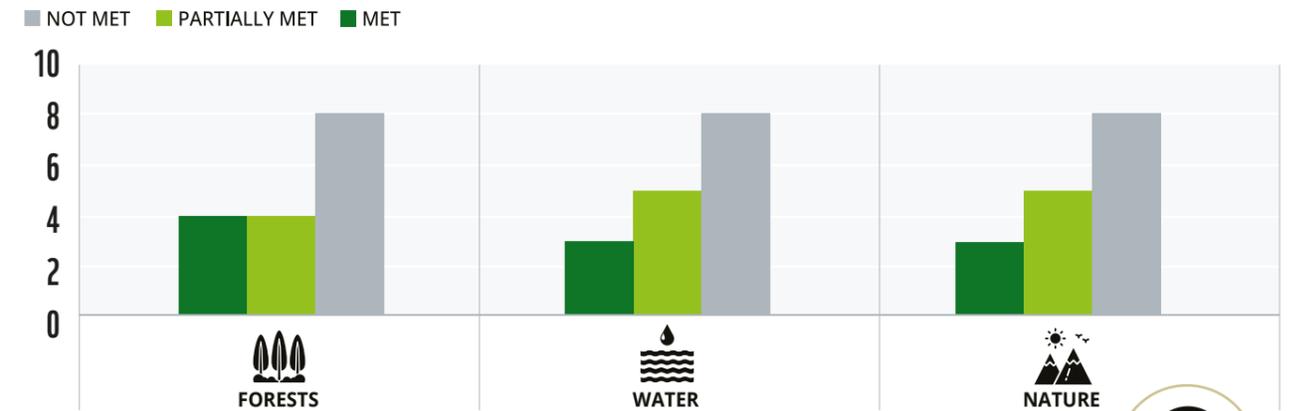


FIGURE 7: G-SIBS OFFERING PRODUCTS AND SERVICES ALIGNED WITH TAXONOMIES



CDP'S HIGH-QUALITY MANDATORY DISCLOSURE (HQMD)



Global support for mandatory disclosure regulation has accelerated since 2020. To fully unlock the potential of disclosure to help drive the economy towards our global environmental goals, we are advocating for High-Quality Mandatory Disclosure (HQMD).

CDP has identified 10 guiding principles for policymakers that should be applied to mandatory disclosure regulation, which have been presented at the 4th Sustainable Finance Working Group (SFWG) part of G20 India 2023.

Regulations on disclosure should:

1. Ensure environmental integrity addressing risk, opportunities, dependencies and impacts on people and planet, with a holistic environmental approach
2. Ensure consistency and interoperability of disclosure regimes across jurisdictions, building off global baseline disclosure standards

3. Ensure policy consistency in disclosure requirements across policies within a single jurisdiction
4. Be rooted in science
5. Bring in scope all businesses and financial institutions
6. Include expectations on disclosure of climate, water and nature transition plans
7. Ensure quality and reliability, and set expectations on external assurance
8. Provide an enforcement mechanism
9. Strengthen the role of corporate governance bodies
10. Cultivate an environment for innovation and advancing disclosure maturity.

For a detailed breakdown of the Principles, see [Mandatory environmental disclosure - CDP](#).



THERE IS A LACK OF INTEGRATION OF NRFR MANAGEMENT AND SUPERVISORY EXPECTATIONS WITHIN BANKS' POLICIES AND PROCESSES

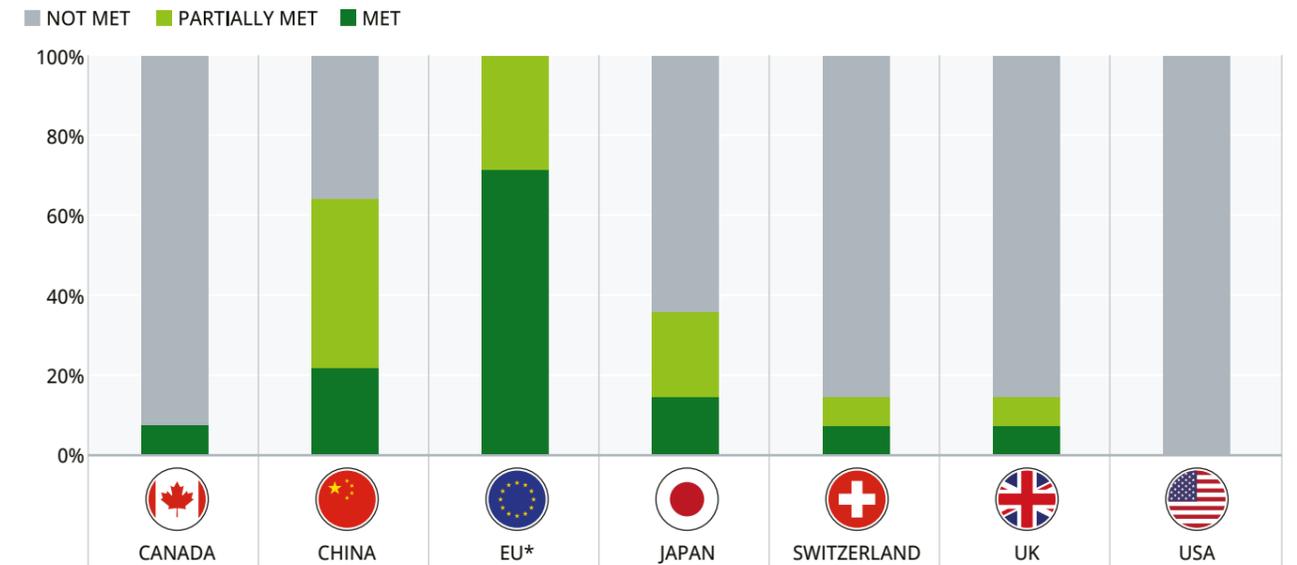
The glaring inadequacy in NRFR supervisory expectations for risk management and governance in G-SIBs underscores the urgent need for enhanced regulatory measures. Current regulatory frameworks applicable to banks reveal significant gaps, with minimal to no specific regulations in place in Canada, Switzerland, the UK and the USA. These deficiencies highlight a critical vulnerability in the regulation of the global banking system.

EU members including France, Germany, Spain and the Netherlands show relatively higher indicator fulfilment, reflecting a more robust regulatory framework demanding higher supervisory expectations. For example, EU regulations require environmental considerations to be integrated into business and risk strategies, mandate dedicated staff and resources for environmental strategy implementation, and define board responsibilities for overseeing these strategies. Recently, the ECB has considered introducing fines for banks that consistently fail to address the impact of climate change. This approach could be extended to include nature-related risks, emphasising the need for comprehensive

regulatory standards (Bloomberg, 2024). However, despite this higher indicator fulfilment, there are still areas requiring attention, particularly in the integration of water-related risks. For example, in ECB's Climate and Environmental Guidance (ECB, 2020), water-related risk is mentioned as part of risks that should be managed under environmental risks. However, there are no expectations or guidance on how financial institutions should manage water-related risks specifically from their clients.

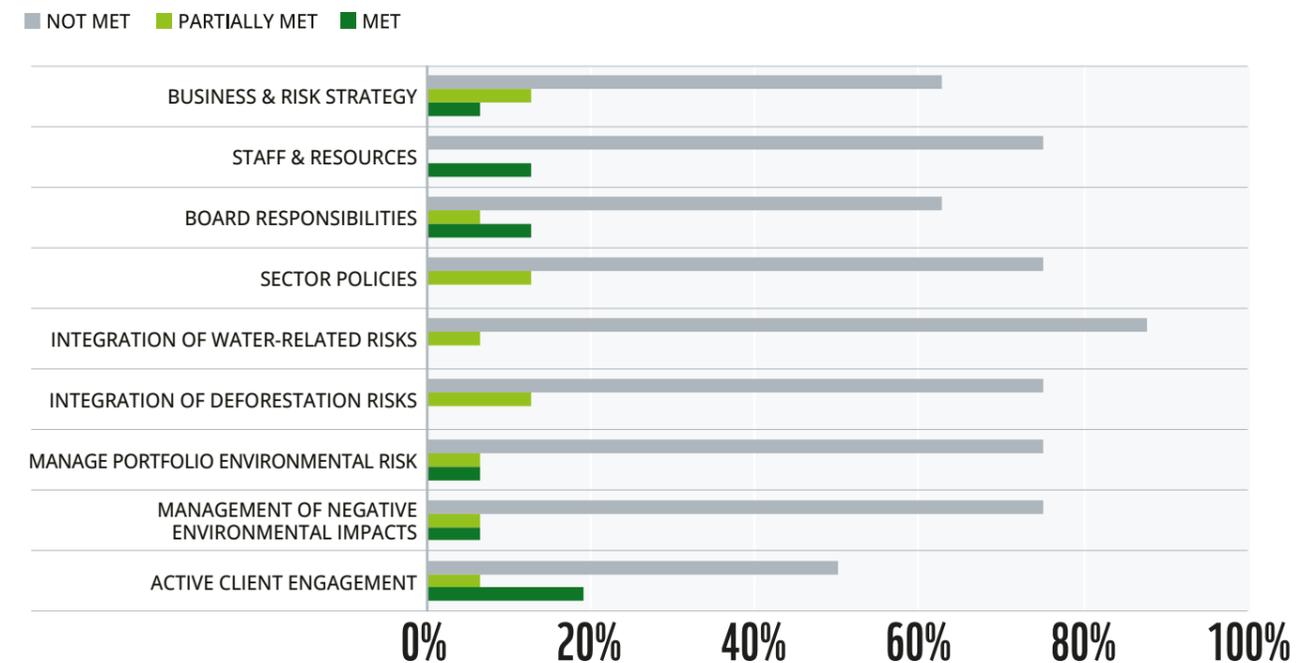
The lack of consistent, comparable and comprehensive regulations across these major jurisdictions, further emphasizes the need for a harmonized global approach. Regulators must enforce stringent expectations for risk management functions, risk data aggregation capabilities and robust internal controls to effectively mitigate environmental risks. This will not only promote sustainable and responsible financial practices across multiple jurisdictions but also ensure a harmonized global approach that supports interoperability, ultimately safeguarding both the financial system and the broader environment.

FIGURE 8: SUPERVISORY EXPECTATIONS ON ENVIRONMENTAL TOPICS IN G-SIB HOST COUNTRIES (PERCENTAGE OF SUSREG INDICATORS FULFILMENT)



Based on four assessment indicators. See Annex IV for details
*For France, Germany, Spain and the Netherlands, scores are based on ECB/European Union's policies and therefore combined under 'EU'

FIGURE 9: SUPERVISORY EXPECTATIONS ON ENVIRONMENTAL TOPICS IN G-SIB HOST COUNTRIES (AVERAGE FULFILMENT OF SUSREG INDICATORS ACROSS 10 COUNTRIES)



Based on fourteen assessment indicators. See Annex IV for details.

On the financial services side, although there is some action from disclosing G-SIBs to incorporate forest-related issues into policies and processes, there is a significant need for widespread action across both disclosed environmental themes. The data shows that the banks may not be prioritizing risk management adequately, and there might not be sufficient regulatory pressure to enforce stronger practices. This could lead to significant vulnerabilities in the financial system.

Attainment percentages across the 14 SUSREG indicators that comprise Theme 2 assessed against the questionnaire for the Financial Services dataset are displayed below: **To date, 12 G-SIBs have embedded forest-related considerations within their policy frameworks, with six specifically addressing industries and commodities that significantly impact forests.** This demonstrates a proactive approach to integrating environmental concerns at a policy level. In contrast,

only six disclosing G-SIBs have integrated water-related considerations into their policies, and none have addressed specific industries and commodities affecting water security, showing a lack of action in management.

Despite the integration of nature-related policies, there is a noticeable gap in how these policies are translated into comprehensive risk management practices. Only one G-SIB headquartered in the EU adequately integrated nature-related risks across its core operations. This bank has a dedicated risk committee tasked with assessing risks and opportunities related to forests and water, and integrating these considerations into its strategy and financial planning. This committee is also responsible for managing these risks and engaging with the value chain on related issues. Another European G-SIB has focused solely on forest management, with its CEO responsible for approving environmental policies and incorporating these concerns into the bank's strategic framework.

FIGURE 10: INTEGRATION OF THEME 2: NRFR IN G-SIB POLICIES, WHICH INCLUDES RISK MANAGEMENT PROCESSES AND CLIENT ENGAGEMENT. FULL ASSESSMENT INDICATORS IN ANNEX IV

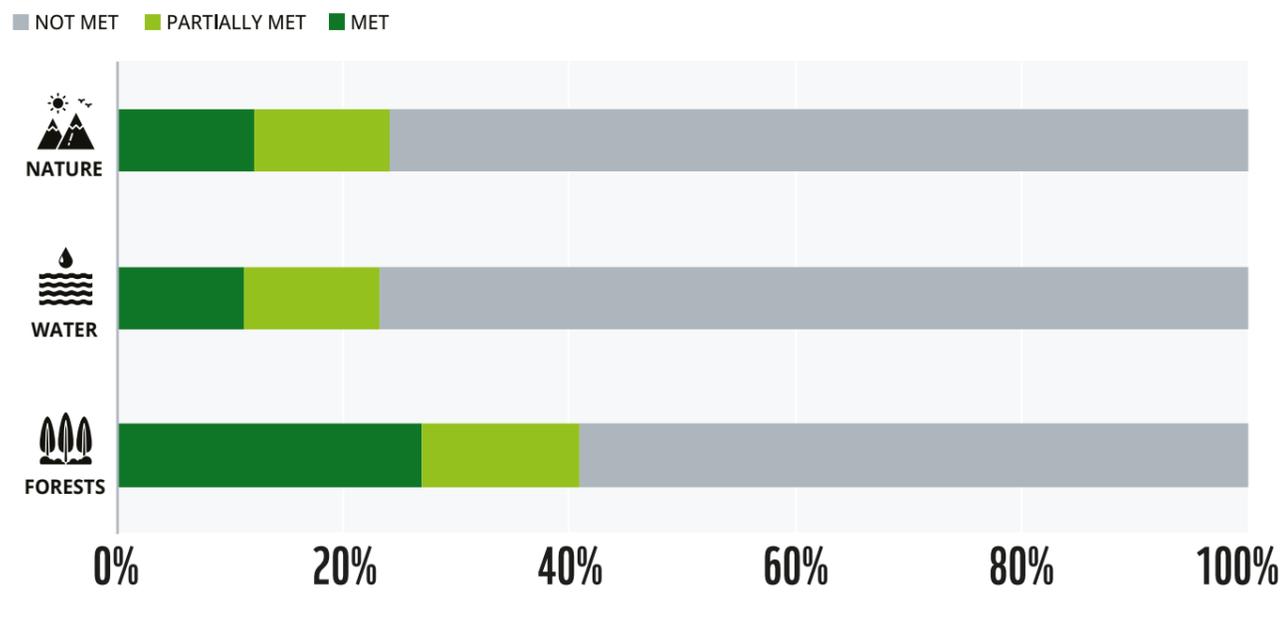


FIGURE 11: COMPREHENSIVE INTEGRATION OF NATURE ISSUES IN DECISION-MAKING AND RISK MANAGEMENT PROCESSES BY G-SIBS

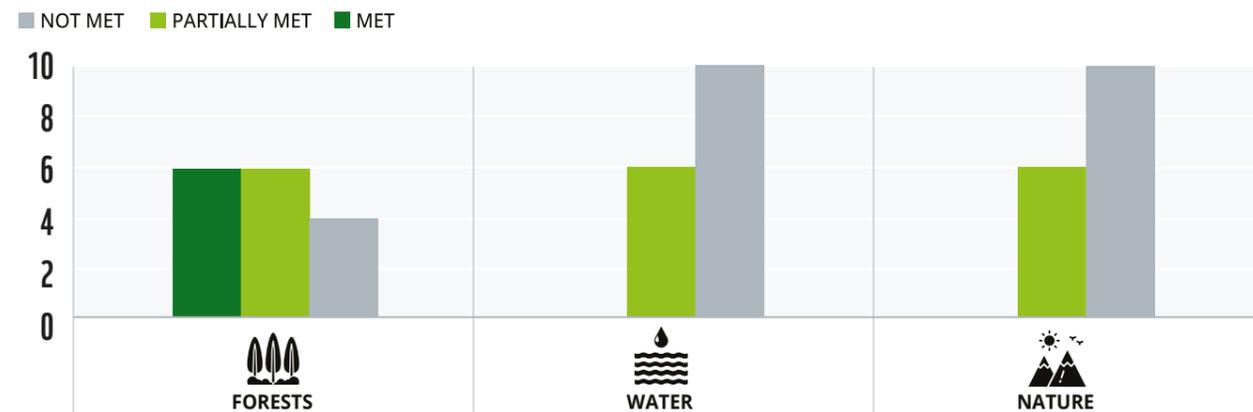
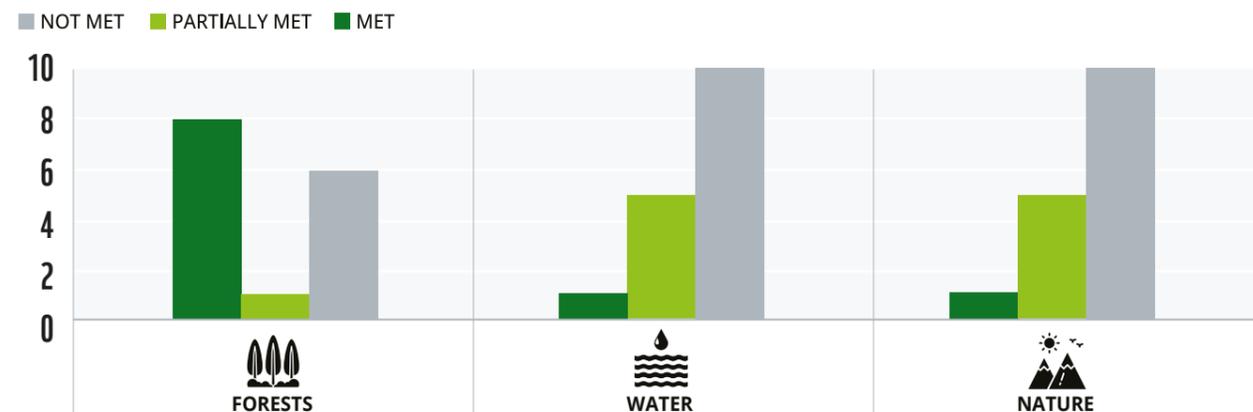


FIGURE 12: G-SIB CLIENT ENGAGEMENT ON NATURE-RELATED TOPICS



Most G-SIBs fall short of integration of forest and water considerations even in foundational activities, such as environmental exposure assessments and the incorporation of these topics into due diligence and risk assessment processes. This underperformance suggests a significant gap in the integration of environmental risk management into the broader operational frameworks of these institutions. It also highlights a notable deficiency in dedicated staff and resources, which exacerbates the limited or compartmentalized integration of environmental themes into mainstream risk management functions. This vulnerability is particularly concerning given the anticipated increase in regulatory requirements surrounding nature-related risks.

ACTIVE CLIENT ENGAGEMENT ON NATURE-RELATED TOPICS

When assessing G-SIB client engagement on forest and water issues, the majority of disclosed action is centered around forest-related issues. Eight G-SIBs have disclosed specific strategies for engaging clients on

forest-related topics, with two European G-SIBs disclosing engagement on both topics. However, numbers are much lower for water, with only one G-SIB disclosing a specific strategy for water-related topics, and five mentioning engagement without detailing their strategies.

Many G-SIBs that have not disclosed any engagement in forest- and water-related issues report a focus on energy- and climate-themed client engagements. This indicates a potential blind spot rather than a comprehensive overview, suggesting that these institutions are not yet navigating the interconnections between nature loss and climate change.

Where present, G-SIBs have better-established client engagement on forest issues and climate management than on water security. This pattern is indicative of a partial and disconnected approach to environmental risk management, highlighting the need for a more integrated strategy that encompasses all aspects of environmental risk.



CURRENT CAPITAL AND LIQUIDITY FRAMEWORKS FAIL TO INCORPORATE NRFR CONSIDERATIONS

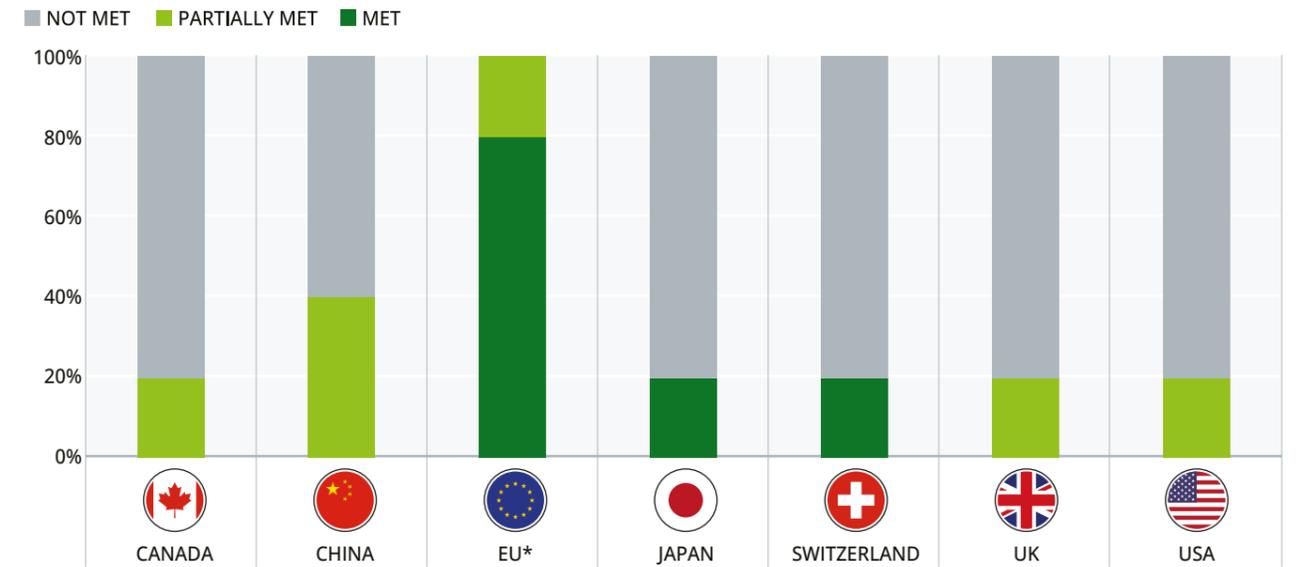
The current regulatory landscape for capital and liquidity requirements in systemically important banks is inadequate, highlighting the urgent need for more stringent regulations. Across major jurisdictions, fulfilment of essential indicators, such as double materiality assessment, scenario analysis and integrating environmental considerations into the Internal Capital Adequacy Assessment Process (ICAAP), is alarmingly low. For instance, the USA, Canada and the UK show minimal indicator fulfilment, revealing a lack of incorporation of environmental risks into their regulatory frameworks. This is particularly concerning given that 13 of the 20 G-SIBs are domiciled in these three countries, making them more vulnerable to nature-related risks materialising in their portfolios in the near future.

In contrast, the EU meets most of the indicators relating to capital and liquidity requirements. These include double materiality assessments, scenario analysis and stress testing, ensuring that banks are better

equipped to manage their portfolio-level exposure to material environmental risks. Moreover, EU regulations demand the incorporation of environmental considerations in both ICAAP and liquidity risk management processes, setting a high standard for other jurisdictions to follow. However, there is currently no policy in force on capital requirements (EBA, 2023, ECB, 2024). Within all countries assessed, there are no risk-based approaches to capital ratios.

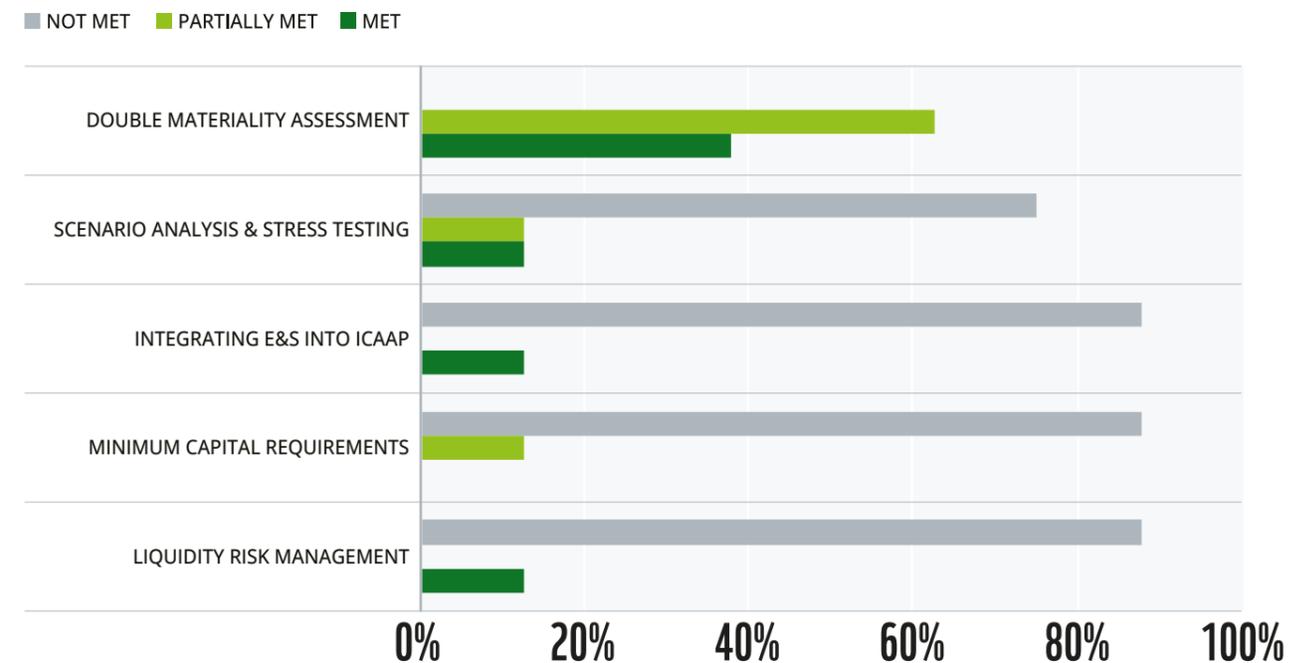
The disparity in regulatory frameworks around the world, underscores the need for a harmonized approach to capital and liquidity requirements. Regulatory disparity has a detrimental effect on global financial institutions because they tend to be active across numerous jurisdictions, and subject to potentially incompatible regulatory requirements. It can also incentivize regulatory arbitrage, posing significant risks to financial stability. It is imperative that regulators raise the bar for capital and liquidity requirements to safeguard the global financial system against emerging environmental risks.

FIGURE 13: CAPITAL AND LIQUIDITY REQUIREMENTS ON ENVIRONMENTAL TOPICS IN G-SIB HOST COUNTRIES (PERCENTAGE OF SUSREG INDICATORS FULFILMENT)



Based on four assessment indicators. See Annex IV for details
*For France, Germany, Spain and the Netherlands, scores are based on ECB/European Union's policies and therefore combined under 'EU'

FIGURE 14: CAPITAL AND LIQUIDITY REQUIREMENTS ON ENVIRONMENTAL TOPICS IN G-SIB HOST COUNTRIES (AVERAGE FULFILMENT OF SUSREG INDICATORS ACROSS 10 COUNTRIES)



Based on five assessment indicators. See Annex IV for details.

On the financial services side, G-SIBs are falling short of expectations to adequately include nature-related financial risk considerations in capital and liquidity frameworks. This includes assessing material environmental risks using science-based, forward-looking scenario analysis and stress testing methods. Such tools can help financial institutions understand and reduce exposure to environmental risks and adequately adjust capital and liquidity requirement processes.

USE OF SCENARIO ANALYSIS AND STRESS TESTING

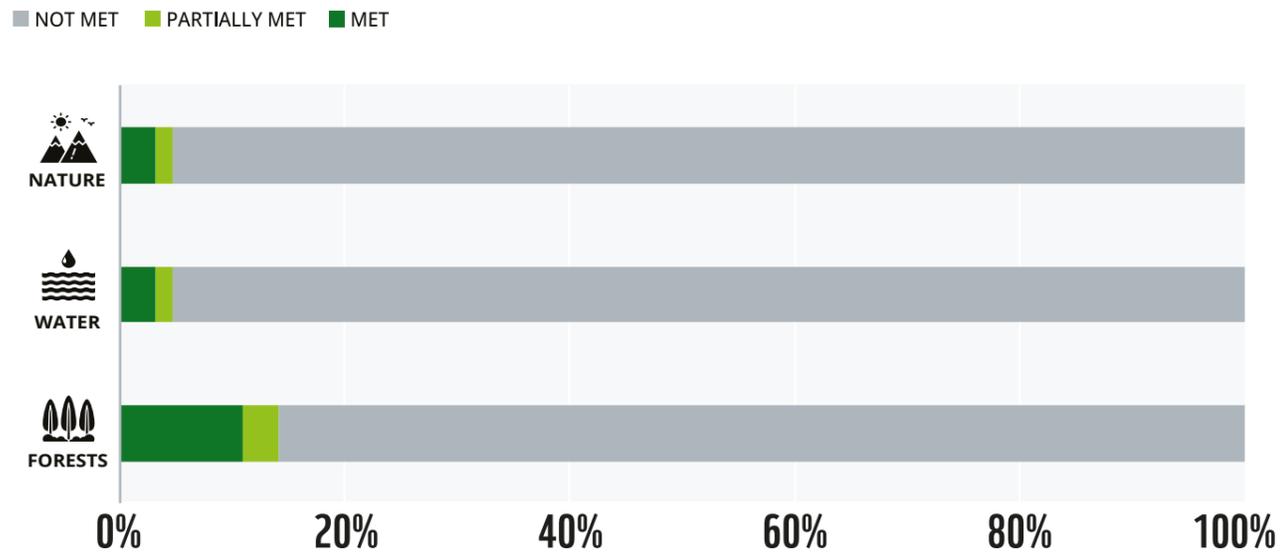
No G-SIB uses an integrated scenario-based risk management process to assess, manage and mitigate exposure to either deforestation or water security. The lack of scenario-based analysis to identify and understand nature-related risks may be a reflection of the early-stage maturity of this approach, and not necessarily due to inadequate G-SIB action. Nature-related risks are rising in severity among real-economy companies that receive financing from G-SIBs, with companies disclosing through CDP in 2023 identifying approximately US\$77.1 billion in water-related risks and US\$97.5 billion in forest-related

risks within direct operations and supply chains.⁶ For G-SIBs, this offers a starting point to build forward-looking scenario analysis and stress-testing tools across nature-related impacts.

INTEGRATION OF NATURE-RELATED RISKS AND OPPORTUNITIES INTO STRATEGIES AND FINANCIAL PLANNING

Only two G-SIBs have met the required criteria to integrate forest and water risks and opportunities into their organizational strategies and financial planning. As these risks evolve over time, it is important for G-SIBs to establish oversight of how these risks may impact operational strategies, as they could have profound implications for global financial stability. A European G-SIB that has fully met the required criteria for this indicator, for example, discloses that it: oversees acquisitions, mergers and divestitures related to forest and water topics; sets nature-related corporate targets; reviews and guides strategy around nature management; and reviews and guides the risk management process for them. A US G-SIB reports that it reviews and guides the risk management process for forests only and does not plan to expand to water analysis in the next two years.

FIGURE 15: G-SIB CAPITAL AND LIQUIDITY MATURITY, WHICH INCLUDES SCENARIO ANALYSIS AND STRESS TESTING, AS WELL AS STRATEGY AND FINANCIAL PLANNING. FULL ASSESSMENT INDICATORS IN ANNEX IV



6. CDP 2023 Forest disclosure data.

FIGURE 16: SCENARIO TESTING AND STRESS TEST ON NATURE RISK BY G-SIBS

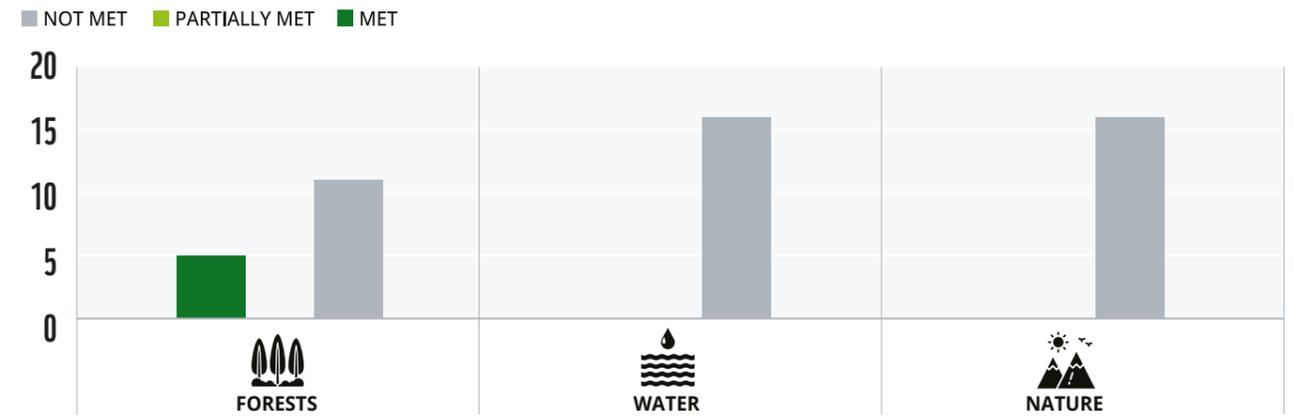
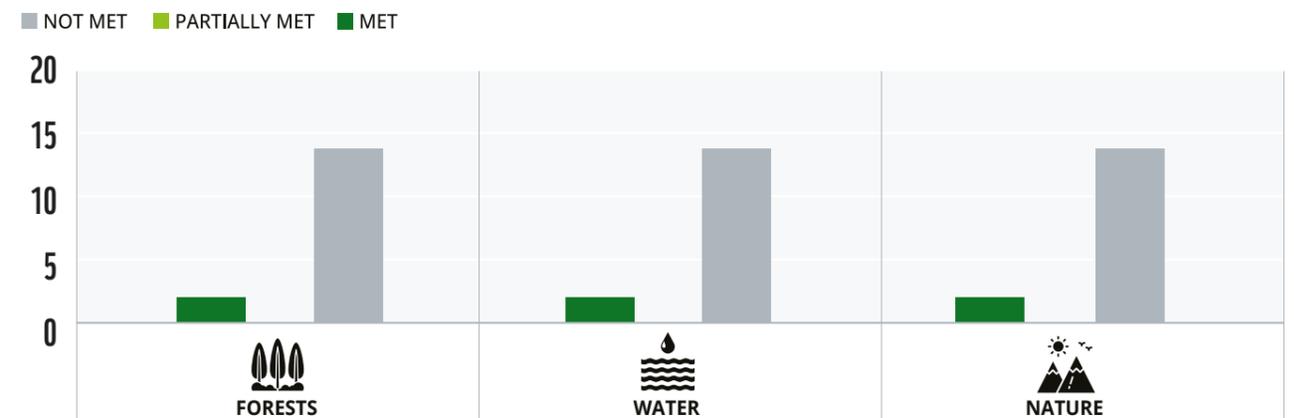


FIGURE 17: NATURE CONSIDERATION IN STRATEGY AND FINANCIAL PLANNING BY G-SIBS



LIQUIDITY RISK MANAGEMENT

In addition to integrating nature-related risks and opportunities into strategic and financial planning, G-SIBs must also evaluate their exposure to nature-related risks that could adversely affect their liquidity buffers. Sudden and severe natural events could trigger significant capital outflows, impacting the liquidity positions of these banks.

Despite a critical need, no disclosing G-SIB has yet recognized forest or water-related risks as factors that could impact their liquidity. As understanding deepens through more frequent scenario analyses and stress testing, it is expected that G-SIBs will begin to recognize how forest- and water-related issues could pose liquidity risks. This recognition is vital for integrating broader environmental risks into organizational strategies and financial planning effectively.





THEME
04:

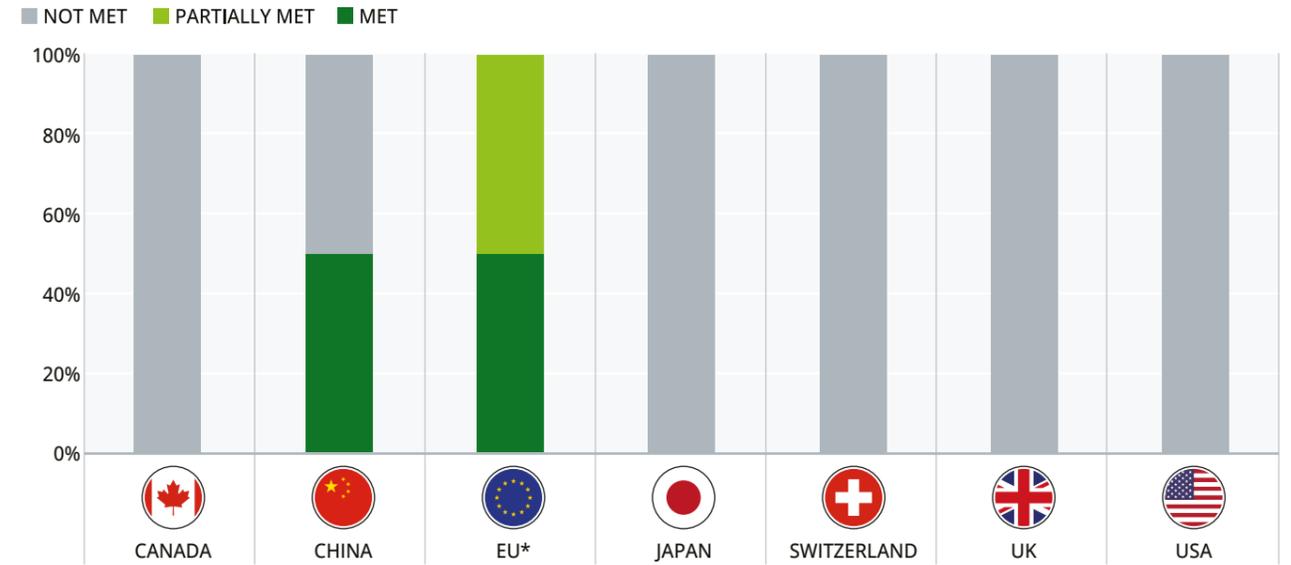
© Luis Barreto / WWF-UK

GIVEN THE RISKS DUE TO THE LACK OF TARGETS AND LONG-TERM CONSIDERATION ON NRRFRS, HIGHER SYSTEMIC RISK BUFFERS IN CERTAIN COUNTRIES MAY BE NEEDED

Inconsistencies in the integration of NRRFR among G-SIBs highlights the need for enhanced regulatory measures. Currently, regulatory frameworks in key jurisdictions, such as Canada, Japan, Switzerland, the UK and the USA, include minimal specific regulations for target setting and long-term consideration of environmental risks, with indicator fulfilment rates at 0%. This regulatory gap can undermine the stability and resilience of the global banking system, exposing it to elevated systemic risks.

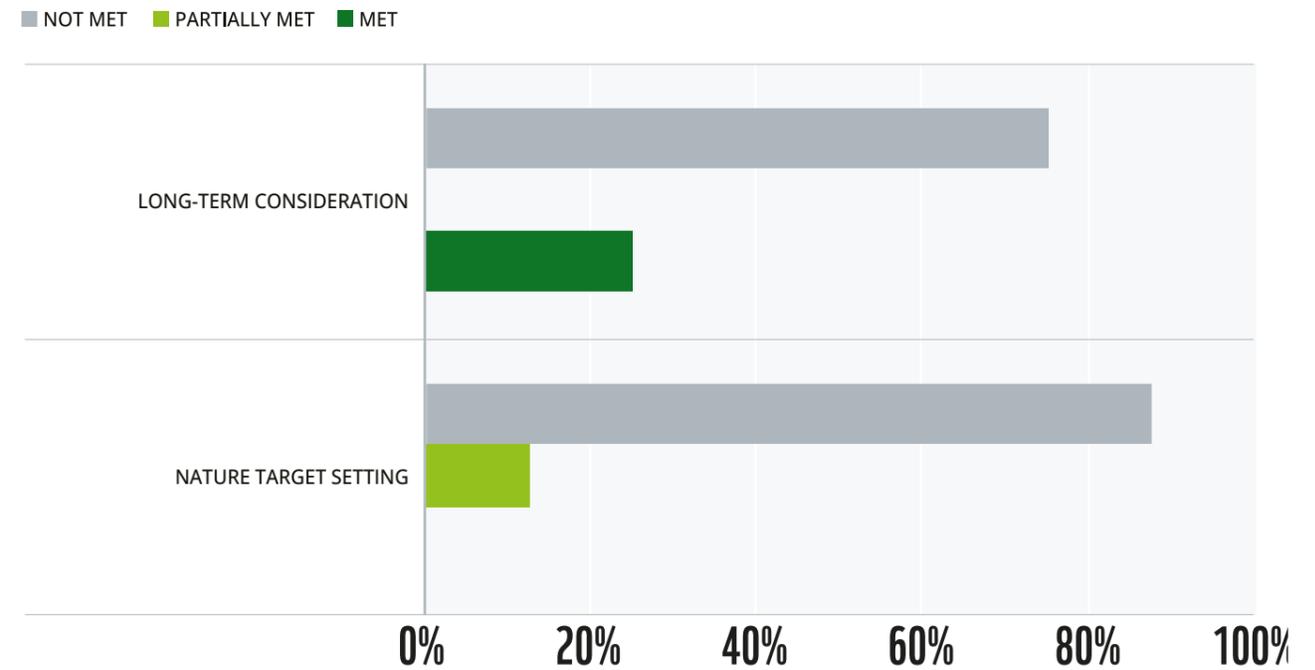
In contrast, the EU demonstrates significant progress on long-term considerations and target-setting assessment indicators. The EU expects banks to integrate long-term considerations in policy, expecting them to factor short-, medium- and long-term environmental considerations into their business strategy and risk management. However, there is no expectation that these align with science-based methods, the EU's only partially fulfilment of the nature targets indicator. Similarly, China's regulations require banks to incorporate long-term environmental considerations into their business and risk management strategies, but falls short of mandating banks to set targets to mitigate environmental impacts.

FIGURE 18: REGULATORY EXPECTATIONS ON TARGET SETTING AND LONG-TERM CONSIDERATIONS ON ENVIRONMENTAL TOPICS IN G-SIB HOST COUNTRIES (PERCENTAGE OF SUSREG INDICATORS FULFILMENT)



Based on four assessment indicators. See Annex IV for details
*For France, Germany, Spain and the Netherlands, scores are based on ECB/European Union's policies and therefore combined under 'EU'

FIGURE 19: REGULATORY EXPECTATIONS ON TARGET SETTING AND LONG-TERM CONSIDERATIONS ON ENVIRONMENTAL TOPICS IN G-SIB HOST COUNTRIES (AVERAGE FULFILMENT OF SUSREG INDICATORS ACROSS 10 COUNTRIES)



Based on five assessment indicators. See Annex IV for details.

The disparity in regulatory standards across different jurisdictions highlights the need for a harmonized global approach. Implementing higher systemic buffers is crucial to ensure that all systemically important banks are adequately prepared to manage long-term environmental risks. Regulators should consider adopting measures such as requiring science-based targets, transition plans and broader environmental considerations to safeguard against systemic vulnerabilities.

The ECB's recent paper (ECB, 2024) on designing macroprudential capital buffers to mitigate climate-related risks can serve as a model for addressing nature-related risks. By adapting a framework to incorporate nature-related risks, policymakers can develop targeted prudential policies to enhance the resilience of financial institutions and the broader economy.

On the financial services side, disclosing G-SIBs have shown no significant action across the indicators, demonstrating a lack of preparedness despite increasing expectations of higher systemic buffers in select countries.

SETTING NATURE-BASED TARGETS TO GUIDE ACTION

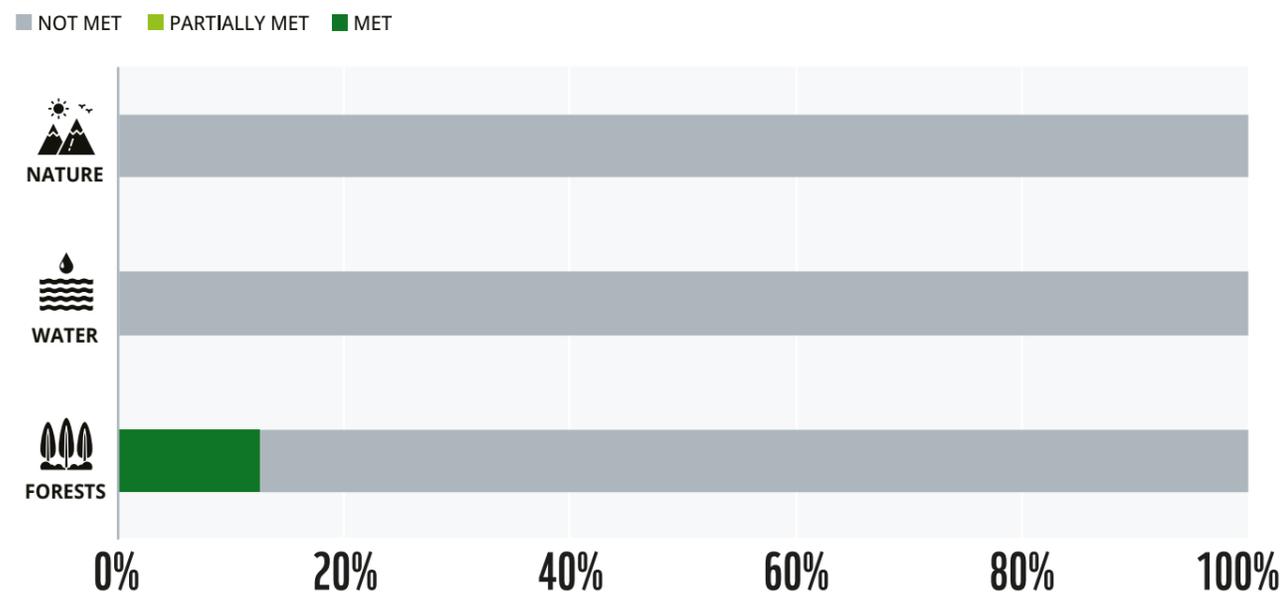
Target-setting is critical to navigating increasing nature-related risks, especially in regions that may be required to carry large liquidity buffers.

In 2023, the Science-based Targets Network (SBTN) released the first science-based targets (SBTs) for nature for real economy companies, beginning with technical guidance for setting land and freshwater targets, with revised versions in 2024. Although there are no SBTs for nature for financial institutions to-date, banks can play a role in incentivizing and supporting clients to set SBTs for nature, alongside SBTs for climate, and can still set specific nature-related targets themselves. This has been the case for the Science Based Targets initiative (SBTi) offering its Net-Zero Standard for Financial Institutions (the SBTi FINZ standard).⁷ The standard serves as a comprehensive guide for setting science-based climate targets. G-SIBs can begin setting targets for more developed nature sub-themes, even as broader and explicit guidance for nature is being developed. G-SIBs were thus evaluated on establishment of targets related to achieving deforestation-free and water-secure financial practices.

Out of the sample, only two European G-SIBs have set forest-related targets, and no G-SIBs have set water-related targets, indicating a significant gap in target-setting to achieve forest- and water-related outcomes as well as an overall lack of action. While frameworks and guidance mature, G-SIBs can begin target setting for more developed nature sub-themes even in their absence.

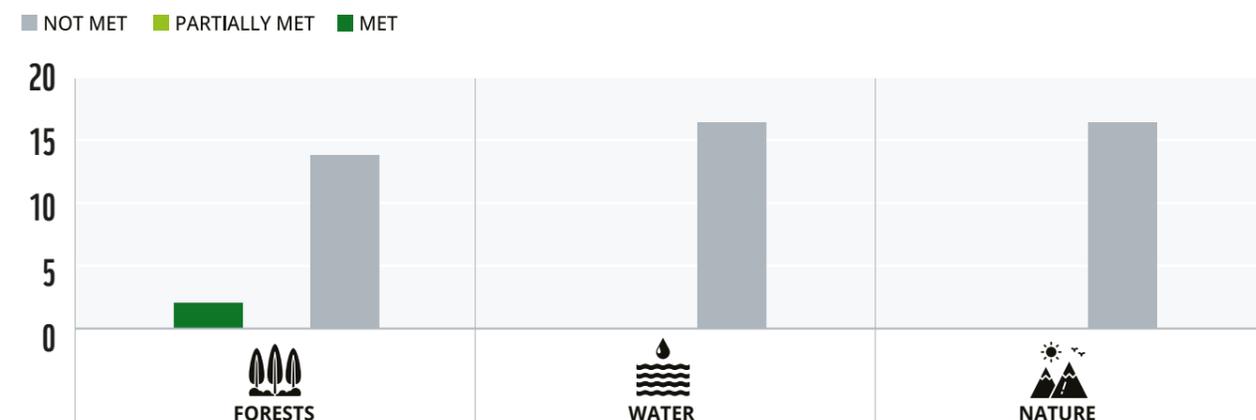
Despite this lack of action, five G-SIBs have disclosed that they plan to set targets related to forests within the next two years, and six intend to establish targets concerning water security. This demonstrates an acknowledgement among these institutions of the critical need to establish clear targets to guide comprehensive organizational action toward mitigating environmental risks. However, these intentions need to be complemented with meaningful integration of water in risk management, client engagement and general policy coverage to ensure that targets are not only set but actively pursued.

FIGURE 20: G-SIBS PROGRESS ON THEME 4 ON HIGHER SYSTEMIC RISK BUFFER, WHICH INCLUDES TARGET SETTING. FULL ASSESSMENT INDICATORS IN ANNEX IV



7. For more information on the SBTi FINZ standard and its implications for financial institutions, see Science Based Targets for Financial Institutions.

FIGURE 21: TARGET-SETTING FOR NATURE BY G-SIBS



TRANSITION PLANS FRAMEWORK FOR BANKS

The financial sector will play a critical role in facilitating the transition to a net-zero economy through its financing of the real economy. To enable transparent and comparable baselines for action, financial institutions must disclose how they are embedding environmental considerations across their businesses. As the regulatory landscape also evolves, mandatory climate-related disclosures are being widely implemented, including information on transition plans.

In addition to climate transition strategies, CDP and WWF believe it is essential to embed nature considerations into these frameworks. A comprehensive environmental transition plan must address not only the timebound trajectory towards 1.5°C-compatible business models, but also ensure nature-positive

outcomes. Such integration ensures that efforts to combat climate change are inseparable from actions to prevent nature loss, manage water resources, reduce pollution, and generally utilize natural resources sustainably. And, as for climate, these should be grounded on short-, medium- and long-term targets to ensure feasibility and credibility amongst stakeholders.

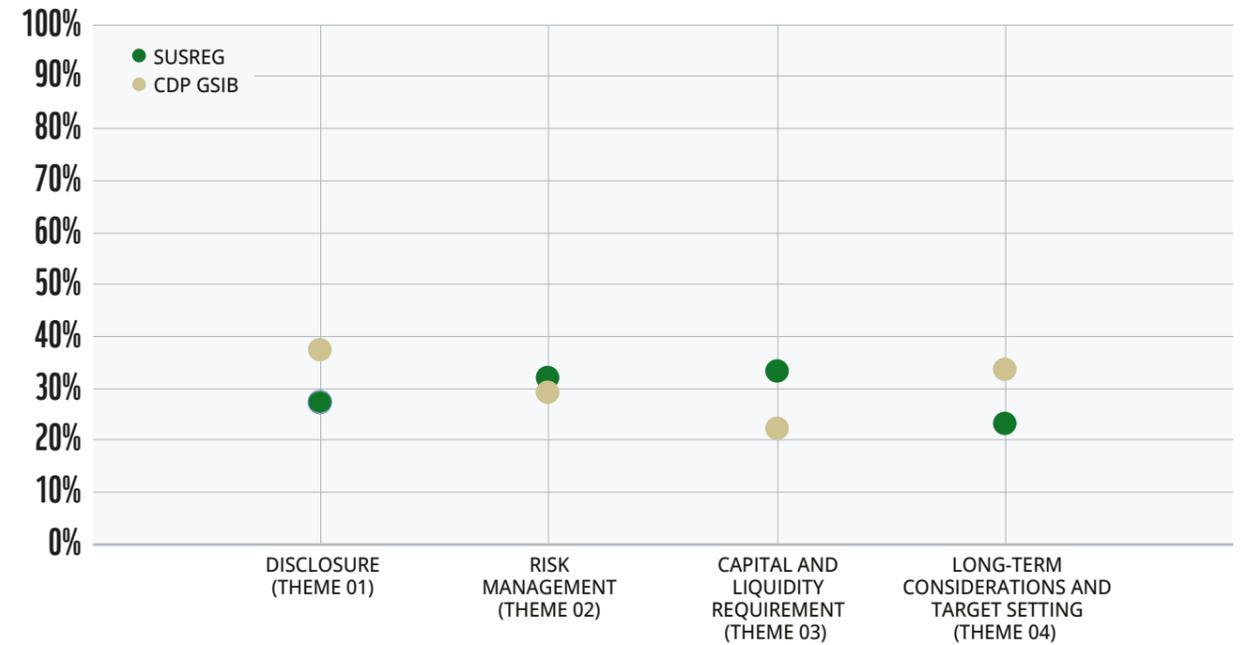
Integrating nature into transition planning is crucial for fostering a global economic response that is credible, accountable, and resilient. It also enables effective market discipline and enhances investors' capacity to ensure that company boards and management are positioning their business models to thrive in an environment aligned with 1.5°C and nature-positive goals.

REGULATORY AND G-SIB DATA COMPARED

This section highlights gaps in regulatory frameworks and G-SIBs' compliance, emphasizing the urgent need for increased and robust regulations to ensure that G-SIBs adequately address nature-related risks.

Freepik @EyeEM

FIGURE 22: WWF SUSREG AVERAGE INDICATOR FULFILLMENT FOR 10 G-SIB HOST COUNTRIES AND G-SIBS DATA FOR 29 BANKS COMPARED ON NATURE-RELATED RISK ACTIONS



Despite variations in performance, both national regulatory bodies and G-SIBs are lagging in all the themes considered. Comparative analysis of SUSREG scores and G-SIB performance highlights these gaps. In general, regulations tend to be slightly ahead of banks, although they remain low overall. It is interesting to note that the average G-SIB score is higher than the SUSREG score on disclosure and target setting, two areas for which voluntary action and public awareness are generally more developed. On the contrary, G-SIB practices are below regulations when it comes to nature-related risk management and integration into capital and liquidity frameworks. This demonstrates the need for scalable action.

Comparable disclosures should also be applied globally, given that G-SIBs can only perform

meaningful risk management if they have consistent and comparable data on their clients, which may be from any country. While G-SIBs must make reasonable efforts to encourage their clients to report data, a stimulating and interoperable regulatory environment for these clients will be crucial to accelerate this process.

The FSB and the BCBS hold significant power to scale up environmental efforts through their regulatory influence. Given their mandates to coordinate global banking regulations, such as the implementation of Basel III standards, they are uniquely positioned to address these systemic risks. By enhancing oversight and enforcing stringent guidelines, the FSB and the BCBS can ensure that G-SIBs integrate nature-related risk considerations comprehensively and avoid negative effects on the global economy.



DISCLAIMER ON COMPARISON BETWEEN REGULATORY AND G-SIB DATA

The findings used WWF's SUSREG data and responses to CDP's questionnaire for the Financial Services, using forests and water as proxy for nature, along with desktop research to complement voluntary disclosure. A matching exercise was conducted between the two assessment questionnaires, looking into: (1) whether the regulator of the G-SIB host country provides any guidelines or supervisory expectation towards banks on a nature-related topic (based on SUSREG); and (2)

whether the bank implements these expectations by the supervisor (based on CDP data).

The results are not intended as a quantitative study showing a definitive relationship or correlation, but rather a preliminary analysis that can be built upon. As such, the analysis serves as a foundational step for further detailed investigations and should not be interpreted as conclusive evidence.



D-SIBS CASE STUDIES: BRAZIL, INDIA AND SOUTH AFRICA

Three emerging countries were chosen to complement this study on G-SIBs which are primarily headquartered in developed countries. However, the issue of systemic banks is not exclusive to countries that host G-SIBs; the same principles could be applied to most countries' D-SIB framework. In the past, the BCBS has stated that banks identified as D-SIBs should also comply with the principles of the G-SIB framework (BCBS, 2012).

Brazil, India and South Africa were chosen for analysis due to their unique status as 'megabiodiverse countries,' each harbouring a significant number of ecosystems and associated biodiversity. These nations' economies rely extensively on the services that these ecosystems provide. In addition, they have been or will be G20 hosts over 2023 to 2025, highlighting their pivotal roles in global economic and environmental leadership. The selection of these countries allows for a comprehensive examination of how D-SIBs in regions rich in biodiversity are preparing to comply with evolving nature-related regulatory expectations.

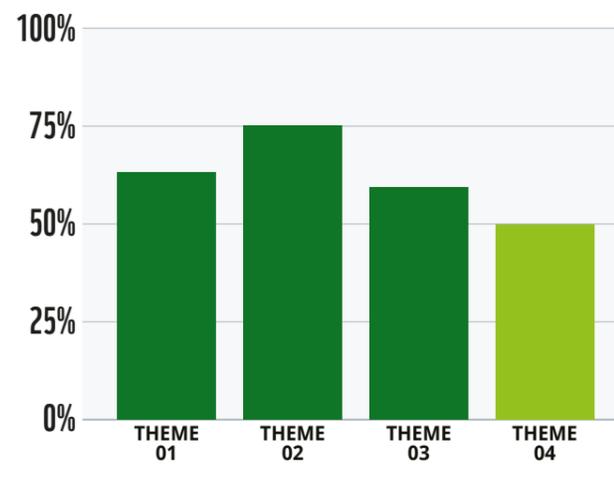


BRAZIL

Brazil's D-SIBs exhibit a high integration of forest and water topics into their core operations. Of the five Brazilian D-SIBs, four have disclosed to CDP's questionnaire for the Financial Services, reflecting comprehensive engagement with environmental sustainability. Despite strong performance in integrating environmental considerations (Theme 2), these banks fall short in risk assessment disclosures related to forests and water. This discrepancy between high-level board acknowledgment of nature-related topics (Theme 3) and the lack of risk assessment indicates a potential gap in cross-organizational collaboration and regulatory guidance. Further details on scores for each theme can be found in Annex 2.

From SUSREG, we observe a fulfillment above 50% across the four themes. Indicating generally a partial fulfillment towards most of the indicators assessed. In addition, Brazil's Central Bank has implemented stringent rural credit requirements for financial institutions, emphasising the integration of environmental sustainability into lending practices. These requirements mandate that financial institutions direct rural credit towards sustainable activities, promoting the preservation of forests and water resources. This regulatory framework aims to align financial flows with environmental conservation, requiring detailed environmental risk assessments and the implementation of measures to mitigate negative impacts (BCB, 2024).

FIGURE 23: AVERAGE SUSREG PERFORMANCE ACROSS THE FOUR THEMES ON NATURE-RELATED RISK ACTIONS IN BRAZIL

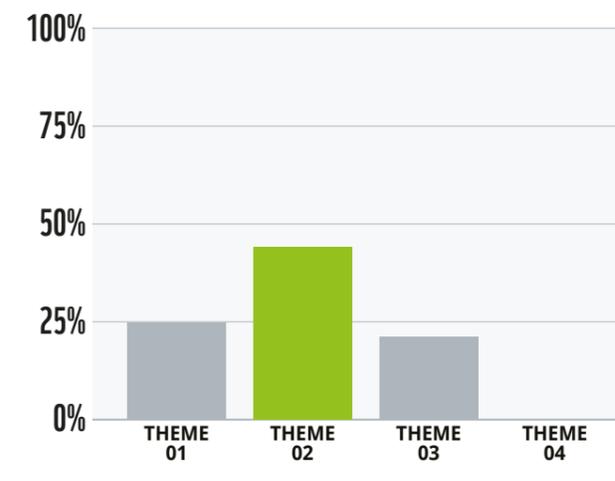


INDIA

In contrast, India's D-SIBs demonstrate limited engagement with nature-related disclosures and integration. The SUSREG performance in India is notably lower across all theme (with scores of 25%, 43%, 20% and 0% from themes 1 to 4). This reflects a nascent stage of nature-related regulatory and supervisory expectations in the country. The absence of enhanced disclosure requirements (Theme 1) and systemic buffers (Theme 4) indicates a pressing need for strengthened regulatory frameworks to encourage D-SIBs to integrate environmental risks and opportunities comprehensively. The lower performance suggests that Indian D-SIBs may not yet fully recognize or are inadequately equipped to address nature-related risks and opportunities, necessitating significant regulatory and supervisory interventions. Further details on scores for each theme can be found in Annex 2.

Indian banks have significant exposure to water-dependent sectors like agriculture, power and textiles (WWF, 2019). However, there is limited awareness and integration of water-related risk in their risk management frameworks, underscoring the need for comprehensive regulatory guidance and improved disclosure practices. Water risks are expected to rise in India due to climate change, population growth and growing industrial demand. Moody's has warned that India's worsening water crisis will negatively impact its credit strength, stressing the importance of addressing water scarcity issues for economic stability (CNBC, 2024). Projections indicate a substantial increase in water stress across the country, necessitating urgent attention to water risk management within the financial sector (Risk Filter, 2024; WRI, 2024).

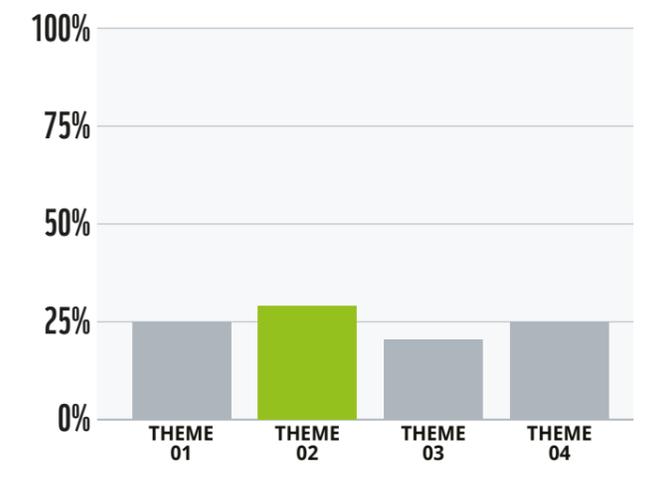
FIGURE 24: AVERAGE SUSREG PERFORMANCE ACROSS THE FOUR THEMES ON NATURE-RELATED RISK ACTIONS IN INDIA



SOUTH AFRICA

South Africa's D-SIBs have made considerable progress in integrating nature-related considerations, although their performance lags that of Brazil's. With 66% of South African D-SIBs disclosing to the CDP questionnaire, their maturity in environmental integration is evident, particularly in water-related disclosures due to the significant water stress the country faces. SUSREG scores for South Africa are lower than Brazil, at 25%, 29%, 20% and 25% for themes 1 to 4. Notably, South African D-SIBs exhibit strong integration of forest and water risks into strategic planning. However, disparities in stewardship and risk engagement across different banks highlight the uneven progress and the critical role of regulatory frameworks in enhancing consistency and depth of nature-related considerations. These water-related risks bring vulnerabilities for the financial system and need closer financial supervision and monitoring, as has been acknowledged by the South African Reserve Bank (SARB, 2023) and the OECD (2023). Further details on scores for each theme can be found in Annex 2.

FIGURE 25: AVERAGE SUSREG PERFORMANCE ACROSS THE FOUR THEMES ON NATURE-RELATED RISK ACTIONS IN SOUTH AFRICA





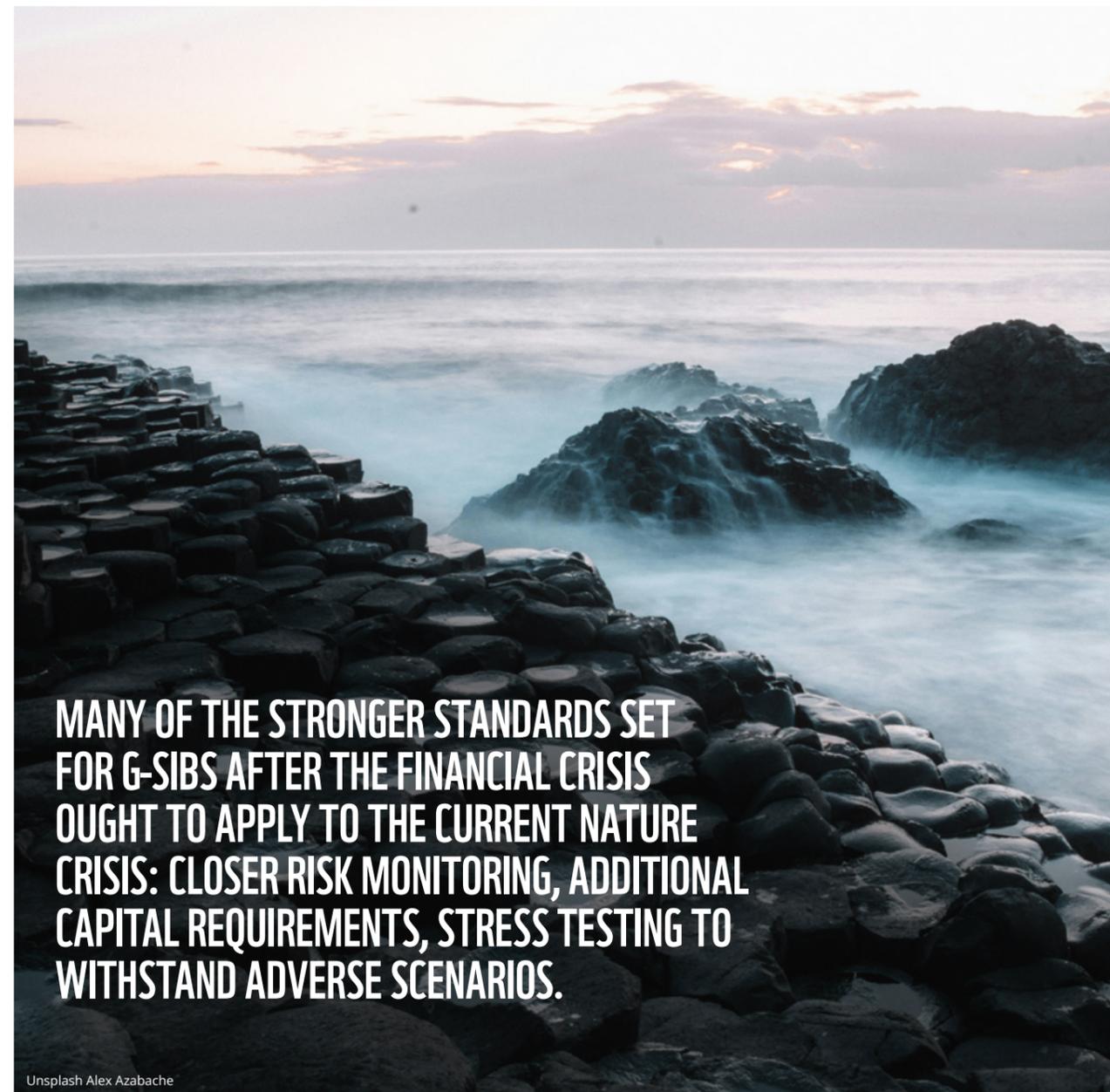
04: RECOMMENDATIONS

RECOMMENDATIONS FOR THE FSB AND THE BCBS

Comprehensive integration of all NRRs is crucial for ensuring a resilient financial system that can sustain itself against a variety of environmental uncertainties. Currently, the FSB and the BCBS have implemented several requirements for G-SIBs to ensure their stability and resilience. However, incorporating sustainability criteria into their evaluations is imperative to address their roles in sectors prone to natural and climate risks. Extending regulatory frameworks to encompass the full spectrum of environmental risks – beyond climate –

will ensure that financial institutions can better safeguard against unexpected financial shocks driven by ecological factors. Addressing these risks holistically provides a more stable foundation for both current and future regulatory efforts, ensuring that opportunities to enhance the resilience and sustainability of the financial system are fully realized.

Suggestions on the current requirements and how they can be enhanced to include nature-related risks follow.



MANY OF THE STRONGER STANDARDS SET FOR G-SIBS AFTER THE FINANCIAL CRISIS OUGHT TO APPLY TO THE CURRENT NATURE CRISIS: CLOSER RISK MONITORING, ADDITIONAL CAPITAL REQUIREMENTS, STRESS TESTING TO WITHSTAND ADVERSE SCENARIOS.

Unsplash Alex Azabache

Current G-SIB requirements	Integration of nature-related considerations into the FSB and BCBS G-SIB framework
<p>Higher capital buffer: G-SIBs are allocated into different buckets, each requiring the bank to hold a specific capital buffer. These requirements are set by national authorities in accordance with international standards</p>	<p>To ensure that banks maintain adequate capital to cover potential losses stemming from environmental impacts, supervisory expectations should be updated to mandate that G-SIBs factor nature-related risks into their capital buffer calculations. This includes setting higher capital requirements for activities or companies that either pose significant environmental risks or lack a transition plan for adapting their business models to a nature positive and 1.5°C- aligned trajectory.</p> <p>Regulatory proposals:</p> <ul style="list-style-type: none"> ▪ Implement capital add-ons for banks based on their exposure to nature-related risks ▪ Require banks to include nature-related stress tests in their Internal Capital Adequacy Assessment Process (ICAAP), based on latest scientific developments ▪ Develop and apply differentiated risk weights for assets based on their environmental impact ▪ Require G-SIBs to undergo rigorous NRRF and impact assessments, including stress testing against different possible nature-related scenarios, including worst-case scenarios. Preventative measures and precautionary margins should accompany “incomplete” data and information. These translate into higher capital and liquidity requirements and specific concentration limits towards always environmentally harmful economic activities that will not adapt their business model or transition (WWE, 2022) to mitigate risk exposures and impacts.
<p>Higher supervisory expectations: G-SIBs are subject to higher supervisory expectations for risk management functions, risk data aggregation capabilities, risk governance, and internal controls</p>	<p>Supervisory expectations should be strengthened by including robust management of NRRFs. This includes advancing the integration of environmental considerations into the risk management frameworks, data aggregation, governance structures, and internal controls.</p> <p>Regulatory proposals:</p> <ul style="list-style-type: none"> ▪ Require G-SIBs to integrate nature-related risks into their risk management processes and governance structures at global and local level ▪ Mandate the inclusion of environmental data in risk data aggregation and reporting systems ▪ Ensure that internal controls address the monitoring and management of NRRFs ▪ Conduct proper nature-related due diligence of clients, including the collection of data required to assess exposures and vulnerabilities ▪ Assess and disclose their NRRF exposures, transition strategies, environmental impacts and dependencies, and transition plans aligning with the GBF targets and adhering to international framework such as the TNFD. ▪ Assign board-level responsibility over NRRF management, designate executives for NRRF management, integrate nature into compensation remuneration schemes, and embed NRRF into strategic planning and decision-making processes ▪ Increased supervisory monitoring to identify and anticipate any environment-related vulnerability that may affect the G-SIB robustness ▪ Data collection and sharing facilitated through a common nature data public facility (TNFD, 2023)
<p>Annual assessment and list (monitoring dashboard): The FSB annually publishes a list of G-SIBs based on end-year data, utilizing an assessment methodology designed by the BCBS. The list identifies the G-SIBs and specifies their required capital buffer. Additionally, the BCBS publishes annually updated denominators and thresholds to calculate banks’ scores and determine their allocation into buffer buckets</p>	<p>Supervisory expectations should be enhanced to integrate NRRF metrics into annual assessment and monitoring dashboard metrics. This inclusion would ensure G-SIBs are evaluated based on their exposure to and management of all nature-related risks.</p> <p>Regulatory proposals:</p> <ul style="list-style-type: none"> ▪ Develop specific indicators for NRRF for inclusion in the annual G-SIB assessment ▪ Publish data on G-SIBs’ nature-related exposures and risk management practices ▪ Update assessment methodologies to reflect the integration of all environmental risks into G-SIB evaluations
<p>Bucket allocation: G-SIBs are allocated to buckets based on their systemic importance. Each bucket mandates a different level of additional common equity loss absorbency, thus withstanding financial shocks, with requirements ranging from 1.0% to 3.5%</p>	<p>The allocation criteria for determining the capital buffer buckets of G-SIBs should be adjusted by considering NRRF. This adjustment would potentially result in higher loss absorbency requirements for those with substantial nature-related exposures.</p> <p>Regulatory proposals:</p> <ul style="list-style-type: none"> ▪ Adjust bucket allocation criteria to include NRRF exposures ▪ Require higher loss absorbency for banks that face significant environmental risk factors ▪ Develop guidelines for integrating nature-related considerations into the decision-making process for bucket allocation

RECOMMENDATIONS TO NATIONAL REGULATORS TOWARDS SYSTEMATICALLY IMPORTANT BANKS HOSTED IN THEIR COUNTRY

Incorporating nature-related considerations into the national systemically important bank framework, both D-SIB (BCBS, 2012) and G-SIB (FSB, 2023) would involve assessing banks' exposures to environmental risks and ensuring they have

adequate strategies to manage these risks. This integration aims to enhance the resilience of the financial system by promoting sustainable practices and mitigating the long-term impacts of environmental degradation.



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Aspect	Current national SIB framework	Proposed integration of nature-related risks
Focus	Financial stability, capital adequacy, liquidity requirements	<ul style="list-style-type: none"> Consider additionally how nature-related physical and transition risks affect core focus of financial stability, capital adequacy and liquidity requirements
Risk assessment	Based on financial metrics such as size, complexity and interconnectedness	<ul style="list-style-type: none"> Incorporate environmental risk factors such as value of assets, liabilities, revenues and expenses assessed as vulnerable to nature-related physical and transition risks
Regulatory oversight	Enhanced oversight of capital and liquidity buffers	<ul style="list-style-type: none"> Add requirements for sustainability and environmental risk management
Stress testing	Financial stress tests to evaluate banks' resilience to economic shocks	<ul style="list-style-type: none"> Conduct environmental stress tests to evaluate banks' resilience to environmental shocks Regulators and supervisors should develop scenarios reflecting G-SIB-specific vulnerabilities to nature-related physical and transition risks, including extreme environmental events and potential contagion risks generated by those vulnerabilities. To support this, we call on central banks to provide guidance on nature related scenarios.
Disclosure requirements	Disclosure of financial health and risk exposures	<ul style="list-style-type: none"> Introduce mandatory disclosure of environmental risk and impact exposures and sustainability initiatives
Policy implications	Policies aimed at maintaining financial stability and preventing systemic crises	<ul style="list-style-type: none"> Introduce policies promoting sustainable banking practices and mitigating environmental risks to help maintain financial stability and prevent systemic crises
Impact on financial system	Focus on short- to medium-term financial health and stability	<ul style="list-style-type: none"> Consider long-term resilience of the financial system to both economic and environmental shocks
Implementation challenges	Requires coordination among regulatory bodies and financial institutions	<ul style="list-style-type: none"> Require new methodologies for environmental risk assessment and collaboration with environmental experts
Higher capital buffer	Additional capital requirements based on financial metrics	<ul style="list-style-type: none"> Implement capital add-ons for banks based on their exposure to nature-related risks, including nature-related stress tests in their ICAAP, and developing differentiated risk weights for assets based on their negative environmental impact and their misalignment with transition and environmental policy objectives
Higher supervisory expectations	Enhanced oversight of risk management, governance and internal controls	<ul style="list-style-type: none"> Mandate integration of nature-related risks into risk management processes and governance structures, ensuring environmental data inclusion in risk data aggregation systems, and internal controls addressing NRRFRs
Disclosure and transparency	Financial disclosures of risk exposures	<ul style="list-style-type: none"> Require disclosure of nature-related financial risk exposures, transition strategies, environmental footprints, and alignment with global biodiversity targets, ensuring board-level oversight and integration into strategic planning processes
Monitoring assessment	Regular monitoring and assessment of financial health and risk management	<ul style="list-style-type: none"> Implement closer supervisory monitoring processes to identify and anticipate environmental vulnerabilities, develop an annual assessment and monitoring dashboard with climate and nature-related risk metrics, and update assessment methodologies to include environmental risks.
Bucket assessment	Allocation of banks to risk buckets based on financial metrics	<ul style="list-style-type: none"> Adjust bucket allocation criteria to include climate and nature-related risk exposures, requiring higher loss absorbency for banks with significant environmental risk factors, and develop guidelines for incorporating these considerations into allocation decisions
Home and host supervisor coordination	Coordinate between national supervisors to ensure consistent management of G-SIBs and D-SIBs across different regions.	<ul style="list-style-type: none"> Coordinate between home and host national supervisors of SIB for consistent management of nature-related risks across regions and countries, promoting long-term and global financial stability.
Systemic risk buffers	Implement macroprudential systemic risk buffers to address broader financial stability concerns.	<ul style="list-style-type: none"> Consider implementing macro prudential systemic risk buffers to build resilience to unexpected losses that are not covered elsewhere in the prudential framework. In addition, macroprudential risk buffers could be used to disincentivize the emergence of systemic risk in the first place by discouraging excessive lending to harmful activities. The buffer can act as a preventive cushion to absorb potential losses from NRRFRs.
Incentives for risk management	-	<ul style="list-style-type: none"> Incentivize G-SIBs to carefully manage their exposure to nature loss and engage their clients and supply chains to adapt their business model, adopt nature positive practices and improve their nature-related disclosures.

8. See CDP's Ten Principles for HQMD Mandatory environmental disclosure - CDP

RECOMMENDATIONS TO G-SIBS⁹

Enhanced public disclosures, better integration of nature-related risks and stronger capital and liquidity strategies are crucial for G-SIBs to manage NRRFRs effectively, align with upcoming regulatory changes, and support environmental and financial resilience. The following table presents recommended actions for G-SIBs to manage NRRFRs effectively. It combines detailed actions for each theme, while highlighting the importance of strategic integration across all areas of operation. This approach not only addresses immediate compliance needs but also prepares G-SIBs for future challenges in environmental and financial resilience.

Uncertainties in assessing risks are more substantial for nature considerations than they are for climate considerations, given limited data availability, incomplete evidence regarding how economic sectors rely on natural resources, modelling constraints and insufficient expertise within financial entities (Green Finance Institute, 2024). Huge effort is required on the part of GSIBs and DSIBs to upskill and allocate resources to running these data intensive exercises. We acknowledge the substantial

investment in time and expertise that banks must undertake to meet these challenges, highlighting the real efforts required to progress in this complex area while not justifying lack of action because of it.

Moreover, while finance is a powerful enabler of crucial environmental actions, successful outcomes depend equally on the motivation of both the banks and the corporate clients whose projects are being financed. Effective engagement and deep partnerships with clients are essential, serving not only the clients' needs but also helping to futureproof the banks' own operations and balance sheets.

Finally, as shareholder-owned organizations, banks must carefully manage their return profiles while making necessary investments in innovative practices aimed at scaling their efforts to futureproof financed emissions and safeguard their balance sheets. This approach requires a balanced view that considers both immediate financial returns and long-term sustainability impacts.



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9. The following recommendations are also relevant for D-SIBs.

Aspect	Theme	Proposed integration of Nature-related risks
Disclosure	Nature-related disclosures regarding dependencies, impacts, risks and opportunities (DIRO)	<ul style="list-style-type: none"> Enhance public disclosures to include detailed nature-related financial DIRO for banks and their clients Define targets to engage the largest clients in high-impact sectors on their nature DIROs, such as improved management, reduction of negative impacts and transparent disclosure Set and adhere to stringent disclosure guidelines in line with commonly agreed on frameworks and standards, such as the TNFD Develop advanced analytical tools and methodologies to accurately assess the differentiated impact of regional operations on natural resources. This involves investing in specialized skills and technologies to understand the complex interdependencies of nature-related risks at a local level. Use disclosures as a tool to guide future regulatory expectations and inform policymakers, leveraging global disclosure platforms aligned to international standards, such as CDP Advocate for and support high-quality, mandatory corporate disclosures, including detailed transition plans
Build alignment across nature and climate	Alignment across environmental issues	<ul style="list-style-type: none"> As part of their net-zero transition, banks should assess and evaluate nature-related DIRO to identify trade-offs and synergies at the heart of the climate-nature nexus Build on relevant existing strategies, policies, targets and transition plans on climate, integrating nature considerations in already defined climate strategies Leverage existing corporate disclosures and management of climate change, commodity-driven deforestation and water security for assessment, management and monitoring of nature-related risks within high impact sectors for a holistic risk assessment
Business integration	Integration of NRRFR into strategic decision making, products and services and management processes.	<ul style="list-style-type: none"> Integrate nature-related considerations into strategic decision making and risk management processes to ensure a comprehensive, organization-wide approach to managing environmental risk. Combine with nature-climate alignment to help address gaps in the integration of environmental risk management Align products and services to recognized taxonomies to ensure they are intentionally designed to empower clients and investors to navigate nature-related risks and opportunities. Subsequently, develop nature-related products and services, such as green bonds, sustainability-linked loans and biodiversity net gain strategies Define targets to engage the largest clients in high-impact sectors on their nature DIROs, such as improved management, reduction of negative impacts and transparent disclosure. This could involve engaging clients to set science-based targets for nature and implement place-based multi-stakeholder action plans Working with clients to support their transition towards more sustainable practices, to ensure that G-SIBs manage risks to their own portfolios and open up new opportunities for nature-positive products and services. Collaborative approaches help to reduce risks and impacts and have positive spill-over effects for the entire economy. Supporting clients in their transition and resilience efforts can lead to a more stable and sustainable financial ecosystem
Capital and liquidity requirements	Financial resilience to environmental risks	<ul style="list-style-type: none"> Adjust risk assumptions based on capital and liquidity requirements based on nature-related risks. Scenario-based risk management approach can help G-SIBs understand how such risks could evolve and their materiality to financial health of G-SIBs and financial institutions as a whole Integrate a minimum cost of capital for companies as a fundamental risk metric to ensure that financial assessments reflect true environmental risk exposure Evaluate the potential unintended consequences of imposing higher capital buffers in environmentally vulnerable regions. This evaluation should aim to avoid discouraging necessary financial flows while ensuring that such regions are not disproportionately burdened. Adjust the cost of capital accordingly to balance risk and encourage sustainable investments Develop and implement transition plans that include science-based targets for climate and nature. These plans should guide strategic decisions and operational adjustments to mitigate environmental impacts effectively
Systemic buffers	Regional variability in impact	<ul style="list-style-type: none"> Implement higher systemic buffers in jurisdictions with acute environmental impacts, under the guidance of financial regulators Tailor supervisory expectations and recommendations to specific environmental challenges, ensuring these do not inadvertently redirect essential financing from vulnerable regions Develop strategies to phase out activities that are consistently harmful to the environment

RECOMMENDATIONS TO INTERNATIONAL FORUMS AND CONVENTIONS

THE G20

Integrating nature and biodiversity considerations into the regulatory frameworks of G-SIBs presents an opportunity for G20 to scale efforts in sustainable finance. G-SIBs, influencing the global financial system and economy, require bespoke prudential treatment and rigorous oversight. Their failure could jeopardize the broader financial landscape, underscoring the need to adopt proactive measures. This aligns with the economic leverage and policy influence of G20 nations, acting with G-SIBs as principals, with the potential to enact widespread positive change on climate and nature.

The economic and policy influence of G20 nations uniquely position them to spearhead a global shift towards greening finance. The rapid degradation of ecosystems underscores an urgent need to overhaul financial regulations to mitigate the looming economic crises; this aligns with commitments made within several G20 working groups, including the priorities of the G20 Initiative on Bioeconomy and the International Financial Architecture Working Group to ensure that international financial institutions have adequate governance, lending capacity and operational frameworks to contribute to the achievement of the Sustainable Development Goals.

The G20 should:

- Direct the FSB and the BCBS to integrate nature-related risks into the G-SIB framework by establishing robust standards that account for all environmental-related risks
- Mandate enhanced transparency and reporting requirements on environmental risks and impacts for G-SIBs and D-SIBs, and facilitate the creation of a centralized database for standardized disclosure and data sharing
- Require G-SIBs and D-SIBs in G20 countries to undergo rigorous NRRF and impact assessments, including stress testing against severe environmental scenarios, and implement higher capital requirements and systemic risk buffers for banks with significant environmental risks
- Establish a multi-stakeholder engagement platform involving banks, civil society organizations, NGOs, academics and regulators to discuss environmental risks and develop collaborative solutions.

CONFERENCE OF THE PARTIES TO THE CONVENTION ON BIOLOGICAL DIVERSITY

This year, the CBD is placing a strong emphasis on resource mobilization and tracking of financial flows. As part of this focus, it is critical to address the role of G-SIBs in the financial ecosystem. The current financial system channels significant flows towards economic activities that contribute to biodiversity loss, and G-SIBs are not only key sources of these financial flows but also play a significant role in influencing the broader financial market. Target 14 of the Kunming-Montreal GBF explicitly calls for fully integrating biodiversity and its multiple values into policies and regulations. A recalibration within the financial system is therefore essential. This recalibration should aim to internalize negative impacts on nature, recognize the value of investments in conservation and nature-friendly technologies, and progressively align private activities and financial flows with the goals and targets of the framework. Such a shift will incentivize green financing, aligning financial activities with biodiversity conservation goals.

The introduction of global standards for environmental risk management, targeting, transition planning and disclosure specific to G-SIBs is vital. These standards should align with the GBF's goals, fostering international cooperation and consistent application across borders. In addition, encouraging G-SIBs to engage more actively in international environmental initiatives will harmonize their efforts with global regulatory developments. Supporting the research and development of new technologies will enhance G-SIBs' capabilities in assessing and mitigating environmental risks. Regular global forums should be organized to facilitate knowledge sharing and capacity building, ensuring that biodiversity considerations are integrated into financial operations.

The Conference of the Parties (COP) to the CBD should:

- Encourage national governments to develop and enforce global standards for environmental risk management, target setting, transition planning and disclosure specific to G-SIBs, including dependencies, impacts and opportunities, in alignment with the Kunming-Montreal GBF's goals

- Acknowledge the crucial role of central banks and financial regulators and supervisors in integrating nature into financial system regulation and supporting the reallocation of financial flows towards nature positive economy
- Facilitate international cooperation among national regulatory bodies to ensure the consistent application of environmental risk standards across borders, supporting the GBF's objective of fostering global collaboration to address biodiversity challenges
- Urge national governments to encourage G-SIBs to engage more actively in international environmental initiatives and dialogues, harmonizing their efforts with global regulatory developments and the GBF targets
- Support national governments in promoting research and development of new technologies and methodologies to enhance G-SIBs' ability to assess and mitigate environmental risks, contributing to the GBF's goal of integrating biodiversity considerations into financial and business operations
- Advocate for regular global forums involving G-SIBs to share best practices, challenges, and advances in integrating nature-related considerations into financial operations, in line with the GBF's emphasis on knowledge sharing and capacity building.

CONFERENCE OF THE PARTIES OF THE UNFCCC

The 2024 United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties (COP29), to be held in Baku, Azerbaijan, emphasizes the crucial need to integrate nature and climate risks into financial regulations and policies. This integration aligns with COP29's priorities, which include enhancing climate finance, advancing transparency frameworks and reinforcing Nationally Determined Contributions (NDCs) to foster ambitious climate goals. One key focus will be finalising the new collective quantified goal on climate finance, ensuring it supports the needs of developing countries and promotes sustainable, resilient economies ([UNFCCC, 2024](#)).

Connecting nature and climate risks is essential for comprehensive risk management, acknowledging their interconnected impacts on financial stability. This is particularly relevant as COP29 underscores the importance

of biodiversity in climate action. By collaborating with the FSB and the BCBS, the UNFCCC can ensure that financial institutions incorporate both climate and biodiversity risks into their risk management frameworks.

Moreover, introducing sustainability elements into the regulations of G-SIBs is crucial. Aligning these regulations with the goals of the Paris Agreement reinforces the commitment to a sustainable financial system. COP29 aims to promote a just transition, emphasising the need for robust financial systems that support sustainable development. Ensuring that G-SIBs adhere to sustainability standards will enhance the global financial sector's resilience against climate-related disruptions and contribute to achieving the broader objectives of the UNFCCC.

These recommendations highlight the need for integrated approaches in managing environmental risks and underscore the pivotal role of sustainable financial practices in advancing global climate goals at COP29.

The UNFCCC should:

- Encourage parties to the UNFCCC to develop and enforce global standards for climate and nature risk management, target setting, transition planning and disclosures specific to G-SIBs
- Work towards harmonizing the efforts under the UNFCCC with those of the CBD and other international frameworks to ensure a cohesive approach to environmental and climate issues
- Provide training and resources to financial institutions to better understand and manage the risks associated with climate change and its interaction with biodiversity loss
- Ensure that climate-related financial disclosures are integrated with nature-related financial risk disclosures to provide a holistic view of environmental risks
- Ensure that all financial regulations and practices of G-SIBs are aligned with the goals of the Paris Agreement and the GBF.

APPENDICES & REFERENCES



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ANNEX I: WWF AND CDP METHODOLOGIES

NOTE ON WWF'S SUSREG METHODOLOGY

WWF's SUSREG assesses regulatory and supervisory practices relating to sustainable banking, as well as central banks' policies and other financial sector-related measures contributing to the transition to a nature-positive, resilient and sustainable economy. For this report, it focuses on ten countries where the G-SIBs' headquarters are located¹⁰ and delves into the 'environmental' scores within SUSREG. For France, Germany, Spain, and the Netherlands, scores are based on ECB and EU policies (ECB, n.d.).

To perform the assessments, WWF only takes into account information that is publicly available and considered sources such as regulations, supervisory expectations, guidelines, measures and activities issued by the central bank, financial supervisor or regulator. An indicator will receive a fully, partially, or not-met score, depending on the criteria defined per indicator. There are also other considerations we take into account in the scoring, including: (1) the level of enforceability, depending on whether the expectation is mandatory and enforced; and (2) scope, depending on whether the expectation is applied to all supervised entities or only listed entities. The SUSREG tracker only considers publicly available information, and therefore does not account for any internal or ongoing developments which may give a more accurate picture of where certain central banks and financial supervisors are standing. For more information on methodology, please see [SUSREG's methodology document](#).

NOTE ON CDP'S METHODOLOGY

In 2022, CDP expanded its Financial Services questionnaire to include sections on forests and water security, reflecting an increased emphasis on nature as a systemic financial risk. During the 2023 Disclosure Cycle, 24 of the 29 G-SIBs provided data related to climate change; however, only 16 reported on the new forests and water security modules.

To evaluate G-SIB readiness for regulatory changes and their handling of nature as a financial risk, disclosures were assessed using 25 specifically selected WWF SUSREG indicators. These indicators cover four themes and are aimed at gauging comprehensive nature-related preparedness across forests

and water security initiatives. G-SIB performance on these indicators was categorized into three levels of achievement: full, partial or none. A combined 'nature' category was created based on performance in both forest and water areas, requiring full achievement in both to attain a 'full' nature category status.

Despite the structured approach to data collection, significant gaps in disclosure were noted, largely due to the voluntary nature of CDP's reporting framework. This presents challenges in forming a complete picture of G-SIB actions and compliance.

For the G-SIBs that did not participate in the forests and water security modules, supplementary desk-based research was conducted to evaluate their engagement with identified critical actions that underpin the SUSREG indicators. This approach provided insights into their general environmental strategies, even though it could not substitute for the detailed analysis possible with full disclosure. Desk-based research carried out on the remaining 13 G-SIBs was used to ensure a comprehensive geographical coverage in comparing G-SIB data to SUSREG scores. Thus, while the 13 G-SIBs that did not disclose to the CDP questionnaire for the Financial Services forests and water security modules are excluded from the data analysis of the indicators when assessing G-SIB performance exclusively, they are included in the higher-level comparison with SUSREG.

It is acknowledged that the analysis may be constrained by the scope of information voluntarily disclosed by companies. Financial services companies may engage in significant activities that are not disclosed due to ongoing development, emerging industry areas or limitations within CDP's questionnaire. In this context, CDP serves as a platform to enhance public transparency, and it encourages companies to disclose comprehensive information to facilitate inclusion in third-party analyses.

This underlines the importance of mandatory disclosure to enable comprehensive data provision as well as to level the playing field between institutions. CDP aims to use this information to assist stakeholders in enhancing support for the financial sector to effectively manage and mitigate systemic risks posed by environmental challenges. For a complete list of indicators and scoring methodology, see the table in Annex XXI.

ANNEX II: D-SIB CASE STUDIES (CDP RESULTS)

D-SIB activity from Brazil, India and South Africa against the four themes of the SUSREG indicators is assessed below. These countries have been selected due to their unique status as 'megabiodiverse countries',¹¹ each harbouring a significant number of ecosystems and associated biodiversity, and whose economies rely extensively on the services that these ecosystems provide. In addition, India, Brazil and South Africa have hosted, or will host, the G20 in 2023, 2024 and 2025, respectively.

It is important to note that the definition of what constitutes a D-SIB is not standardized across countries. To identify which financial institutions are designated as such by either the local regulatory authority, international organizations or academia, desk-based research was conducted.

To keep these case studies concise, high-level assessments were carried out across the four evaluated themes, with a handful of individual indicators assessed depending on unique country-specific performance. Each study is complemented by CDP corporate-level data and country-specific information, as appropriate.

BRAZIL

Of the five total Brazilian D-SIBs (BCBS, 2017), four disclosed to the forests and water security modules of the CDP questionnaire for the financial services in 2023, allowing for a comprehensive assessment of performance across key financial institutions in the country.

Theme 1: Brazilian D-SIBs exhibit strong integration of forest and water topics in their reporting processes. This is evidenced by a significant percentage of D-SIBs reaching full attainment of at least 35% of the indicators in this theme. These comprehensive disclosure practices not only reflect robust internal policies but also enhance transparency regarding forest and water risks.

Theme 2: Despite overall strong performance, there is a noticeable gap in assessing exposure to and identifying risks relating to forests and water issues, indicating a potential underestimation of the materiality of these risks. This is in juxtaposition to the disclosure of nearly all Brazilian D-SIBs that the double materiality of nature-related topics is a core board-level responsibility (an indicator captured in Theme 3), suggesting a lapse in cross-organizational collaboration to understand and assess exposure to nature-related risks. In addition, the lack of risk assessment disclosed by Brazilian D-SIBs is in contrast with 2023 CDP data capturing activities from real-economy participants that shows over half of disclosing Brazilian-based companies have identified forest-related risks that may have a substantial impact on their business.¹² The risk-

related disparity between Brazilian D-SIBs and real economy participants is cause for concern and suggests that either the regulatory environment is not adequately guiding such action or that D-SIBs are ill equipped to integrate nature-related risks across business activities.¹³

Theme 3: Brazilian D-SIBs have demonstrated strong performance in incorporating double materiality assessments of nature-related topics at the board level, indicating a high level of governance. However, the failure to assess exposure to nature-related risks points to a disconnect in operationalizing these governance insights into actionable strategies.

Theme 4: The D-SIBs show robust preparedness in setting long-term environmental targets, aligning with the broader regulatory framework. This forward-looking approach positions Brazilian D-SIBs well to adapt and thrive amid evolving environmental expectations and challenges.

SOUTH AFRICA

With four of the six South African D-SIBs (Rezbank, 2023) disclosing to the forests and water security modules of the 2023 CDP Financial Services Questionnaire, there is a clear path towards increased transparency. However, performance in themes related to water and forest integration and risk management reveals early stages of adherence to disclosure expectations.

Theme 1: South African D-SIBs are making slow progress, with partial attainment of indicators not surpassing 25%. The region's specific challenges, such as limited forest cover and severe water stress, may influence the focus and extent of disclosures, necessitating tailored approaches to reporting and engagement. Data shows that South African D-SIBs are making slightly more progress on water-related disclosure compared to forests. This might be due to several country-specific natural heritage-related factors, including the relative lack of forest cover (4.9%) of its land area (Global Forest Watch, n.d.) and South Africa's position as the 22nd most water-stressed country in the world (WRI, 2023).

Theme 2: An area of notably strong D-SIB activity is the widespread integration of both forest- and water-related risks and opportunities into strategy and/or financial planning,¹⁴ demonstrating an understanding of how these topics can impact future D-SIB capital allocation and strategic direction. Among the disclosing South African D-SIBs, stark disparities emerge in terms of nature-related stewardship. No South African D-SIB discloses having assessed its portfolio for exposure to forest- and water-related topics, nor engaging clients on these issues.

10. The countries analyzed for this brief were Canada, China, France, Germany, Japan, Switzerland, Netherlands, the United Kingdom and the United States of America.

11. <https://www.biodiversity-z.org/content/megadiverse-countries>.
12. 2023 CDP Forests corporate disclosure, investor requested companies.
13. Although corporate disclosers are proactive in assessing and identifying forest-related risks, they tend to lag on water issues. According to the CDP 2023 Water Security Corporate Disclosure data, only 36% of disclosing companies undertake water-related risk assessments and only 29% integrate water-related issues into long-term business objectives. Divergence between the integration of forest and water issues into company activities may be explained by the relative perceived availability of water; only 6% of real-economy respondents report having experienced detrimental water-related business impacts in 2022.
14. Integration of nature-related risks into strategy is mirrored in South Africa-based corporate disclosers, of which 60% disclosed integrating forest-related issues into strategy and/or financial planning in 2023. Numbers are even higher for water-related topics: 89% of South African based corporate disclosers reported integrating water-related issues into strategy and/or financial planning.

ANNEX II : D-SIB CASE STUDIES (CDP RESULTS) cont.

This indicates a significant opportunity to enhance stewardship and influence real economy actions through strategic portfolio management. Attainment of all evaluated indicators across all four themes ranges from 40% for one disclosure to 0% for another. This divergence in action shows uneven distribution of progress across key actors within the domestic landscape, emphasizing the critical role of regulatory expectations to mobilize efforts among laggards to integrate nature-related considerations throughout key business operations.

Theme 3: There is a discrepancy in the performance of South African D-SIBs in integrating nature-related risks and opportunities into their operational and strategic planning, despite a high level of awareness among real-economy companies. This gap highlights the need for increased regulatory guidance and capacity building within the financial sector. Maturity in water-related action by South African D-SIBs mirrors the high-level awareness of the issue among South African disclosing non-financial companies. Over 90% of these undertake water-related risk assessments, and 84% report being exposed to substantive water risk in either direct operations or along their value chain. This is likely due to the high water stress the country faces, as more than 80% of companies report withdrawals from water-stressed areas, and about a third report having experienced water-related business impacts in 2022.¹⁵

Theme 4: Attainment does not exceed 20% in this theme, indicating minimal engagement in assessing and managing nature-related risks and integrating them into long-term strategic planning. The integration of forest- and water-related risks and opportunities into financial planning among some D-SIBs, however, demonstrates a foundational understanding of environmental impacts on strategic direction.

INDIA

Of the three Indian D-SIBs (RBI, 2023), two disclosed to the forest and water modules of the CDP questionnaire for the Financial Services in 2023.

Theme 1: The Indian D-SIBs exhibit a notable deficiency in meeting disclosure-related expectations, reflecting early-stage integration and a potential lack of prioritization of forest and water topics in reporting standards.

Theme 2: While some early-stage integrations are noted, the absence of disclosures on assessing nature-related risks within strategic planning indicates a critical area for improvement to align with global best practices and regulatory expectations. A further assessment of Indian D-SIB disclosure data indicates a prioritization of climate with a focus on carbon intensity as the basis for environmental action. This, in addition to recent climate-related policy and disclosure directives from the Indian Central Banking authority,¹⁶ demonstrates a thematically siloed approach towards environmental action. Lack of progress across both forests and water by Indian D-SIBs contrasts with action among Indian real economy participants, who in 2023 disclosed engagement on key forest- and water-related actions, such as assessment of risks and integration of these topics into policy frameworks.¹⁷

Theme 3: Indian D-SIBs show no progress in meeting the required criteria for both partial and full attainment of indicators in this theme, suggesting an urgent need for enhanced governance structures and integration mechanisms for nature-related considerations. Significant action must be taken by Indian D-SIBs to carry out essential activities to determine appropriate capital and liquidity requirements and to include potential higher capital buffers to account for nature-related shocks. No Indian D-SIBs show integration of both impacts and dependencies on nature-related topics as part of board-level oversight.

Theme 4: Similarly, there is no attainment of long-term forests and water goals, reflecting a significant oversight in strategic environmental planning. As regulatory frameworks evolve, there is a pressing need for Indian D-SIBs to incorporate comprehensive environmental considerations into their future planning and risk management processes.

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15. 2023 CDP Water security disclosure data

16. As evidenced by a 2022 [discussion paper on climate risk and sustainable finance](#), and the recent draft disclosure framework on climate-related financial risks (2024).

17. Of companies headquartered in India that disclosed through CDP in 2023, 40% and 75% disclose assessing forest- and water-related risks, respectively, and 66% and 66% disclose having a forests or water policy, respectively.

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ANNEX IV: ASSESSMENT INDICATORS

SUSREG INDICATOR NUMBER	SUMMARISED INDICATOR	SUSREG INDICATOR DESCRIPTION	CORRESPONDING CDP DATAPOINT ¹⁸	CDP DATAPOINT DESCRIPTION (FULL ATTAINMENT)
THEME 1: THERE NEEDS TO BE ENHANCED DISCLOSURE REQUIREMENTS				
1.6.1	Environment in business policies and processes	Banks are expected to publicly disclose how environmental considerations are integrated in their business strategy, governance (including remuneration), policies and risk management processes	FW-FS3.1 FW-FS3.5 FW-FS2.1 FW-FS1.1	The bank discloses that it: 1. Incorporates risks and opportunities related to water/ forests in strategy and financial planning 2. Includes water/forests in its policy framework 3. Assesses portfolio's exposure to water/forests 4. Has board-level oversight of water/forests
1.6.4	Disclosure in annual report	Banks are expected to include information on their environmental strategy and its implementation in their annual reports	FW-FS6.1	The bank: 1. Publishes documentation on its response to water/forest issues 2. Covers strategy, risks and opportunities, and response to forest- and/or water-related risks and opportunities, in this documentation
1.6.6	Disclosure against taxonomy	Banks are expected to publicly disclose the share of their total lending portfolio that is aligned with existing classification systems for sustainable or unsustainable activities (taxonomies).	FW-FS3.4 FW-FS3.4a	The bank publicly discloses: 1. Offering products and services that enable clients to mitigate deforestation and/or water insecurity 2. Having at least one product type aligned with a recognized taxonomy or methodology and indicates a % of total portfolio value aligned with indicated taxonomy being more than 0%
1.6.7	Portfolio exposure and mitigation	Banks are expected to report publicly on their portfolio-level exposure to material water/ forest risks and associated mitigation measures	FW-FS2.1 FW-FS2.3/a	The bank publicly discloses the following: 1. The assessment of portfolio exposure to forest- and/or water-related risks and opportunities 2. Identification of forest- and/or water-related risks with the potential to have a substantive financial or strategic impact on business 3. Engagement with clients and/or investees on forests and/or water issues 4. Rationale for engagement, including targeting investees with increased forest- and/or water-related risk
THEME 2: THERE NEEDS TO BE HIGHER SUPERVISORY EXPECTATIONS (RISK MANAGEMENT FUNCTIONS, RISK DATA AGGREGATION CAPABILITIES, RISK GOVERNANCE AND INTERNAL CONTROLS)				
1.1.3	Beyond lending	Banks are expected to provide products and services beyond lending that enable clients to mitigate deforestation and/or enhance water security	FW-FS3.4 FW-FS3.4a	The bank discloses: 1. Offering products beyond lending to enable clients to mitigate deforestation and/or water security 2. Specifies that its product types include one or more of the following: corporate real estate, trade finance, asset finance, project finance, debt and equity underwriting
1.2.1	Business and risk strategy	Banks are expected to integrate environmental considerations in their business strategy, consistent with the size and nature of their operations	FW-FS3.1	The bank discloses: 1. Forest- and/or water-related risks and opportunities are taken into consideration in the organization's financial planning and/or strategy
1.2.3	Long-term consideration	Banks are expected to extend environmental consideration beyond short term (1 to 5 years) to medium (5 to 10 years) and longer term (10 to 30 years) in their business and risk management	FW-FS2.1 FW-FS2.1a	The bank discloses: 1. Assessing its portfolio's exposure to forests and/or water issues 2. That the time horizon(s) covered for such assessments include: "Long-term," "Medium-term" and "Short-term"
1.2.6	Staff and resources	Banks are expected to dedicate staff and resources to the definition, development and implementation of their environmental strategy	FW-FS1.2	The bank discloses: 1. Any form of staff or committee assignment specifically for forest- and/or water-related issues, excluding selections that denote an absence of management level responsibility 2. Responsibilities of staff assigned to forest- and/or water-related issues included; 'Developing plans for transition to a deforestation-free and/or water-secure world', 'Implementing plans for transition to a deforestation-free and/or water-secure world' and/or 'Integrating forest- and/or water-related issues into the strategy'
1.2.8	Board responsibilities	Banks are expected to define the roles and responsibilities of the board involved in the oversight of the environmental strategy	FW-FS1.1 FW-FS1.1b	The bank discloses having: 1. Assigned board-level oversight on forests and/or water issues. 2. That forests and/or water issues are integrated into at least one governance mechanism
1.2.10	Core functions	Banks are expected to include environmental considerations in the roles and responsibilities of most core functions (including senior management) in areas such as lending, savings/deposits, investments and risk management	FW-FS1.2	The bank discloses: 1. Management-level staff or committee as having responsibility for forest- and/or water-related issues

18. Each question consists of various data points, and each data point can have several potential answers. Each Key Performance Indicator (KPI) represents a set of criteria that companies must satisfy with their responses to various data points in the FW-FS module. Although there is some overlap among the data points used in different KPIs, each KPI uniquely combines these data points and their corresponding answer requirements.

ANNEX IV: ASSESSMENT INDICATORS cont.

SUSREG INDICATOR NUMBER	SUMMARISED INDICATOR	SUSREG INDICATOR DESCRIPTION	CORRESPONDING CDP DATAPOINT	CDP DATAPOINT DESCRIPTION (FULL ATTAINMENT)
1.3.1	Sector policies	Banks are expected to develop and implement sector policies outlining minimum environmental requirements for their clients, particularly in sectors with high environmental risks and impacts	FW-FS3.5 FW-FS3.5a	Water: bank discloses: 1. Including water issues into a banking policy framework 2. Including key industries within that policy with a potentially critical impact on water security, such as: Automobiles & Components, Capital Goods, Consumer Durables & Apparel, Energy, Food & Staples Retailing, Food, Beverage & Tobacco, Household & Personal Products, Materials, Pharmaceuticals, Biotechnology & Life Sciences, Real Estate, Retailing, Semiconductors & semiconductor Equipment, Technology Hardware & Equipment. Including at least one commodity with critical impact on water security being covered by the policy Forests: bank discloses: 1. Including forest issues into a banking policy framework 2. Including key industries within that policy with a potentially critical impact on forests, such as: Materials, Capital Goods, Automobiles & Components, Consumer Durables & Apparel, Retailing, Food & Staples Retailing, Food, Beverage & Tobacco, Household & Personal Products, Pharmaceuticals, Biotechnology & Life Sciences, Technology Hardware & Equipment, Semiconductors & Semiconductor Equipment, Real Estate. 3. Including at least one commodity with a critical impact on forests being covered by the policy
1.3.12	Integration of water-related risks	Banks are expected to integrate water-related risks into their decision-making, risk management processes and policies	FW-FS2.1 FW-FS2.2 FW-FS2.2a FW-FS3.1 FW-FS3.5	The bank discloses: 1. Affirmatively assessing its portfolio's exposure to water-related issues 2. Considering water-related information in its assessments. Including both "Scope and content of water policy" and "Water withdrawn from water-stressed areas" in the type of information considered 3. Integrating risks and opportunities related to water into strategy and financial planning 4. Ensuring its policy framework includes water-related issues
1.3.5	Integration in policies and processes	Banks are expected to integrate water/forest considerations in their decision-making and risk management processes and policies.	FW-FS2.1 FW-FS2.2 FW-FS2.2a FW-FS3.1 FW-FS3.5	The bank discloses that it: 1. Assesses portfolio exposure to forest- and water-related issues 2. Incorporates forests and water-related information in its assessments, including "Scope and content of water policy", "Water withdrawn from water-stressed areas", "Commitment to eliminate deforestation/conversion of other natural ecosystems", "Origin of forest risk commodities" 3. Integrates risks and opportunities related to forests and water into its strategy and financial planning. 4. Includes forests and water-related issues within its policy framework
1.3.6	Integration of deforestation and conversion risks	Banks are expected to integrate deforestation and wider habitat conversion issues in their decision-making, risk management processes and policies. ¹⁹	FW-FS2.1 FW-FS2.2 FW-FS2.2a FW-FS3.1 FW-FS3.5	The bank discloses: 1. Affirmatively assessing its portfolio's exposure to forest-related issues 2. Considering forest-related information in its assessments, including both "Commitment to eliminate deforestation/conversion of other natural ecosystems" and "Origin of forest risk commodities" in the type of information considered 3. Integrating risks and opportunities related to forests into its strategy and financial planning. 4. Ensuring its policy framework includes forest-related issues
1.4.1	Management of environmental risk in portfolio	Banks are expected to continually assess, manage and mitigate their portfolio-level exposure to material environmental risks.	FW-FS2.1 FW-FS4.1 FW-FS3.4	The bank discloses: 1. Assessing its portfolio's exposure to forest- and/or water-related issues 2. Engaging with clients/investees on these issues to influence better practices 3. Offering products and services that enable clients to mitigate deforestation and/or water insecurity
1.4.3	Management of negative environmental impacts	Banks are expected to continually assess, manage and mitigate the material negative environmental impacts associated with their business relationships, at the portfolio level	FW-FS5.1 FW-FS4.1 FW-FS3.4	The bank discloses: 1. Measuring its portfolio impact on forests and/or water 2. Engaging clients/investees on this issue area 3. Offering products and services that enable clients to mitigate deforestation and/or water insecurity

19. If a FI scores a '1' in "Integration of water-related risks" and "Integration of nature-related risks" separately, then they will receive a '1' for "integration in policies and processes".

ANNEX IV: ASSESSMENT INDICATORS cont.

SUSREG INDICATOR NUMBER	SUMMARISED INDICATOR	SUSREG INDICATOR DESCRIPTION	CORRESPONDING CDP DATAPOINT	CDP DATAPOINT DESCRIPTION (FULL ATTAINMENT)
1.4.6	Management of reputation and litigation risk	Banks are expected to assess and mitigate reputation and litigation risks associated with environmental considerations.	FW-FS2.1 FW-FS2.3 FW-FS2.3a	The bank discloses: 1. Assessing portfolio exposure to forests and/or water risks and opportunities 2. Having identified forest- and/or water-related risks with the potential to have a substantive financial or strategic impact on its business 3. Identified 'Reputational' or 'Policy and legal' forest- and/or water-related risks. identified forest- and/or water-related risks.
1.3.8	Non-compliance mitigation	Banks are expected to put in place internal processes to monitor and address situations where clients are not compliant with the banks' environmental policies that are based on applicable laws and regulations, or internationally recognized science-based scenarios and findings (e.g., the IEA 2050 scenario outlining the immediate stop of fossil fuel exploration and expansion projects).	FW-FS5.3 FW-FS4.1 FW-FS4.1a	The bank discloses that it: 1. Measures the proportion of clients/investees compliant with forest- or water-related requirements 2. Engages with clients/investees on forest- and/or water-related issues 3. Client engagement is targeted towards clients currently not meeting forest-/water-related policy requirements
1.3.10	Active client engagement	Banks are expected to adopt and implement an active client engagement approach,* in relation to environmental considerations for lending and investment activities	FW-FS4.1 FW-FS4.1a	The bank discloses that it: 1. Engages with clients/investees on forests and/or water issues 2. Indicates at least one form of engagement undertaken with clients/investees on forests and/or water issues
THEME 3: THERE NEEDS TO BE HIGHER CAPITAL AND LIQUIDITY REQUIREMENTS (ACCORDING TO THE DIFFERENT BUCKETS DEFINED BY THE BCBS)				
1.1.2	Double materiality assessment	The regulations or supervisory expectations reflect both the expected impact of environmental issues on the bank's risks and value creation, and the impacts of the bank's activities on environmental issues ('double materiality assessment').	FW-FS1.1 FW-FS1.1b	The bank discloses that: 1. Board-level oversight exists for forest- and/or water-related issues 2. Board-level oversight includes oversight on a) the impact of banking activities on forests and/or water security and b) the impact of banking activities on forests and/or water security
1.4.2	Scenario analysis and stress testing	Banks are expected to continually assess, manage and mitigate their portfolio-level exposure to material environmental risks, by using science-based, forward-looking scenario analysis and stress-testing over the short- (1 to 5 years) medium- (5 to 10 years) and long-term (10 to 30 years).	FW-FS2.1 FW-FS2.1a FW-FS3.2 FW-FS4.1 FW-FS3.4	The bank discloses that it: 1. Assesses portfolio exposure to forests and/or water risks and opportunities over the long-, medium- and short-term using stress tests 2. Conducts scenario analysis to identify forest- and/or water-related outcomes. 3. Engages clients/investees on forest- and/or water-related issues 4. Offers products and services that enable clients to mitigate deforestation and/or water insecurity
1.5.1	Integrating environmental considerations into ICAAP	Banks are expected to integrate environmental considerations in their Internal Capital Adequacy Assessment Process (ICAAP).	FW-FS 3.1	The bank discloses that: 1. Risks and opportunities related to water/forests are taken into consideration within the organization's strategy and financial planning
1.5.3	Liquidity risk management	Banks are expected to integrate environmental considerations in their liquidity risk management process	FW-FS 2.1 FW-FS2.3 FW-FS2.3a	The bank discloses: 1. Assessing its portfolio's exposure to forest- and/or water-related risks and opportunities 2. Identifying forest- and/or water-related risks with the potential to have a substantive financial or strategic impact on the bank 3. Specifically identified liquidity risks
THEME 4: THERE NEEDS TO BE POTENTIAL HIGHER SYSTEMIC BUFFER IN CERTAIN JURISDICTIONS				
1.4.5	Nature target setting ²⁰	Banks are expected to set science-based targets to mitigate negative water/forest impacts beyond climate, at the portfolio level	FW-FS3.3	The bank has disclosed: 1. Having set targets for deforestation-free and/or water-secure lending
1.2.3	Long-term consideration	Banks are expected to extend environmental consideration beyond short term (1 to 5 years) to medium (5 to 10 years) and longer term (10 to 30 years) in their business and risk management	FW-FS2.1 FW-FS2.1a	The bank discloses: 1. Assessing its portfolio's exposure to forests and/or water issues 2. The time horizon(s) covered for such assessments include "Long-term," "Medium-term," and "Short-term."

20. Standardized methodologies for science-based target setting across forests and/or water issues are under development. Therefore, we are using a proxy to understand which financial institutions have engaged in forest- and/or water-related target setting until those methodologies have been developed.



Our Mission

Together, we protect the environment and create a future worth living for generations to come.

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