Banks' climate-related disclosures

Benchmarking banks' climate-related disclosures in the 2023 reporting cycle

June 2024

Purpose of this report

This report presents the key observations from our benchmarking analysis of banks' climate-related disclosures in the 2023 reporting cycle.

Sustainability reporting, including climate-related disclosures, is rapidly evolving. The arrival of the first two IFRS® Sustainability Disclosure Standards from the International Sustainability Standards Board (ISSB) and the first set of 12 European Sustainability Reporting Standards (ESRSs) in 2023 marked significant milestones in sustainability reporting. Other major developments are also continuing to happen across the world.

Our benchmarking analysis focuses on climate-related disclosures. This aligns with the 'climate-first' approach taken by the ISSB, and it is the most mature area in sustainability reporting.

Contents

Executive summary

Progress continues but the opportunity for banks to tell a connected story remains.

Banks are responding to the demands for greater disclosure of climate-related information with an increasing volume being reported. They are now on a journey to connect the pieces together and create a narrative that is more meaningful and clear for their users.

Financial reporting

Climate-related disclosures remain limited in the financial statements with credit risk being the main area of focus.

Connecting the increased volume of information disclosed across the reporting suite to the financial statements is key.

Assurance

Assurance is most often obtained over operational emissions. For banks disclosing financed and facilitated emissions, there is a growing trend for obtaining assurance over this information.

Assurance obtained is mostly limited assurance, although a few have started to obtain reasonable assurance – mainly over certain operational emissions.

Financed and facilitated emissions

Calculating financed and facilitated emissions is far from easy and is an ongoing exercise for banks, particularly as they navigate data challenges.

Most banks use the Partnership for Carbon Accounting Financials (PCAF) methodology for calculating emissions, but there are divergences in application. This makes it difficult to compare across banks.

Transition plans

Many banks have committed to becoming net zero including financed emissions, by 2050. Now they need to continue developing their transition plans with detailed implementation strategies that include clear actions.

This would allow users to better assess the feasibility, progress and effort associated with reaching net zero.

Nature-related risks

There is an increasing focus on nature and its connection with climate-related risks.

Most banks acknowledge this as an emerging area which they are currently working through, with the aim of providing more disclosures in the future.

What's notable in 2023?

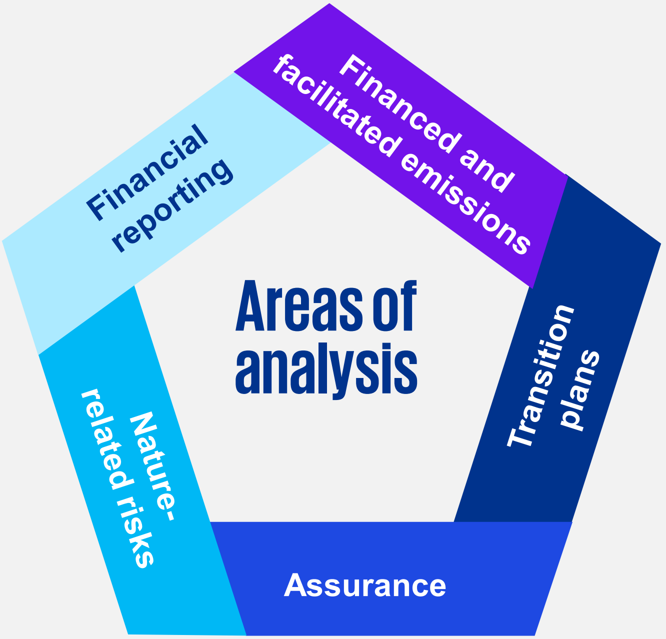
'Just transition' is starting to get mentioned in disclosures, with the majority of banks starting to disclose how they are thinking about the social impact that may arise in the move to a low-carbon economy.

Scope and approach

Banks included and areas covered

Our 2023 climate-related disclosure benchmarking analysis covers 35 major banks around the world. This includes major banks in the US, UK, Europe, Australia, Canada, China and India.

Our analysis focuses on five selected areas which are current or emerging areas of focus within the banking industry.



The approach taken

How the analysis was performed

We reviewed the climate-related disclosures made by 35 selected banks as part of their 2023 reporting cycle. We compared disclosures between banks in 2023 and where appropriate, against disclosures from our 2022 analysis. We therefore exercised a certain level of judgement when comparing and assessing these disclosures.

Information reviewed

- Climate-related disclosures and other relevant standalone reports (e.g. climate and sustainability reports). Generally, we reviewed the other relevant standalone reports that are clearly mentioned (or cross-referenced) in the annual reports.
- The online version of the 2023 annual reports available at the time of conducting our analysis. Where these were not yet publicly available for a few banks, we reviewed the relevant regulatory filings (e.g. Form 10-K).
- The English language version of the 2023 annual reports and other standalone reports.
- We focused on the 2023 annual reporting cycle. For many, this covered the period ended 31 December 2023.

New sustainability reporting standards

ISSB standards and ESRSs were not effective for the 2023 reporting cycle, so we have not performed benchmarking against the requirements of these standards.

Sustainability reporting landscape

The global sustainability reporting landscape is transforming, with progress in a number of jurisdictions.

	ISSB	EU	US SEC
What is the status?	The first two IFRS Sustainability Disclosure Standards were released in June 2023. The ISSB's first two standards are IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures.* They include transition relief to allow companies to report on only climate-related risks and opportunities in the first year.	The European Commission published the final text of its first set of ESRSs in July 2023. The standards that have been released include ten topic-specific ESRSs and two cross-cutting ESRSs.	The SEC issued the final climate rule in March 2024. On 4 April 2024 the SEC stayed the climate rule pending judicial review.
When is it effective?	These standards are effective for annual reporting periods beginning on or after 1 January 2024, but adoption is by jurisdiction.	These standards first apply for years beginning on or after 1 January 2024 using a phased introduction.	Absent the stay, the rule first applies for large accelerated filers for fiscal years beginning in calendar year 2025.
What assurance is required?	The ISSB does not set assurance requirements but local jurisdictions could choose to require either limited or reasonable assurance.	Limited assurance is required initially, moving to reasonable assurance over time.	Absent the stay, assurance is required for Scope 1 and 2 GHG emissions; certain disclosures are subject to audit.

Further developments

Progress is being made in sustainability reporting across other jurisdictions. This includes recent developments in the following jurisdictions.

- **California**: Three climate disclosure laws were signed in October 2023 applying to certain companies that do business or operate in California.
- **China:** Three major stock exchanges jointly introduced new sustainability reporting guidelines effective from 1 May 2024. Also, the Ministry of Finance in China has issued an Exposure Draft of Chinese *Sustainability Disclosure Standards for Business Enterprises – Basic Standard*, which is based on IFRS S1.

Overall observations

Telling a connected story

Timing, volume and location of climate-related disclosures are all key to delivering a connected story.

Highlights from our analysis

Connectivity

Coordinate timing

43% of banks (mainly those in the UK, Europe and Australia) released their full suite of climate-related disclosures at the same time as their annual financial statements.

Many other banks released other standalone reports (e.g. climate or sustainability reports) a few months later than their annual financial statements, while a few released them at an earlier date. This included when the standalone reports were mentioned or cross-referenced in the annual reports.

In a few cases, the reporting period covered by the standalone reports was inconsistent with the financial reporting period.

Synchronised publication dates with information relating to the same reporting periods would enhance the connectivity of information available to users.

Balance volume

Banks are responding to the demands for more climate-related information, but a large volume of information can be overwhelming for users. Sometimes the details focus on specific topics (e.g. operational emissions and sustainable financing) at the expense of other important areas (e.g. financed emissions and transition plans).

The next step is to balance the level of detail by focussing on what is important to users, and then bring this information together – joining the dots between specific metrics and targets, and how they relate to the bank's strategy, governance and risk management pillars.

Consider location

91% of banks disclosed most of their climate-related disclosures in other standalone reports.

These banks often made some disclosures in the front part of the annual report (usually as a summary) and included most of their disclosures in others standalone reports – usually a climate report.

Some banks published additional supporting documents over specific areas – e.g. transition plans, nature statements and financed emission methodology.

As a result, users often need to navigate various documents, making it challenging to piece together a connected story on climate.

Effective cross-referencing or co-location would enhance the connectivity of information.

Importance of connectivity

Improving connectivity between business model and strategy disclosures and other reports, including connectivity with financial statements, is key.

ISSB Standards and ESRSs require not only climate-related information but also other sustainability-related information to be reported at the same time, and for the same period, as the annual financial statements. ESRSs require information to be reported in the management report; the ISSB has more flexible location requirements within the annual report.

Connectivity is integral to all of the ISSB's work and is high on the agenda for the International Accounting Standards Board and the European Financial Reporting Advisory Group.

Opportunities for improvements

The timing, location and volume of information can support better connectivity – see page 7.

A particular area that can be improved is connectivity of climate-related information with the financial statements – see page 11.

Banks with relatively better connectivity

Based on the 2023 climate-related disclosures, there are a few banks that have better connectivity and therefore deliver a more coherent narrative on climate compared with others.

These banks usually:

- include their climate-related information in the annual report (without the use of an additional climate report) which is published at the same time as the annual financial statements;
- avoid cluttering by focusing on key information across governance, strategy, risk management and metrics and targets;
- use effective cross-referencing to other detailed documents on specific areas (e.g. financed emission methodology and detailed transition plan); and
- have started to disclose climate-related impacts throughout their financial statements across different areas (e.g. credit risk, valuation of financial instruments and goodwill).

How have the disclosures progressed in 2023?

Governance and risk management remain the areas where disclosures are more advanced across banks. Strategy, and metrics and targets are the areas where disclosures are still evolving as banks work through key challenges such as data limitations.

Governance and risk management

- The disclosures remain relatively advanced, with no significant changes in the 2023 disclosures compared with the previous year.
- Where there have been changes, these mainly relate to addressing emerging areas or expanding the disclosures, including in the following ways:
  - considering nature in governance structures and risk management processes (see page 26);
  - providing further details on how the board has been involved during the year (e.g. disclosure of climate/sustainability-related matters discussed in 2023);
  - identifying board members with knowledge and experience in climate/sustainability; and
  - providing further details on governance and management of credit risk (e.g. details of management committees in place to review financing transactions in line with sustainability policies).

Strategy

- Generally, there is more information on the overall strategy when compared to the previous year, including on scenario analysis and transition plans.
- However, opportunities to improve disclosures remain in the following areas.
  - **Transition plans:** Banks detail their strategic ambition with climate-related targets but further details are needed on their implementation strategies, including their planned actions (see page 18).
  - **Scenario analysis:** Banks have progressed with further coverage across sectors. Some also provide details on the results to date. However, the analysis is not yet comprehensive enough for users to understand the full impact on the business and its financial planning, including the resilience of its strategies.
    For example, the analysis often relates to specific sectors without clear linkage to the total impact, and linkage to scenario analysis conducted in other areas of the business, such as credit risk.

Metrics and targets

- Financed and facilitated emissions are not yet fully quantified but banks continue to make progress. In 2023, more banks have:
  - identified and committed to sector-specific financed emission targets;
  - quantified financed emissions for more sectors of their lending portfolio (e.g. commercial real estate, aviation and agriculture); and
  - started to quantify facilitated emissions.
- As banks work through quantifying their financed and facilitated emissions, they continue to face data challenges. Methodologies also continue to evolve, but are not standardised.
  This means inconsistencies remain in how these emissions are quantified across banks, making it challenging at this stage for users to make meaningful comparisons.
  See page 13 for details.

Note: Our analysis focused on financed and facilitated emissions rather than other types of climate-related metrics.

Financial reporting

Financial reporting

Snapshot of key observations

60% of banks mention climate in the financial statements but disclosures are usually limited

Connecting the increased volume of information disclosed across the reporting suite to the financial statements is key.

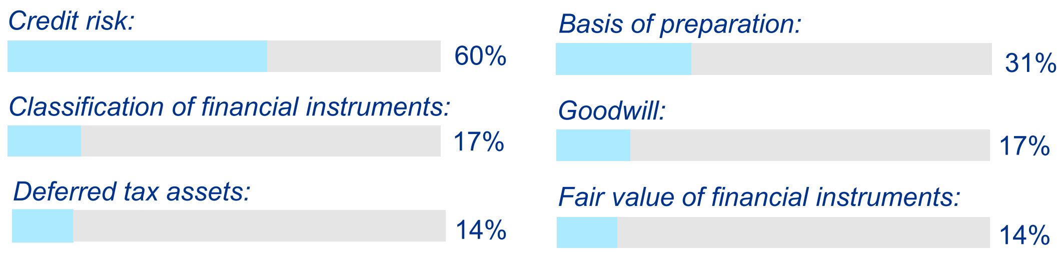
Currently, banks disclose a significant amount of climate-related information outside of the financial statements – usually in the front part of the annual report and other standalone reports (e.g. climate or sustainability reports).

It is challenging for users to clearly understand if and how this information is reflected in the financial statements.

What did our analysis find?

- Most banks mention ‘climate’ in the financial statements, although disclosures are usually limited to one or two specific areas – with credit risk often being one of them – see page 12.
- Where climate is mentioned in the financial statements, the nature and extent of disclosures are often limited – e.g. disclosing in a single statement that climate-related risks have been considered and are immaterial, with limited details of how and why.

Which areas of the financial statements mention climate?



- A few banks (mainly in the UK and Europe) discuss climate-related impacts throughout the various financial statement notes impacted, such as credit risk, goodwill and deferred tax assets.

Financial reporting

Getting into the detail – credit risk

91% of banks disclose that they have integrated climate-related risks into their credit assessment and monitoring processes

Credit risk is the most common area where climate-related implications are discussed across the reports, including the financial statements.

The disclosures mainly focus on how banks are integrating climate-related considerations into their credit risk management policies and practices – e.g. using climate-related factors when conducting credit assessments of borrowers.

This shows how banks are considering climate-related impacts in their front-line processes.

Disclosure of impacts on estimating expected credit losses (ECLs)

49% of banks disclose that they have considered climate-related risks when measuring ECLs

31% of banks disclose that they have assessed the impact of climate-related risks when estimating ECLs as immaterial

In 2023, more banks are disclosing if and how they are considering climate-related impacts when measuring ECLs.

- These banks acknowledge that climate-related risks could lead to a deterioration in the credit worthiness of certain borrowers. They note that these impacts are already considered at the borrower level through the banks' credit rating process.
- Many of these banks note that the **impact of climate-related risks when estimating ECLs is immaterial** given the longer time horizon associated with these risks compared to the relatively shorter contractual lifetime of the underlying assets. As a result, these banks do not adjust their ECLs to recognise an additional provision from climate-related impacts.
- In the very few instances where adjustments are noted, these mainly relate to extreme weather events or country-specific regulation on emissions.
- A few banks note that they have considered climate-related scenarios to determine the impact on ECLs, with results showing immaterial impacts.

Financed and facilitated emissions

Financed and facilitated emissions

Snapshot of key observations

86% of banks disclose targets related to becoming net zero in financed and/or facilitated emissions by 2050

What did our analysis find?

Calculating financed and facilitated emissions is far from easy and is an ongoing exercise for banks, particularly as they navigate data challenges.

- Many banks state a target to become net zero in financed and/or facilitated emissions by 2050 and they are in the process of quantifying these emissions.
- Emissions data from customers can be incomplete, outdated or inaccurate, which is hindering banks from quantifying their total financed and facilitated emissions across all their sectors and asset classes.

Most banks use the PCAF methodology for calculating emissions but there are divergences in application, which makes it difficult to compare emissions across banks.

- As methodology evolves, data improves and assurance continues to expand, disclosures on emissions are likely to continue evolving. As this develops, there is an opportunity for banks to provide greater transparency over year-on-year changes and divergences from PCAF methodology. Also, greater alignment across the banks to the same methodology would enhance comparability.

Comparison of 2023 disclosures to the prior year

- Generally, banks have continued to progress in quantifying financed emissions – e.g. by quantifying these emissions for further sectors in their lending portfolio.
- A few banks quantify and disclose facilitated emissions.
- In 2023, more banks note that they have set sector-specific financed emission targets in line with the Net-Zero Banking Alliance (NZBA)[1] guidelines.

[1] The Net Zero Banking Alliance (NZBA) is a group of leading global banks committed to financing ambitious climate action to transition the real economy to net-zero greenhouse gas emissions by 2050. The membership commitment is underpinned by the UNEP-FI Guidelines for Climate Target Setting for Banks, which outlines principles for target-setting.

Financed and facilitated emissions

Getting into the detail

Quantification of total financed and facilitated emissions

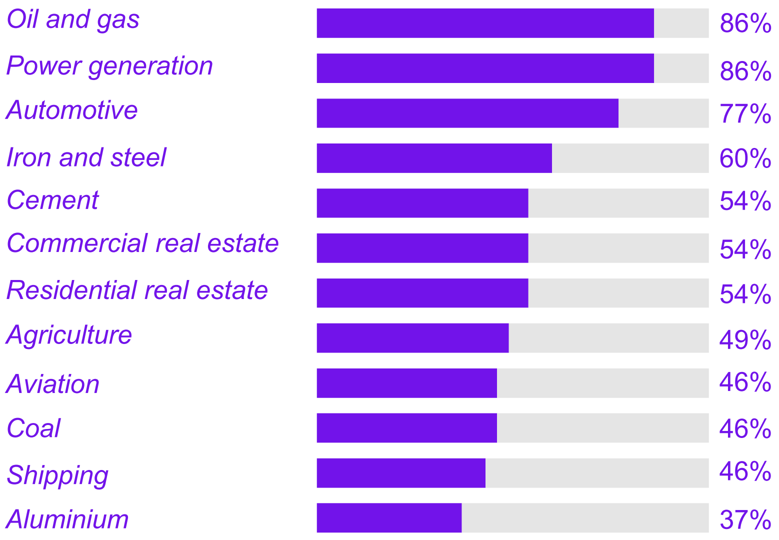
86% of banks disclose quantitative details of their financed and facilitated emissions for certain sectors

- Total financed and facilitated emissions across all financing activities are yet to be quantified and disclosed.
  - Many banks currently quantify and disclose financed emissions for certain sectors of their lending activities.
  - Most banks do not yet disclose facilitated emissions (see page 17).
- As practices evolve, more sectors and asset classes are likely to be quantified. However, it is challenging to give users an end-to-end view of total financed and facilitated emissions at this stage.
  For example, it is hard to understand the proportion of ‘total financed and facilitated activities’ covered in the emission numbers disclosed, or to compare totals between banks.
- Better connectivity of emission numbers to the assets in the financial statements would provide more clarity to users.
  For example, a few banks disclose a reconciliation of their quantified financed and facilitated emissions to the total assets in the financial statements. This helps users to understand the asset classes or financing activities which are in-scope of the emission numbers.

Lending sectors where financed emissions are disclosed

- Most banks disclose financed emissions for carbon-intensive sectors, such as oil and gas and power generation.

% of banks that have quantified and disclosed financed emissions across sectors:



- Banks usually disclose two emissions metrics: emissions intensity and absolute emissions.

Financed and facilitated emissions

Getting into the detail

Methodology used

From the banks that disclose quantitative details of emissions:

87% of banks refer to using the PCAF methodology

- From the banks that disclose quantitative details of emissions (86% noted on page 15), most banks refer to using the PCAF methodology. However, some of these banks note divergences when applying the PCAF methodology – e.g. divergences due to data availability.
- Where banks do not refer to using the PCAF methodology, it is often unclear how they have quantified their emissions and whether/how their methodology diverges from the PCAF methodology.
- Some banks provide extensive details of their methodology, which is disclosed in their climate report or as a separate document.
  - While this provides transparency, the information may be overwhelming for some users due to the volume, technical nature and inconsistency in methodology across banks.
  - Greater alignment across the banks to the same methodology would assist in improving consistency and enhancing comparability.

Data challenges

- Data challenges currently hinder the quantification of financed and facilitated emissions and comparability across banks.
  - To calculate these emissions, banks require emissions data from customers, which is often limited in availability, variable in quality and has a time lag of one or two years.
- As a result, emissions disclosed by banks often relate to previous years (rather than the latest financial year). Also, where there is a lack of data, banks note the use of proxies such as industry averages and third-party estimates.

From the banks that disclose quantitative details of emissions:

87% of banks disclose data quality scores

- From the banks that disclose quantitative details of emissions, the majority disclose data quality scores from 1 (highest) to 5 (lowest) aligned with PCAF guidance.
  - The scores vary between banks as emissions are often based on the availability of customer data specific to each bank.
  - Scores also vary across the sectors – e.g. some banks disclose lower quality scores for commercial property, mainly due to the coverage and accuracy of available property-level information.

Financed and facilitated emissions

Getting into the detail

Restatements

From the banks that disclose quantitative details of emissions:

67% of banks disclose restatements of previously disclosed emissions

- A number of banks disclose restatements of previously disclosed emissions.
  - Restatements are typically due to improvements in data quality or enhancements to the methodology.
  - Restatements are usually disclosed for baseline and current emissions for certain sectors.
  - The level of detail on restatements varies across the banks. The banks with more enhanced disclosures provide explanations for restatements and year-on-year changes in emissions, to help users understand the nature and impact of restatements.

Facilitated emissions

26% of banks disclose quantitative details of their facilitated emissions for capital market activities in certain sectors

- Some banks quantify and disclose facilitated emissions for capital market transactions, which are usually disclosed for certain carbon-intensive sectors such as oil and gas, and power generation.
- In December 2023, PCAF finalised its methodology for facilitated emissions. The banks that disclose quantitative details of their facilitated emissions usually refer to the PCAF methodology.
- Similar to financed emissions, there is a time lag in data available, which means the facilitated emissions quantified and disclosed by banks generally relate to years prior to the current reporting year.

Sector emission targets

74% of banks disclose they have set financed emissions targets in line with the NZBA guidelines

- A number of banks are part of the NZBA. Some have set interim 2030 financed emissions targets for high-emitting sectors in line with the NZBA commitments.
- The commonly mentioned sectors where banks have set sector-specific targets include oil and gas, power generation and agriculture.
- As banks work through quantifying their financed emissions, the next step would be tracking these emissions in line with sector-specific targets and providing users with clarity on progress and the feasibility of meeting these targets.

Transition plans

Transition plans

Snapshot of key observations

86%

of banks disclose information on their strategic ambition but many do not disclose details of their implementation strategies

What did our analysis find?

Banks have committed to becoming net zero, including in financed emissions, by 2050.

- Transition plans are an important aspect of the ISSB Standards and a key focus area for regulators and governments in jurisdictions, such as the UK.
- Banks currently detail the strategic ambition of their transition plans. They also provide details of their engagement strategy, metrics and targets, and the governance framework.
- There are opportunities for further improvement on how banks articulate the details of their plans to achieve climate-related targets. This includes details on the actions they are taking or plan on taking to achieve their strategic ambition and the implications for their financial planning.

Building a detailed transition plan, with clear implementation strategies and actions, would allow users to assess the feasibility of the plan, the progress made against it and the associated effort.

Comparison of 2023 disclosures to the prior year

- Some banks, mainly in the UK and Europe, published an initial transition plan (usually in a separate document) during the year – see page 20.
- ‘Just transition’ is starting to get mentioned in the disclosures with the majority of banks starting to disclose how they are thinking about the social impact that may arise in the move to a low-carbon economy – see page 21.

Transition plans

Getting into the detail

Strategic ambition

86% of banks state they are committed to becoming net zero by 2050

- Many banks disclose the strategic ambition of becoming net zero by 2050. They disclose the objectives and priorities of their climate-related strategy with the following key focus areas:
  - reducing financed and facilitated emissions;
  - reducing operational emissions; and
  - providing sustainable financing.
- Many banks have also set targets across these focus areas and started to report progress against these, with the main exception often being financed and facilitated emissions – see page 17.
- Many banks also disclose their engagement strategy, which includes how they are engaging with those in their value chain. This includes how their collaborations with partners, stakeholders and peers helps to deliver their strategic ambition – e.g. partnering with other businesses to provide climate solutions.

Implementation strategies

34% of banks released an initial transition plan

- Some banks published an initial transition plan (usually in a separate document) during the year. These banks usually have more enhanced disclosures on transition plans compared with their peers.
- Overall, banks can improve their disclosures on transition plans by providing information about key assumptions used in developing their transition plans, dependencies on which the transition plans rely and how they plan to achieve their climate-related targets.
- Details are needed on their implementation strategies, in particular on current and anticipated actions. This includes:
  - the short-, medium- and long-term actions;
  - how they are incorporating transition plan-related considerations into pricing (e.g. using client transition plan assessments to inform lending and pricing decisions);
  - how they are integrating climate-related considerations into financial planning processes; and
  - the anticipated effects of the transition plans on their financial position, financial performance and cash flows.
- Providing this information will help users to assess the feasibility and impact of reaching net zero by 2050, as well as whether they have identified appropriate strategic focus areas to achieve their metrics and targets.

Transition plans

Getting into the detail

Just transition[2]

69% of banks mention 'just transition' in their climate-related disclosures

- The majority of banks mention just transition in their disclosures. They note that they have started to incorporate social considerations into their transition plans, or they intend to include these considerations. This includes:
  - exploring approaches to help support a just transition through their financing (e.g. financing clean energy in emerging and developing markets);
  - starting to address risks associated with a just transition through their risk management policies and processes; and
  - working to incorporate such considerations into their customer engagement (e.g. assessing whether/how the transition plans of their corporate customers incorporate a just transition).

Developments in the UK

In October 2023, the Transition Plan Taskforce (TPT) released their Final Disclosure Framework, which they suggest provides a gold standard for companies developing a transition plan.

Some UK banks are more advanced in their disclosures on transition plans. They have provided more detail when compared with peers and have started to align to the TPT framework.

[2] The International Labour Organization defines the just transition as *'greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind'.*

Assurance

Assurance

Snapshot of key observations

94%

of banks obtain assurance on certain climate-related information

What did our analysis find?

- Assurance is most often obtained for operational emissions. For banks disclosing financed and facilitated emissions, there is a growing trend for obtaining assurance over this information.
- Assurance obtained is mainly limited assurance – although a few have started to obtain reasonable assurance on certain operational emissions.
- Over time, as sustainability reporting evolves and matures, assurance is likely to shift towards reasonable assurance, with more information in-scope of assurance. The Corporate Sustainability Reporting Directive (CSRD) in Europe introduces assurance requirements, starting with limited assurance and moving to reasonable assurance.

Comparison of 2023 disclosures to the prior year

- More banks are obtaining limited assurance on estimated financed and facilitated emissions for certain sectors of their lending portfolio.
- More banks (although still few in numbers) have started to obtain reasonable assurance – mainly on certain operational emissions.

Want to find out more about assurance?

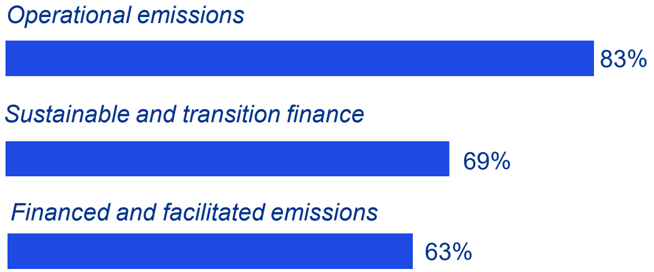
See our ESG Assurance page.

Assurance

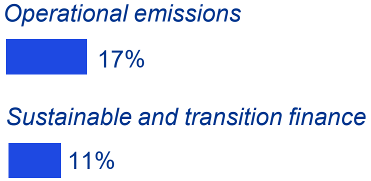
Getting into the detail

Type of assurance obtained and areas covered

94% of banks obtain **limited** assurance on information mainly related to:



29% of banks obtain **reasonable** assurance on information mainly related to:



- Many banks obtain limited assurance on certain metrics which mainly relates to operational emissions.
  - Some obtain limited assurance on information related to sustainable and transition finance – usually the total amount facilitated to date and/or during the year. There are isolated instances where the amount of transition finance facilitated during the year is separately disclosed and/or assured.
  - Some obtain limited assurance related to financed and facilitated emissions which are the more important emissions for banks. Assurance mainly relates to absolute emissions for sectors which are quantified and disclosed to date.
- A few banks obtain reasonable assurance mainly over certain operational emissions (which is in addition to limited assurance over other areas).
- The assurance work is often completed by the statutory auditor. In a few instances, assurance is provided by practitioners other than professional accountants, usually over operational emissions.

Limitations/caveats

- There are usually limitations or caveats noted in the assurance reports. For example, limitations on the availability and quality of data used to calculate financed emissions and validation of third-party data, and caveats that financed emissions may change over time as data improves and methodologies evolve.
- Some reports also note that there may be different methodologies involved when determining non-financial information being assured (e.g. different measurement techniques of emissions) which may affect comparability both between banks and over time.

Assurance

Getting into the detail

Assurance requirements in Europe

- The CSRD includes mandatory assurance requirements over sustainability information reported under the ESRSs, starting with limited assurance and moving to reasonable assurance (see page 5).
- Assurance is required on all sustainability information, including materiality assessments.
  - Currently, assurance obtained by banks in our 2023 analysis relates to certain sustainability information and does not cover banks' materiality assessments.
- Global banks with European entities may also be impacted. Banks will need to have a clear audit trail and documentation of processes and controls to support the disclosures provided.

Other developments or emerging topics in assurance

- The International Auditing and Assurance Standards Board (IAASB) is currently developing the International Standard on Sustainability Assurance (ISSA) 5000 to provide a comprehensive, standalone standard suitable for any sustainability assurance engagement.
- Other emerging topics of discussion include the following. We have seen isolated instances of these in our 2023 analysis for banks.
  - Inclusion of 'key assurance matters' in assurance reports, similar to the requirements that an audit report on financial statements includes 'key audit matters'.
  - Validation of intermediate financed emissions targets, such as whether science based decarbonisation scenarios used to set targets are from credible sources and align to the goal of the Paris Agreement.

Nature-related risks

Nature-related risks

Snapshot of key observations

97%

of banks mention nature-related risks in their annual reports and/or other standalone reports, although disclosures are limited at this stage

What did our analysis find?

- There is an increasing focus on nature-related risks and their connection with climate-related risks. Most banks acknowledge this as an emerging area, which they are currently working through with the aim of providing more disclosures in the future.
- While the disclosures are mostly limited and qualitative at this stage, banks acknowledge the importance of understanding dependencies and impacts on nature in their business, and disclose how they are starting to think about and approach nature-related risks. This includes building capabilities to assess nature-related risks.

Comparison of 2023 disclosures to the prior year

- Although the disclosures remain limited in 2023, the disclosures have started to shift from an acknowledgement of nature-related risks to building internal capabilities and enhancing processes over these risks. This includes understanding and assessing nature-related risks and enhancing processes over certain financing activities (see page 28).

Nature-related risks

Getting into the detail

Understanding and assessing nature-related risks

- As banks are at the initial stages of looking at their approach on nature, the disclosures mainly focus on nature-related risks rather than the opportunities.

83% of banks acknowledge there are dependencies and impacts on nature in their business

- While risk assessments are in their nascency, some banks disclose 'how' they have started to understand and assess the potential dependencies and impacts on nature in their lending portfolios.
  - The ENCORE[3] tool is the most commonly noted tool used by banks for understanding these dependencies and impacts.
  - From the analysis to date, some banks disclose preliminary results with agriculture and mining as two sectors generally with the highest potential dependency and impact on nature.

[3] ENCORE (Exploring Natural Capital Opportunities, Risks and Exposure) is a tool that can help financial institutions assess their dependencies and impacts on nature at a portfolio level. It is developed by the ENCORE partnership consisting of Global Canopy, UNEP FI and UNEP-WCMC.

Approach to nature-related risks

86% of banks disclose that they have started to build their capabilities and enhance business processes for nature-related risks

- Some banks disclose they have started taking key steps to build their internal capabilities and enhance business processes around nature including the following.
  - Setting up a dedicated nature team and appointing a 'head of nature' to focus on their approach to nature across risks and opportunities.
  - Increasing knowledge and awareness of nature-related risks amongst the board and executive committees through training.
  - Enhancing policies and due diligence processes to assess financing activities, in particular expanding the scope of current deforestation policies – e.g. requiring customers involved with major deforestation-risk commodities to operate in accordance with sustainable business principles, such as obtaining sustainable palm oil certification.
  - Financing other activities with nature-positive outcomes – e.g. setting up funds that invest in nature restoration projects.

Looking forward

Many banks disclose that they support the Taskforce on Nature-related Financial Disclosures (TNFD) framework released in September 2023, and they are considering how to respond to the framework. Overall, disclosures are expected to evolve in the coming years with banks providing further details on how they are addressing nature-related risks and opportunities.

Keeping in touch

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