What Credit Unions Should Know About Sustainable Finance

World Council of Credit Unions
International Advocacy

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World Council is working on behalf of our members to ensure that regulations are tailored to support the member-owned, not-for-profit, cooperative credit union model; shaping international standards appropriately to recognize the unique benefits that credit unions offer to sustainable financial approaches; and positioning credit unions as a differentiator on ESG issues to deepen the financial well-being of the communities that we serve.

This paper will cover:

- How global frameworks are supporting climate change and sustainability. Global authorities set global standards and thresholds by which all supplementary standard setters and regulators should abide.
- How global and international standard setters are addressing climate change through guidance and regulation. While global frameworks are concerned with climate change en bloc, global standard setters are drafting regulatory guidance and regulation that not only supports climate-related matters, but issues that affect the environment and affect investors who desire to be informed about the environmental risks associated with their investments.
- The need for global standard setters to require regulatory authorities at the national level to adhere to proportional regulation, so that small financial institutions are not overregulated by rules that are tailored for large, systemically important banks. Generally, standard setting bodies construct the rules while regulatory authorities (typically at the national or jurisdictional level) enforce them.
- How the Basel Committee, International Accounting Standards Board, G20, European Commission, Financial Stability Board, European Securities Market Authority are committed to sustainable finance and climate change. While these standard setters are not the only authorities involved in structuring climate-related, sustainable finance rules, they are the leading authorities shaping sustainable finance regulation.

Global Frameworks

Issues surrounding climate change are imminent and far reaching. Whether this statement is debatable is irrelevant because global authorities have decided it to be true and are taking measures to address environmental issues related to climate change. If they have not already, the global efforts towards addressing climate change will impact all financial institutions for better or for worse. In 2015, 196 parties adopted the Paris Agreement at the Paris Climate Conference (COP 21), which entered into force on November 4, 2016. The goal of this legally binding international treaty is to limit global warming to well below 2°C, but preferably below 1.5°C in comparison to pre-industrial levels. Additionally, objectives to aid countries in combating the impacts of climate change were incorporated within the Agreement with the hope of strengthening their capabilities to address this environmental crisis.

The United Nations Framework Convention on Climate Change (UNFCCC) became effective on March 21, 1994, and currently has 197 countries standing as Parties to the Convention. UNFCCC's goal is to stabilize greenhouse gas concentrations "at a level that would prevent dangerous anthropogenic (human induced) interference with the climate system." It states that "such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened, and to enable economic development to proceed in a sustainable manner."[1] Industrialized countries that belong to the Organization for Economic Cooperation and Development (OECD) are responsible for cutting more emissions and are labelled Annex 1 countries.

Global frameworks have set the standard for regulatory change in the areas of sustainability and sustainable finance, potentially creating extensive compliance burdens for credit unions. It is imperative that credit unions prepare for the impact of climate change and onset of climate-related financial risk regulations.

Major Players in Sustainable Finance

Basel Committee

In November 2021, the Basel Committee on Banking Supervision (BCBS) released a consultative document on their *Principles for the Effective Management and Supervision of Climate-Related Financial Risks*[2], with request for comment. The document addresses climate-related financial risks and potential solutions through the strengthening of regulation, supervision, and practices of banks worldwide with the purpose of enhancing financial stability, including the assessment of disclosure, supervisory and regulatory measures. While the principles are geared toward large, internationally active banks, credit unions will most likely be subject to many of the principles, subjecting them to additional compliance burdens that may prove costly. Credit unions should stay informed of the new and emerging regulations and get ahead of them to avoid hasty decision-making and increased operational costs.

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[1] See, United Nations Climate Change; 2022; at: https://unfccc.int/process-and-meetings/the-convention/what-is-the-united-nations-framework-convention-on-climate-change.

[2] See, Basel Committee on Banking Supervision; November 2021; Principles for the Effective Management and Supervision of Climate-Related Financial Risks; at: https://www.bis.org/bcbs/publ/d530.pdf.

The Basel Committee's document outlines a principles-based approach (which details the intention of regulation instead of creating a set of rules for a financial institution) and provides guidance on its expectations for supervisory responses to any climate-related financial risks while working within its existing framework. The benefit of a principles-based approach gives a financial institution the flexibility necessary to make supervisory decisions determined by each scenario and its unique facts; however, this may give national-level regulators a great opportunity to implement overburdensome and unnecessary requirements, which will be particularly taxing on small financial institutions such as credit unions.

The principles highlight various scenarios of climate-related financial risks calling for broad and extensive foresight and analysis, leaving financial institutions to deduce how to address and manage the risk once it has been identified. Credit unions should analyze its reporting (financial statements) subject to "material" climate-related financial risks; as well as managing climate-related financial risks in a manner that is proportionate to the nature, scale and complexity of their activities; and consideration of risk levels they are inclined to accept. Increasingly, the Basel Committee is comprehending the need for proportionality within its guidance, and their climate-related principles accommodate it by stating that, "Banks are potentially exposed to climate-related financial risks regardless of their size, complexity or business model… Banks should manage climate-related financial risks in a manner that is proportionate to the nature, scale and complexity of their activities and the overall level of risk that each bank is willing to accept." The Committee has further strengthened this guidance with the release of its *High-Level Considerations on Proportionality*,[3] with the purpose of providing "practical support to supervisory authorities seeking to implement proportionality in their domestic regulatory and supervisory frameworks, in a way that does not undermine financial stability or the safety of financial institutions."[4] This is a huge win for credit unions and demonstrates that the Basel Committee is truly committed to climate change by giving all financial institutions an opportunity to address climate-related financial risks within their limitations.

Credit unions should note that while the current principles may offer some flexibility, alternatively, they leave much room for interpretation, which could result in confusion and prove costly in the long run. For example, Principle 1 suggests "a sound process for understanding and assessing the potential impact of climate-related risk drivers on their businesses and on the environments in which they operate", and to "take material physical and transition risk drivers into consideration when developing and implementing their business strategies." This presents the question of what is the threshold, or what indicator rises to the level of "impact"; or what is considered a "material" risk driver? Materiality, if not properly defined with measurable standards, can be left to the discretion of an examiner or regulator and can vary with a wide-ranging set of parameters based upon interpretation.

Principle 2 places responsibility on the board and senior management to assign climate-related responsibilities to members and committees and exercise effective oversight of climate-related financial risks, in addition to identifying climate-related risk management responsibilities within

[3] See, Basel Committee on Banking Supervision; High-Level Considerations on Proportionality; July 2022; at: https://www.bis.org/bcbs/publ/d534.pdf.
[4] See, Basel Committee on Banking Supervision; High-Level Considerations on Proportionality; July 2022; at: https://www.bis.org/bcbs/publ/d534.htm.

the organizational structure. Principle 2 further proposes that the board and senior management engage in internal workshops and training, or external collaboration with expert organizations where needed, and that relevant business units have “adequate resources”. Additional training and resources may seem like a simple concept when implementing new requirements within an institution, but for many credit unions, this is a significant objective. Oftentimes, the capital and resources necessary to train, and even hire essential staff to implement necessary oversight can be financially detrimental to a credit union and adequate resources may not be available.

Much like Principle 2, Principle 4 can, in practice be extremely costly and burdensome. Updating client onboarding, credit applications and credit review processes are exceedingly demanding on credit union resources. Without clearly defined proportional guidance, national-level regulators remain free to impose strict, arduous requirements that may be challenging for credit unions to comply with.

Principle 5 suggests the use of identification and quantification of climate-related financial risks followed by the incorporation of “those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes.” A definition and quantification for what the Basel Committee considers material in this instance would be beneficial. Further, assessing causes for net cash outflows or depletion of liquidity buffers, in addition to assessing material risks that may impair liquidity position in the internal liquidity adequacy assessment process (ILAAP), is a broad recommendation which needs specificity. The Committee’s guidance leans on a principle-based approach, and without clear-cut capital requirements, credit unions are at risk of surrendering to severe regulations meant for global systemically important banks (G-SIBs).

Credit unions often provide services to individuals and businesses that are a boon to environmental concerns by providing a line of credit supporting sustainable enterprises, agricultural loans and consumers who provide little impact to the environmental footprint. Proportionality is imperative and national-level regulators should include it within any climate-related financial risk guidance or requirements in order to support institutions that contribute to the betterment of the environment.

International Accounting Standards Board and International Sustainability Standards Board

The IFRS Foundation is responsible for developing globally accepted accounting and sustainability disclosure standards called International Financial Reporting Standards (IFRS). Under the Foundation exists two boards. The International Accounting Standards Board (IASB) is responsible for setting accounting standards, preparing, auditing or using financial reports, accounting education, and the development and publication of IFRS Accounting Standards. The International Sustainability Standards Board’s (ISSB) responsibilities include forming accounting standards to address environmental, social and governance (ESG) matters in coordination with the IASB. ESG criteria are non-financial factors that can aid investors in their analysis to identify material risks and investment opportunities. “When the ISSB issues the final requirements, they will form a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors in assessing enterprise value. The ISSB is working closely with other international organisations and jurisdictions to support the inclusion of the global baseline into jurisdictional requirements."[5] The IFRS Foundation Trustees announced the creation of the International Sustainability Standards Board (ISSB) on November 3, 2021, at the 2021 United Nations Climate Change Conference (COP26). That same month, the Basel Committee endorsed its formation, stating it would parallel the ISSB's work by exploring the use of Pillar 3 of the Basel Framework to "promote a common disclosure baseline for climate-related financial risks across internationally active banks".[6]

The Foundation, through the IASB and ISSB, is currently working on guidance and standards related to sustainable and climate-related risk disclosures. The intention is for the ISSB to deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions. The IASB and ISSB will work in tandem to create standards that address climate-related issues and move toward their goals of a global transition to net zero carbon emissions, to target greenwashing, as well as to address investors' interest in transparency of climate-related risks. This collaboration is an effort to avoid overlap and confusion. Both the IASB and ISSB want to make their mark on helping the environment by addressing climate-related and sustainability-related risks, i.e., disclosures for an entity's carbon offset and emissions targets.

Climate-related risks are risks to the entity based on climate-change and other environmental factors either directly or through third parties.

Sustainability related risks are an entity's dependencies on resources and its impact on resources, and the relationships the entity maintains that may be positively or negatively affected by those impacts and dependencies.

Similar to the Basel Committee's principles, the Foundation uses a materiality standard for climate-related risk disclosures. Entities should report current impacts on people, the environment and the planet, and not potential or future impacts, but only if they effect assessments of enterprise values and have an expectation to influence decisions that investors may make. Entities may still be required to justify their basis if they claim no materiality. While the IASB has no plans to update its standards to expressly reference sustainability or climate-related risks, they believe their current principles-based approach already embraces these themes and leaves enough flexibility to cover these issues. The ISSBs proposed standards on general sustainability-related disclosure requirements[7] and climate-related disclosure requirements[8] in

[5] See, IFRS.org; March 31, 2022; ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures; at: https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/.
[6] See, Basel Committee supports the establishment of the International Sustainability Standards Board; Press Release on November 3, 2021; at: https://www.bis.org/press/p211103.htm.
[7] See, IFRS, Exposure Draft IFRS® Sustainability Disclosure Standard; March 2022; at: https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf.
[8] See, IFRS; [Draft] IFRS S2 Climate-related Disclosures; March 2022; at: https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf.

response to G20 requests and International Organization of Securities Commissions (IOSCO) and other organizations, aim to bridge traditional standards with sustainability disclosures. This will include attention to exposure drafts, enterprise value assessments, connectivity with current reporting standards, utilization of a building blocks approach, a credible assurance framework and interoperability so that accounting standards do not exist in a bubble but will span across jurisdictions and developing markets. Interoperability should provide flexibility for jurisdictions to build on a global baseline.

Metrics & Targets:

Metrics and targets enable general purpose users of financial reporting to understand how an entity assesses its performance. Cross industry metric categories include:

- **Greenhouse gas emissions**
- **Transition risks**
- **Physical risks**
- **Climate-related opportunities**
- **Capital employment**
- **Internal carbon prices**
- **Renumeration**

The Foundation believes sustainability and climate related standards should be adaptable and foreseeable. The Foundation is aware of challenges surrounding data availability, access to proportionality and implementation, and third-party activity, and plan to devote effort to these issues. They have emphasized that implementation of the standards must be in accord with proportionality, ensuring that the size, jurisdiction and risk are taken into consideration, and favor a proportionate and phased implementation of the new standards. The Foundation, in general, has recognized the challenges to smaller financial institutions, including SMEs, and recently the IASB published proposals to update its accounting standard for small- and medium-sized entities, which significantly decreases the number of required disclosures for SMEs.

G20

The G20, which gives direction to many of the international standard setting bodies, issued its Leaders' Declaration in Bali, Indonesia in 2022, where it endorsed the 2022 G20 Sustainable Finance Report, articulating practical and voluntary recommendations for jurisdictions and relevant stakeholders in developing transition finance frameworks, as well as improving the credibility of financial institutions' net zero commitments and scaling up sustainable finance instruments with a focus on improving accessibility and affordability. They further supported the implementation of the Financial Stability Board's updated Roadmap for addressing climate-related financial risks, which complements the G20 Sustainable Finance Roadmap.

The G20 aims to establish globally consistent data necessary to effectively address climate-related financial risks. They supported finalization of standards by the ISSB in support of globally consistent, comparable, and reliable climate-related financial disclosures while also working beyond climate issues and welcomed efforts to achieve interoperability across disclosure frameworks. The G20 also welcomed the FSB progress report on achieving consistent and comparable climate-related financial disclosures, as well as the final report on supervisory and regulatory approaches to climate-related risks and, finally, the report by the FSB and the Network for Greening the Financial System (NGFS) on climate-scenario analysis by jurisdictions. This exhibits an internationally coordinated effort to address sustainable finance and risks associated with climate change.

European Commission

Last year, the European Commission, in efforts to develop a comprehensive policy agenda on sustainable finance, created a European Union (EU) sustainable finance strategy[9] to support the financing of the transition to a sustainable economy in four areas:

1. Transition finance;
2. Inclusiveness;
3. Resilience; and
4. contribution of the financial system and global ambition.

The EU has climate and energy targets by 2030, as well as green deal objectives, and in order to meet these objectives, the goal is to direct investments towards sustainable projects. The EU taxonomy regulation, a classification system originally created in July 2020, was part of a key strategy to reach these goals. The current EU taxonomy classifies parts of the economy that may be marketed as sustainable investments. Under the taxonomy, sustainable economic activities must contribute to at least one of six environmental objectives listed in the EU Taxonomy, do no significant harm to any of the other objectives, meet 'minimum safeguards' such as the UN Guiding Principles on Business and Human Rights to not have a negative social impact, and comply with the technical screening criteria developed by the EU Technical Expert Group.

Six Environmental Objectives of the Taxonomy:

- **Climate change mitigation**
- **Climate change adaption**
- **Sustainable use and protection of water and marine resources**
- **Transition to a circular economy**
- **Pollution prevention and control**
- **Protection and restoration of biodiversity and ecosystems**

The environmental taxonomy initially existed alone under the EU Taxonomy Regulation to classify environmentally sustainable activities, and largely applied to environmental activities and

[9] See, Strategy for Financing the Transition to a Sustainable Economy; European Commission; July 6, 2021; at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0390.

objectives. Social objectives were minimally referenced, and the Commission saw a need to expand the taxonomy to encompass them. In February 2022, the Commission released its unofficial Final Report on Social Taxonomy (which represents the general view of the members and observers of the Platform on Sustainable Finance that help the Commission develop sustainable finance policies; and the recommendations in the report may not be used as the Commission's final objectives)[10].

Environmental objectives are based on science, but a social taxonomy must be based on "international authoritative standards of topical relevance", i.e., the International Bill of Human Rights. The social taxonomy distinguishes between inherently social benefits and additional social benefits that directly contribute the visibility of human rights issues, i.e., improving access to quality healthcare or ensuring decent jobs. The Commission asserts that most economic activities have detrimental impacts on the environment, but there are others that are an inherent social benefit, such as job creation, paying taxes and production of socially beneficial goods and services.

Social taxonomy has 3 objectives:

- **Decent work**
- **Adequate living standards and wellbeing**
- **Inclusive and sustainable communities and societies**

An argument can be made that credit unions should be designated as their own social taxonomy without the need for reporting beyond their current regulatory framework. Credit unions are highly regulated financial institutions, many with their own reporting requirements that already require significant disclosure and auditing mainly for the purposes of safety and soundness and consumer protection. Further, there are two features of the cooperative structure that are crucial in generating substantial benefits to society: 1. Its total focus on member value and service; and 2. its tendency for risk aversion. Its member focus and the absence of a strong profit motive allow it to offer significant advantages to its members of modest means. This structure is significant in that we know that it results in numerous direct social benefits to the community. Credit unions are community-based institutions with field of membership restrictions and do not operate on a cross-border basis. This means that all the earnings flow back into the local communities they serve.

In the United States, the benefits of this structure have been well documented. Credit Union National Association (CUNA) in 2018 calculated that the nation's credit unions delivered direct financial benefits to members totaling $11.8 billion and since 2007 those financial benefits have

[10] See, European Commission; February 2022; at: https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf.

totaled $101.8 billion.[11] Furthermore, several independent researchers have found that credit unions have a moderating influence on bank pricing: raising bank deposit interest rates and lowering bank loan rates. Based on this research, CUNA estimates that bank customers saved $4.6 billion in 2018 from more favorable bank pricing arising from the presence of credit unions in their local markets.[12] Since 2007, those non-member financial benefits have totaled approximately $39.4 billion. In addition to the benefits credit unions provide member and non-members, they have a positive impact on the economy as a whole. CUNA has calculated that in 2017 credit unions contributed $121 billion in value added or economic activity to the U.S. economy.[13] Credit unions generally provide direct financial benefits to members through lower loan rates, higher saving rates and fewer, lower fees than comparable for-profit banking institutions. CUNA estimates that credit unions provided $12,557,606,745 in direct financial benefits to the 127,848,853 members in the United States during the twelve months ending December 2021.[14]

Donore Credit Union, based in Ireland, is a notable example of a credit union documenting its social benefits, Donore developed a methodology to calculate a number documenting the social dividend that their credit union generated. Their study, along with their methodological approach, demonstrated that their efforts generated an enormous social dividend during the 2018 - 2019 financial year—in excess of EUR 25 million. For every EUR 1 equivalent invested into Donore Credit Union, EUR 10 of social value was created.[15] This is an astounding number that could only be accomplished by the unique cooperative model afforded by a credit union.

The Irish League of Credit Unions, alternatively, is working on models to demonstrate to members that credit unions have always been sustainable, using the wider meaning of "sustainability" as set out in the United Nations Sustainable Development Goals (UN SDGs). Their methodology shows members how the credit union operating principles, which have been in place for over 50 years, are already very closely aligned with the UN SDGs. Further, the methodology provides an introduction to the European Union's Corporate Sustainability Reporting Directive ("CSRD"), the sustainability disclosure requirements for large commercial banks and other companies.

Financial Stability Board (FSB)

The Financial Stability Board (FSB) is endeavoring in an international coordination with other standard setting bodies (SSBs) to coordinate efforts to address climate-related financial risks. In

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[11] See, Credit Union National Association, Credit Union Not-For-Profit-Tax Status: History, Benefits, and Public Policy Tax Considerations; April 2019; at: https://news.cuna.org/ext/resources/NewsNow/2019/04-2019/CUTaxStatusWhitePaper_April19.pdf .

[12] Id.

[13] Id.

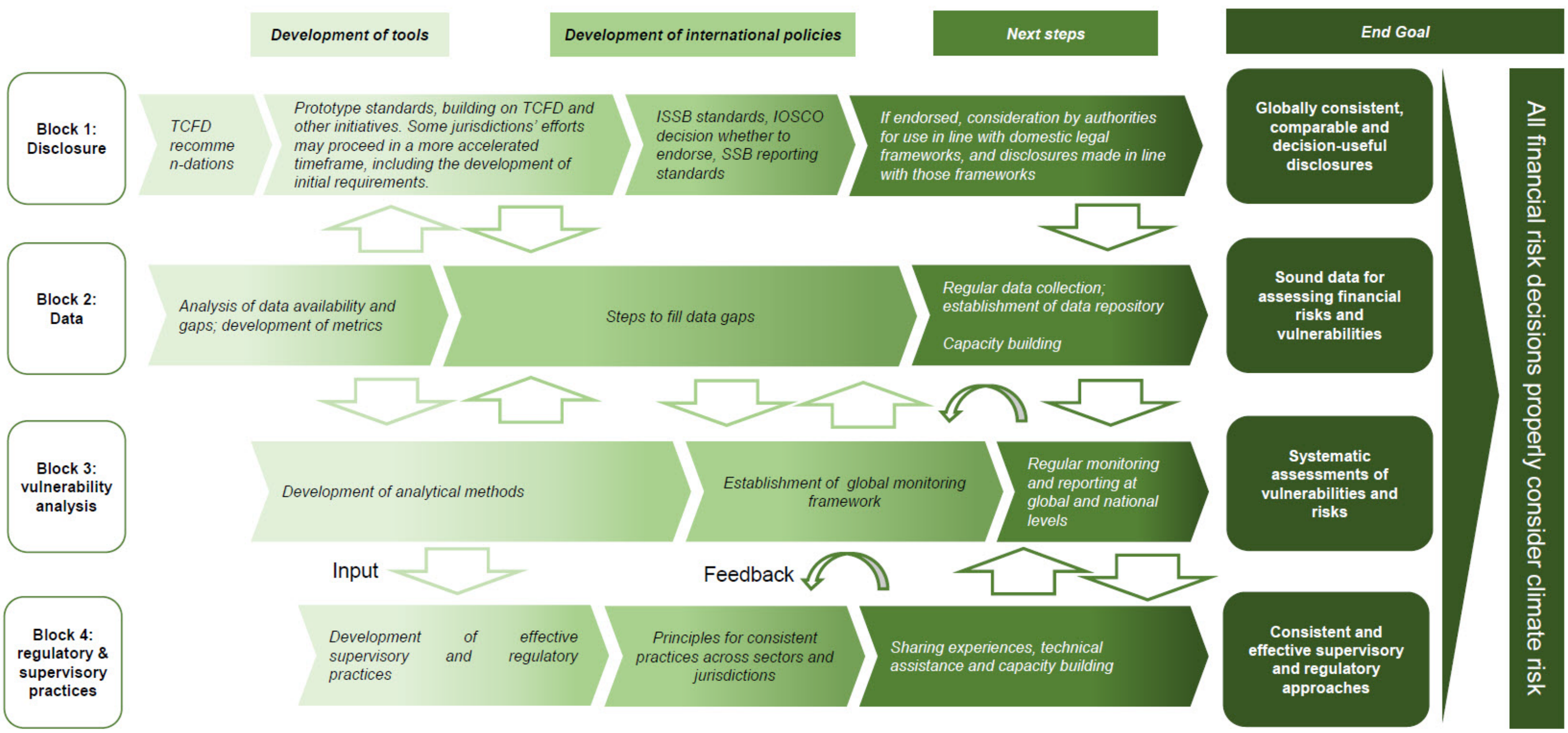
[14] *See* Credit Union National Association, *CUNA U.S. Membership Benefits Report* (December 2021) *available at* file:///C:/Users/APrice/Downloads/MembBenefits-National-D21.pdf.

[15] *See* Donore Credit Union, *Social Return on Investment Study* (June 2020) *available at* https://www.donorecu.ie/images/library/documents/27022020-124055.pdf. Further information on the methodology utilized in the Study can be viewed at https://www.donorecu.ie/social-return-on-investment.

July 2022, the FSB published its Roadmap for Addressing Climate-Related Financial Risks.[16] Its areas of focus, goals and actions include:

- "**Firm-level disclosures**, as the basis for the pricing and management of climate-related financial risks at the level of individual entities and market participants;
- **data**, using consistent metrics and disclosures, provide the raw material for the diagnosis of climate-related vulnerabilities;
- **vulnerabilities analysis**, which provides the basis for the design and application of regulatory and supervisory frameworks and tools;
- and **regulatory and supervisory practices and tools** that allow authorities to address identified climate-related risks to financial stability in an effective manner."[17]

The FSB also submitted its first annual progress report on the roadmap to address climate-related financial risks to the G20 Finance Ministers and Central Bank Governors.



Overview of the FSB's roadmap for addressing climate-related financial risks[18]

[16] See, Financial Stability Board; Roadmap for Addressing Climate-Related Financial Risks; July 2021; at: https://www.fsb.org/wp-content/uploads/P070721-2.pdf.
[17] Id. at
[18] See, Financial Stability Board; Climate-related risks; at: https://www.fsb.org/work-of-the-fsb/financial-innovation-and-structural-change/climate-related-risks/.

Prior to publishing the roadmap, on April 29, 2022, the FSB also released its Interim Report on Supervisory and Regulatory Approaches to Climate-Related Risks,[19] to "assist supervisory and regulatory authorities in developing approaches to monitor, manage and mitigate risks arising from climate change and promote consistent approaches across sectors and jurisdictions."[20] On October 13, 2022, it released a final report on Supervisory and Regulatory Approached to Climate-Related Risks[21], including public feedback on the interim report published in April.

Supervisory and Regulatory Approaches to Climate-Related Risks focuses on three key areas[22]:

- **supervisory and regulatory reporting and collection of climate-related data from financial institutions as foundational elements in the identification and monitoring of climate-related risks;**
- **systemwide supervisory and regulatory approaches to assessing climate-related risks, including the use of analytical tools such as climate scenario analysis and stress testing; and**
- **assessing the extent to which current policies and tools address climate-related, risks, and early consideration of other potential macroprudential policies and tools to address systemic risks that may not be addressed fully by current measures, based on the work of standard-setting bodies and authorities.**

Credit unions should note the inclusion of proportionality language within the report, "taking into account the nature, size, and risk profile of a financial institution." It contributed a brief nod to an impactful issue for cooperatives by stating that "Larger and more complex financial institutions are likely to have more developed and sophisticated capabilities (e.g. modelling) to produce data on climate-related risks. While smaller institutions may not have the same resources and capabilities as larger institutions, they could still be exposed to climate-related risks, in particular if their business is concentrated in a vulnerable sector, product or geography. Authorities should therefore take a proportionate approach to considering the expansion of regulatory returns to climate-related information, taking into account the nature, size and risk profile of a financial institution's activities. As more financial institutions report climate-related information, authorities could also facilitate the sharing of industry good practices, which could benefit smaller institutions in building their reporting capabilities." Additional and unequivocal language directed towards national-level regulators may be necessary to motivate local regulators to take proportionality into consideration when implementing climate-related rules and regulations.

The FSB furthered its efforts on climate-related issues with the creation of the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information; and specifically to develop recommendations on what information companies should disclose to aid investors, lenders and insurance underwriters in assessing and

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[19] See, Financial Stability Board; Supervisory and Regulatory Approaches to Climate-Related Risks – Interim Report; April 29, 2022; at: https://www.fsb.org/wp-content/uploads/P290422.pdf.
[20] Id.
[21] See, Financial Stability Board; Supervisory and Regulatory Approaches to Climate-Related Risks – Final Report; October 13, 2022; https://www.fsb.org/wp-content/uploads/P131022-1.pdf.
[22] Id.

pricing climate-related risks.[23] The Task Force, chaired by Bloomberg founder, Michael R. Bloomberg, has 31 G20 members and represents both preparers and users of financial disclosures and its recommendations exist under four pillars suggesting that companies disclose the **governance** of climate-related risks and opportunities, **strategies** for these factors, **risk management** considerations, and metrics and targets to assess risks and opportunities. TCFD boasts of 3400 supporters in 95 jurisdictions, and support from over 120 regulators and governmental entities worldwide.[24] The ISSB has confirmed that it will use the task force's recommendations coupled with industry-based disclosure requirements taken from SASB Standards (Sustainability Accounting Standards Board standards).

European Securities and Market Authority

The European Securities and Market Authority (ESMA) is an independent European Union (EU) Authority with the goal of safeguarding the stability of the EU's financial system by protecting investors and "promoting stable and orderly financial markets". The ESMA works closely with European Supervisory Authorities, such as the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA), and reports to the European Parliament, the Council of the European Union and the European Commission.

ESMA SETS OUT ITS STRATEGY ON SUSTAINABLE FINANCE

- Completing the regulatory framework on transparency obligations via the Disclosures Regulation. ESMA will work with the EBA and EIOPA to produce joint technical standards;
- Reporting on trends, risks and vulnerabilities (TRV) of sustainable finance by including a dedicated chapter in its TRV Report, including indicators related to green bonds, ESG investing, and emission allowance trading;
- Using the data at its disposal to analyze financial risks from climate change, including potentially climate-related stress testing in different market segments;
- Pursuing convergence of national supervisory practices on ESG factors with a focus on mitigating the risk of greenwashing, preventing mis-selling practices, and fostering transparency and reliability in the reporting of non-financial information;
- Participating in the EU Platforms on Sustainable Finance that will develop and maintain the EU taxonomy and monitor capital flows to sustainable finance; and
- Ensuring ESG guidelines are adhered to in the entities that ESMA supervises directly, while being ready to accept any new supervisory mandates related to sustainable finance.

Press Release: ESMA sets out its strategy on sustainable finance[1]

[23] See also, Taskforce on Climate-Related Financial Disclosures Overview; May 2022; at: https://assets.bbhub.io/company/sites/60/2022/05/TCFD_Overview_Booklet_Digital.pdf.
[24] See, Taskforce on Climate-Related Financial Disclosures website: at https://www.fsb-tcfd.org/support-tcfd/; see also, 2021 TCFD Status Report; at: https://assets.bbhub.io/company/sites/60/2021/07/2021-TCFD-Status_Report.pdf.

In 2020, the European Securities and Market Authority (ESMA) created a Strategy on Sustainable Finance,[25] where it prioritized sustainability by "embedding" ESG factors in the work it performs. ESMA outlined its key priorities, underscoring the importance of transparency obligations, risk analysis on green bonds, ESG investing, convergence of national supervisory practices on ESG factors, taxonomy and supervision. Key priorities include: developing a single rulebook and integrating sustainability; harmonizing the incorporation of ESG factors in the supervisory practices of National Competent Authorities (NCAs); monitoring market developments and identifying risks; and improving transparency of ESG factors in the credit rating process.

On February 10, 2022, the ESMA released its Sustainable Finance Roadmap 2022-2024[26], setting its sustainable finance priorities and related actions. Its three central priorities include addressing greenwashing and promoting transparence, building the NCA's and ESMA's capacity to better comprehend "supervisory implications of new regulations", and monitoring, assessing and analyzing ESG markets and risks.

Conclusion

All aspects of a credit union's operations, including investments, governance, products and services, supervision, disclosures, accounting and more are being transformed by developments in sustainable finance and climate change regulations. The challenge for the industry is ensuring that regulatory frameworks contemplate the unique credit union cooperative model that plays a unique role in benefiting the environment, both from a financial standpoint and a social standpoint. The opportunities are endless for credit unions to be the catalyst for responsible change while addressing sustainable finance and climate issues.


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World Council of Credit Unions' International Advocacy Department continuously engages with international standard setting bodies—incurring successes in reducing regulatory burdens for credit unions in many areas, such as prudential regulation, anti-money laundering, taxation and accounting standards. World Council's priority is to improve the regulatory operating environment for credit unions in a safe and sound manner. World Council engages in advocacy, development and education to champion and grow credit unions and cooperative finance worldwide. There are over 87,000 credit unions in 118 countries with USD 3.4 trillion in total assets serving 393 million members.[27]

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[25] See, ESMA; Strategy on Sustainable Finance; February 6, 2020; at: https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf.
[26] See, ESMA; Sustainable Finance Roadmap 2022-2024; February 10, 2022; at: https://www.esma.europa.eu/sites/default/files/library/esma30-379-1051_sustainable_finance_roadmap.pdf.
[27] World Council of Credit Unions, *2020 Statistical Report; at* https://www.woccu.org/documents/2020_Statistical_Report.