BECEPTUM

BUSINESS ENGINEERING
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MONITORING ESG

Climate Risk & Refinancing

2022/12

It therefore follows that our actions in pursuit of price stability do not undermine our commitment to incorporate climate change considerations, within our mandate. Similarly, this same commitment does not undermine our commitment to price stability. Nor does it in any way restrict our ability to deliver price stability, even in the challenging circumstances we are currently facing. Not only have we started policy rate normalisation with an unprecedented 125 basis point increase in our rates over the last two Governing Council meetings, we have also released details of how we aim to decarbonise our corporate bond holdings on a path aligned with the goals of the Paris Agreement. As of next Monday, we will start tilting our corporate bond purchases towards issuers with a better climate performance. This is a milestone in the implementation of our climate action plan which will reduce our exposure to climate-related financial risks and support the green transition of the European economy in line with the EU's climate neutrality objectives.«

Frank Elderson
Member of the Executive Board of the ECB and
Vice-Chair of the Supervisory Board of the ECB
Link

CLIMATE RISK

Fed Wades Cautiously Into Climate Regulation With Bank Exercise

"The Federal Reserve (Fed) announced last week that six large U.S. banks will take part in a pilot exercise to analyze the effects of climate change on bank businesses and exposures under various scenarios. The exercise could benefit bank credit profiles over time to the extent it identifies gaps in banks' data collection and risk governance and builds U.S. regulatory competence around systemic climate risks, which has lagged other developed markets, Fitch Ratings says."

3 October 2022 – Fitch Ratings
Link

When will climate disclosures start to impact decarbonization?

"Nearly half (49%) of companies surveyed in this year's Barometer disclosed that they had conducted scenario analysis, a significant increase on 41% in 2021. The most common scenarios referenced were RCP 8.5 (a high-emissions future) and RCP 2.6 (a very low-risk future), indicating that companies are planning for what would be effectively worst-case and best-case scenarios.
Three-quarters (75%) of companies surveyed had performed risk analysis, with companies focusing almost equally on physical and transition risks. Nearly two-thirds (62%) of companies performed opportunity analysis, with "products and services" listed most frequently."

27 September 2022 – EY
Link

Insurers' climate risk management adequate for profitability implications: DBRS Morningstar

"A new note from DBRS Morningstar highlights that even though there has been a number of record-breaking extreme weather events that have occurred across the world in H1 2022, the impact on the profitability of the global P&C insurance industry has been mitigated by the insurers' response to climate change. Despite global natural catastrophe insured losses in H1 2022 being higher than the average of the past 10 years, they are manageable for P&C insurers.
DBRS Morningstar stated that it considers insurers' risk management responses to climate change, which includes annual premium re-pricing and robust reinsurance programs, to be adequate in mitigating short-term profitability implications."

23 September 2022 – Reinsurance News
Link

There's a New Cop on the Banking Beat: Chief Climate Risk Officer

The federal agency overseeing the country's largest banks has hired its first climate cop.
The Office of the Comptroller of the Currency announced on Monday that Yue Chen would be the agency's chief climate risk officer. Dr. Chen will focus on developing a new system to assess climate-driven risks to banks, and figure out how to monitor and manage them, the agency said in a statement.

12 September 2022 – New York Times
Link

Social bonds: the human side of sustainable finance

"In recent years, the public and private sectors have changed like never before. Products and services alone won't cut it for consumers: they still want their needs for food, clothing, transport and other things covered; but more of them are moved by concerns about social progress. Therefore, more companies are looking to adopt "ESG" standards — "E" for environment, "S" for social and "G" for governance — in their dealings with stakeholders (i.e. employees, partners and customers, suppliers and broader society) to help the planet (e.g. reducing or neutralizing carbon emissions, recycling and preserving biodiversity); to practice institutional transparency and integrity; and to promote social welfare."

3 October 2022 – Santander
Link

Fed announces climate test for some large banks

"The pilot test will begin in early 2023 and finish near the end of the year. Wells Fargo, Morgan Stanley, Bank of America, Citigroup, Goldman Sachs and JP Morgan Chase will participate. The Fed said the test will feature climate, economic, and financial variables."

3 October 2022 – Central Banking
Link

Our lighthouse offering headed by our MD: Capital market driven ESG Assessment

Marc Zinkel and team regularly perform ESG assessments with a particular focus on financing/ refinancing, incl. taxonomy, regulatory and rating scenarios, maturity assessment and ESG target picture as well as measures roadmap. **Contact Marc**

Our very own expert for Sustainability and Climate Risk (SCR®)

Program Manager Julia Grote is a certified Financial Risk Manager (FRM®), expert for Sustainability and Climate Risk (SCR®). **Contact Julia**

REFINANCING & CLIMATE RISK

ESAs warn of rising risks amid a deteriorating economic outlook

"The three European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) issued today their Autumn 2022 joint risk report. The report highlights that the deteriorating economic outlook, high inflation and rising energy prices have increased vulnerabilities across the financial sectors. The ESAs advise national supervisors, financial institutions and market participants to prepare for challenges ahead.
The post-pandemic economic recovery in Europe has dwindled as a result of the Russian invasion of Ukraine. Russia's war on Ukraine and the disruptions in trade caused a rapid deterioration of the economic outlook. It adds to pre-existing inflationary pressures by strongly raising energy- and commodity prices, exacerbates imbalances in supply and demand, and weakens the purchasing power of households. The risk of persistent inflation and stagflation has risen."

12 September 2022 – European Banking Authority
Link

Europe Firms That Refinance Bonds Face Highest Costs on Record

"European companies that need to refinance their bonds have never been faced with costs this high.
The difference corporates need to pay if they sold bonds now compared to the coupons on their existing debt climbed to 250 basis points, the highest since a Bloomberg index of euro-denominated investment-grade bonds began in 1998. In other words, companies have to pay an additional 2.5 million euros ($2.4 million) for every 100 million euros that they borrow "Corporates are going into this challenging period from a position of strength, but the speed and magnitude in funding costs does point to a material increase in defaults, albeit from a very low base," said Daniel Ender, a credit analyst at Actiam NV, which oversees about 22 billion euros. "Defaults will likely increase from historical lows to above their long-term average.""

26 September 2022 – Bloomberg
Link

Mapping climate risk: Main findings from the EU-wide pilot exercise

"In general, quantifying the potential impact of climate risks on the banking sector and testing banks readiness to identify, classify, evaluate and manage these risks is a priority for policy makers. The process of integrating climate risks into standard financial stability monitoring and supervision has already kicked off, building on recent EU initiatives on sustainable finance. One of the main ongoing tasks is to establish a unified EU classification system (EU taxonomy 2) to identity and classify environmentally sustainable economic activities ('green' activities). In addition, updated regulation mandates the three European Supervisory Authorities (ESAs) to develop common methodologies and define data requirements for climate risk assessment."

21 May 2022 – European Banking Authority
Link

EU Parliament fights over sustainability criteria for insurance sector

"In attempts to reach a common position on the review of prudential regulation for the European insurance sector, MEPs expressed starkly diverging opinions on whether and how to account for climate risks in the regulation.
The review of the Solvency 2 prudential regulation was proposed by the EU Commission in September 2021 to update the capital requirements for insurance companies to new economic circumstances."

6. September 2022 – Euractiv
Link

ECB climate agenda 2022

"Climate change and the transition to a greener economy affect our primary objective of maintaining price stability due to their impact on our economy and on the risk profile and value of the assets on the Eurosystem balance sheet. As a supervisory authority, it is our duty to contribute to the safety and soundness of the banking sector by ensuring the industry has made adequate preparations to manage climate-related risk."

4 July 2022 – ECB
Link

Leveraged Loan Default Volume In The U.S. Has Tripled This Year

"The default rate this year has been rising both in high yield loans and leveraged loans. It is not as high as it was in 2020 or certainly not what it was in 2009. The fact that the default rising is important, however, because we are now in a very high inflationary environment globally. Rising central bank rates make it expensive and challenging for companies to refinance. Banks that lend to leveraged companies will have to be attentive to measuring rising risk weights and capital associated with these assets. Investors in the loans and bonds of leveraged companies or funds with those assets in them could also take losses due to the deteriorating credit quality of these assets and the volatility in asset prices caused by market nervousness about rising defaults."

2 October 2022 – Forbes
Link

U.S. Bank Regulators Should Require Robust Climate Change Risk Measurements And Disclosures From Banks

"I was pleased to hear that the Federal Reserve will run a pilot program next year requiring the United States' most globally systemically important banks (GSIBs) to run climate change scenarios. This is a step in the right direction, since the safety and soundness of banks is critical to the development of our country. At the end of 2020, I wrote All U.S. Bank Regulators Should Require Banks To Incorporate Climate Change Risks into Their Risk Management Frameworks and Disclosures, precisely because banks can suffer significant financial losses from climate-change related physical and transition risks."

1 October 2022 – Forbes
Link

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