The Chartered Body Alliance response to the BCBS Consultation on Principles for the effective management and supervision of climate related financial risks

We welcome the opportunity to contribute to this public consultation. As professional bodies, we have the key role to play in defining, developing, promoting, supporting, enhancing and sustaining professionalism in financial services; working in partnership with regulators and financial services organisations to do so, and always putting the public interest first. Specific background on the Chartered Body Alliance and our collective work can be found in Appendix 1 to this document.

General Comments

We commend the Committee on the clarity of its proposals. In his 'Building a private finance system for net zero strategy'[1], UN Special Envoy for Climate Action and Finance, Mark Carney, has made it a key objective "*to ensure that every professional financial decision takes climate change into account*." To achieve this requires that *every* finance professional needs to develop and apply a knowledge and understanding of climate change and sustainability to the extent appropriate for their role, function and organisation. Only in this way can we ensure that what is currently viewed as *best practice* in terms of incorporating ESG and sustainability into lending and investment decisions and other financial activities *becomes standard practice,* in all financial institutions, everywhere.

Whilst we are generally supportive of the direction of travel and the focus of the Principles, we wish to contribute the following observations and recommendations:

1. With reference to paragraphs 14 and 15 with regard to Principle 2, and through paragraph 16, and paragraphs 17 – 20 which underpin Principles 3 and 4 respectively, we would like to see greater emphasis placed on the importance of improving the competency, education and training of Boards and senior management expanded throughout institutions. This is important amongst those forming the first line of defence but should also form part of the mindset of all Board members.

[1] Mark Carney, 'Building a private finance system for net zero strategy accessible' at: https://ukcop26.org/wp-content/uploads/2020/11/COP26-Private-Finance-Hub-Strategy_Nov-2020v4.1.pdf

The current wording, that '*Frontline staff should have sufficient awareness and understanding to identify potential climate-related financial risks'* is insufficient to ensure adequate levels of capability and competence. Whilst practitioners should already be skilled and confident in their knowledge required to make core banking decisions, such as those of credit and lending, we know from our assessment of the current knowledge/skills gap that much more needs to be done to ensure that at every stage of the customer relationship there is a clear understanding of the impact of these decisions in terms of their sustainability and alignment to net zero targets. It is of utmost importance from early adoption of these principles that measures are in place to counter any intended, or unintended, competency washing. The Board, Executive and Senior Management of banks and other financial institutions should be instituting education programmes that ensure staff across the organisation understand the risks that climate change poses to their operations, and, in particular, the cross-cutting climate change risks inherent in its activities. Such programmes, in line with other general principles and practice of sustainable finance, should be supported by independent assurance, measurement verification and/or certification, as appropriate.

2. Finance has and always will be a fast paced sector, and with significant innovation required to meet the SDGs, as well as global and national targets for a just transition to net zero, it is critical that the acquisition of knowledge and demonstration of competence is not seen as a one-off requirement. During COP26, UN Special Envoy, Mark Carney and others, called for new models for analysis and reporting that adopt longer-term horizon scanning to avoid short termism in decision making. This equally applies to the need to broadly address the long term picture regarding the development and maintenance of appropriate knowledge and skills. Where the Principles call for 'an awareness and understanding' the Principle and underpinning guidance should be explicit in stating the expectation not only **to have**, but **to maintain** this. Continuing Professional Development is a crucial part of this and would ideally be required, or at least strongly encouraged, by regulators. This is a distinct element of the role played by professional bodies, in contrast to academic institutions where education ends on the awarding of a degree.
3. We support the focus on reputational risk under Principle 11. The sector has a critical role to play. It may not be possible to address concerns about, for example, the role of banks in ensuring the transition from fossil fuels and ceasing to fund future exploitation of polluting natural resources. However, it should be noted that at COP26, major international banks committed to ending international public financing of new

coal power by the end of 2021, which should help redirect market focus and perhaps nudge those countries that pushed for the "watered-down" language to act more quickly in their transition to sustainable energy reliance. This is clearly a step in the right direction. We support the call to action by the Cambridge Institute for Sustainability[2], amongst others, with twenty actions to apply climate resilience mandates across the financial system.

4. With regard to Principle 13, where supervisors already operate a code of conduct (such as the FCA's SMCR) they should be encouraged to include clear reference to ensuring the protection / good stewardship of the environment. Many of these codes already require good outcomes for consumers and it is an extension of this logic that a duty of care to nature, specifically in the maintenance of biodiversity, and to wider society, particularly with regards to the welfare of future generations, should not only be implicitly expected but explicitly stated.

5. Professional bodies, such ours, stand ready to support Supervisors with the challenge, as outlined in Principle 17, of taking "*regular stock of existing skills and projected requirement…to build adequate expertise in identified skill sets".* We are already collaborating globally to build capacity, capability, and culture transforming best practice into current practice. Supervisors should be encouraged to work with bodies such as ours that are translating the complexities of the task at hand into practical application for bankers and that are in a position to provide independent assurance, measurement, verification and certification of efforts to adhere to the Principles.

[2] https://www.cisl.cam.ac.uk/resources/publications/risk-sharing-climate-emergency

Appendix 1

About the Chartered Body Alliance

Recognising our primary duty to the public of enhancing and sustaining professionalism in financial services, three of the leading Chartered professional bodies in the sector (the Chartered Insurance Institute, Chartered Institute for Securities & Investment and the Chartered Banker Institute) launched the Chartered Body Alliance in March 2017.

The Chartered Body Alliance strongly believes that by working together the alliance will achieve greater public benefit, continuing to raise professionalism and trust across financial services by promoting high standards of knowledge, skill, integrity and behaviour.

While the activities of each body focus on different areas of financial services, between them they cover a wide range of activities including wealth management, insurance, financial planning, banking and capital market activities.

The Alliance's joint membership of almost 200,000 professionals have much in common, and by working together can demonstrate a substantial collective commitment to enhancing professionalism and improving public confidence and trust in financial services.

For more information please visit: charteredbodyalliance.org

About the Chartered Banker Institute

The Chartered Banker Institute ("the Institute") is the oldest professional banking institute in the world. The Institute was founded in 1875, operates in all UK nations, and has a significant and growing international presence

The Institute has driven an agenda of ethical professionalism throughout its existence; promoting professional standards for bankers, providing professional qualifications for retail, commercial and private bankers in the UK and overseas, and offering professional membership to qualified individuals. The Institute currently has over 33,000 members.

About the Chartered Institute for Securities & Investment (CISI)

The CISI's mission is to help members attain, maintain and develop their knowledge and skills and to promote the highest standards of ethics and integrity in the securities and investment industry.

Based in the City of London, the CISI is a global organisation with representative offices in financial centres such as Dublin, Barcelona, Nairobi, Manila, Dubai, Mumbai and Colombo. We work in close cooperation with regulators, firms and other professional bodies worldwide and over 40,000 examinations were sat in 80 countries in the last twelve months

With 45,000 members in 104 countries the CISI is the professional body which sets examinations and offers qualifications for those working or looking to establish a career in the financial planning, wealth management and capital markets industry.

About the Chartered Insurance Institute (CII)

The Chartered Insurance Institute is the professional body dedicated to building trust in the insurance and financial planning profession. Our strapline *Standards. Professionalism. Trust.* embodies our commitment to driving confidence in the power of professional standards: competence, integrity and care for the customer.

We deliver that commitment through relevant learning, insightful leadership and an engaged membership.

Our 125,000 members commit to high professional standards by maintaining continuous professional development and abiding by our Code of Ethics. The Chartered Insurance Institute is proud to be a member of the Chartered Body Alliance and the Institute for Global Insurance Education