

Central Bank of Ireland Signals its Expectations on ESG / Sustainability to Irish Regulated Firms

On 3 November 2021, the Governor of the Central Bank of Ireland ("CBI"), issued a letter setting out its supervisory expectations of regulated financial service providers ("Regulated Firms") regarding climate and other environmental, social and governance ("ESG") related issues.

Recognising climate change as a strategic priority that requires action by all financial sector participants, the CBI acknowledged the need for it to lead and drive the climate and broader ESG agenda within the Regulated Firms it oversees.

It highlighted the important role Regulated Firms have to play in climate transition and the increased focus required.

Supervisory Expectations

The CBI's supervisory expectations regarding climate and ESG risks (summarised below) are relevant for all Regulated Firms. They focus on five key areas:

Governance

Regulated Firms (through their boards) need to demonstrate clear ownership of climate risks affecting them. Board oversight of climate risk must be proactive through business strategy and risk oversight, with adequate resourcing and clear roles and responsibilities assigned for boards, sub-committees and senior management as appropriate. Regulated Firms are also

expected to promote a culture that places emphasis on climate and other ESG related issues.

Risk Management Framework

Regulated Firms should ensure that their risk management framework provides for robust climate risk identification, measurement, monitoring and mitigation. This should be supported by relevant management information and risk reporting to enable the board to discuss, challenge, and take decisions on the firm's management of climate risks.

Scenario Analysis and Stress Testing

Both scenario analysis and stress testing are critical to assess the impact of potential future climate outcomes, including capital adequacy, where applicable. Applying lessons from COVID-19, the CBI highlights the importance of firms preparing for downside risks. Scenarios should include differing transition paths to a carbon neutral future, as well as a path where no transition occurs. The extent of analysis and testing should be proportionate to the nature, scale and complexity of the business and the materiality of climate risks impacting the firm.

Strategy and Business Model Risk

Regulated Firms are expected to undertake business model analysis to determine the impacts of climate risks (and opportunities) on their overall risk profile, business strategy and sustainability, and to inform strategic planning.

Disclosures

Regulated Firms need to ensure they do not engage in 'greenwashing'. They must adhere to transparency and disclosure principles and requirements (where applicable) including the Taxonomy Regulation¹, the Non-Financial Reporting Directive² (to be updated by the proposed Corporate Sustainability Reporting Directive³) and the Sustainable Finance Disclosures Regulation⁴, together with other European Supervisory Authority requirements. Such disclosures must be clear, fair and not misleading.

Board Consideration

All Regulated Firms (not just those with an ESG focus) should consider the letter's recommendations as part of a review of their sustainability related obligations as they continue to develop their sustainability strategy.

Further Information

Further information on our Irish Financial Services Regulatory Group, and the services we provide is available on our website page⁵ and in our brochure⁶.

If you would like further information, please liaise with your usual Maples Group contact or:

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¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

³ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>

⁴ <https://eur-lex.europa.eu/eli/reg/2019/2088/oj>

⁵ <https://maples.com/en/services/specialty-services/irish-financial-services-regulatory>

⁶ <https://maples.com/-/media/files/pdfs/articles-and-chapters/financial-services-regulatory-group---core-services.pdf>