

Governance

CRDV & CRR2



Environmental, Social & Governance (ESG) Risks

Background

- Many governments around the world adopted the Paris Agreement on climate change and the UN 2030 Agenda for Sustainable Development in 2015, aiming to find a more sustainable path for our planet and our economy.

What does the term ESG bring to mind?

- For many, the term “ESG” brings to mind environmental issues such as climate change and resource scarcity.

The reality of ESG Risks?

- ESG Risks extend beyond the reach of sustainable finance and touch upon various social issues such as a company’s labour practices, talent management, product safety and data security.
- This also includes governance matters like board diversity, executive pay and business ethics.

Environmental, Social & Governance (ESG) Risks

What are they?

- More than just “green thinking”.

Aims?

- Sustainability – Long term, sustainable finance.
- Inclusivity – Socially acceptable management.
- Oversight – Oversight and structure.



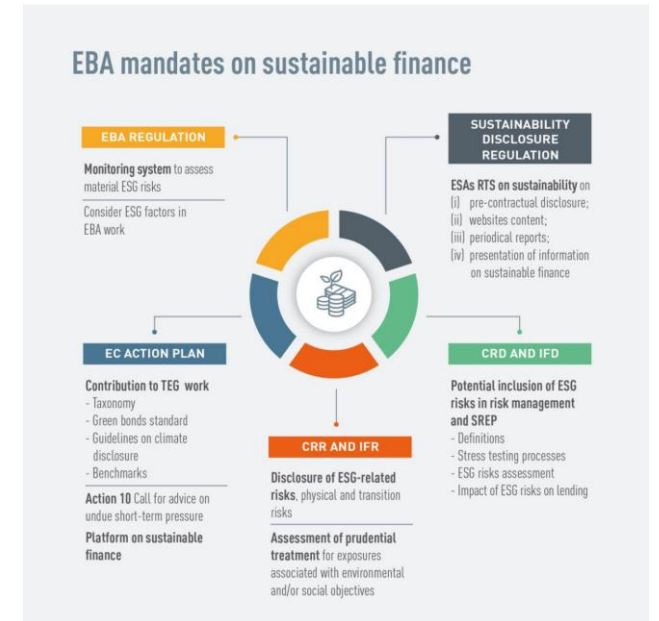
Public disclosure of ESG risks

- The disclosure of information on ESG risks is one of the key components in the policy framework of sustainable finance.

Environmental, Social & Governance (ESG) Risks

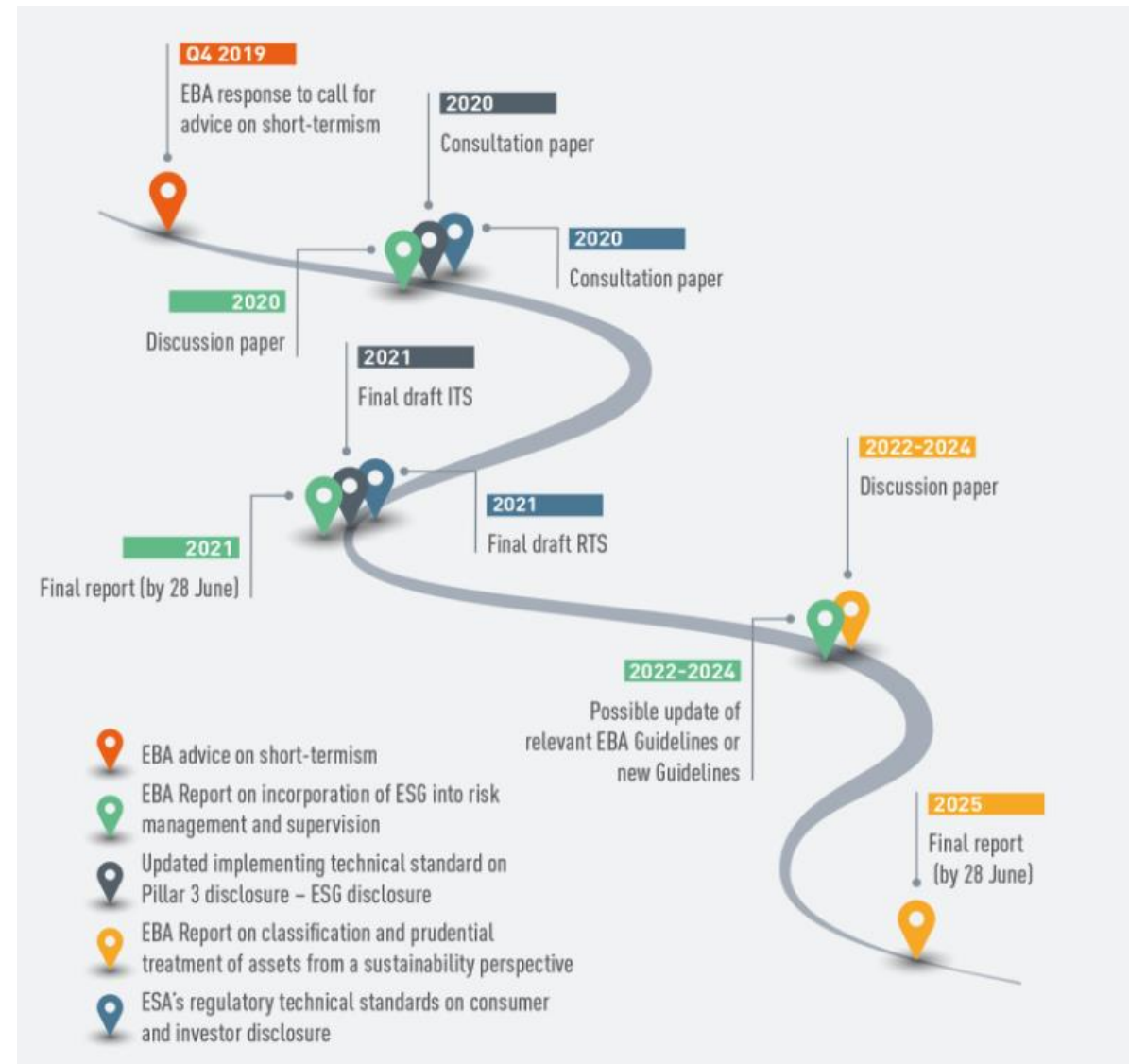
Main EBA publications (to date)

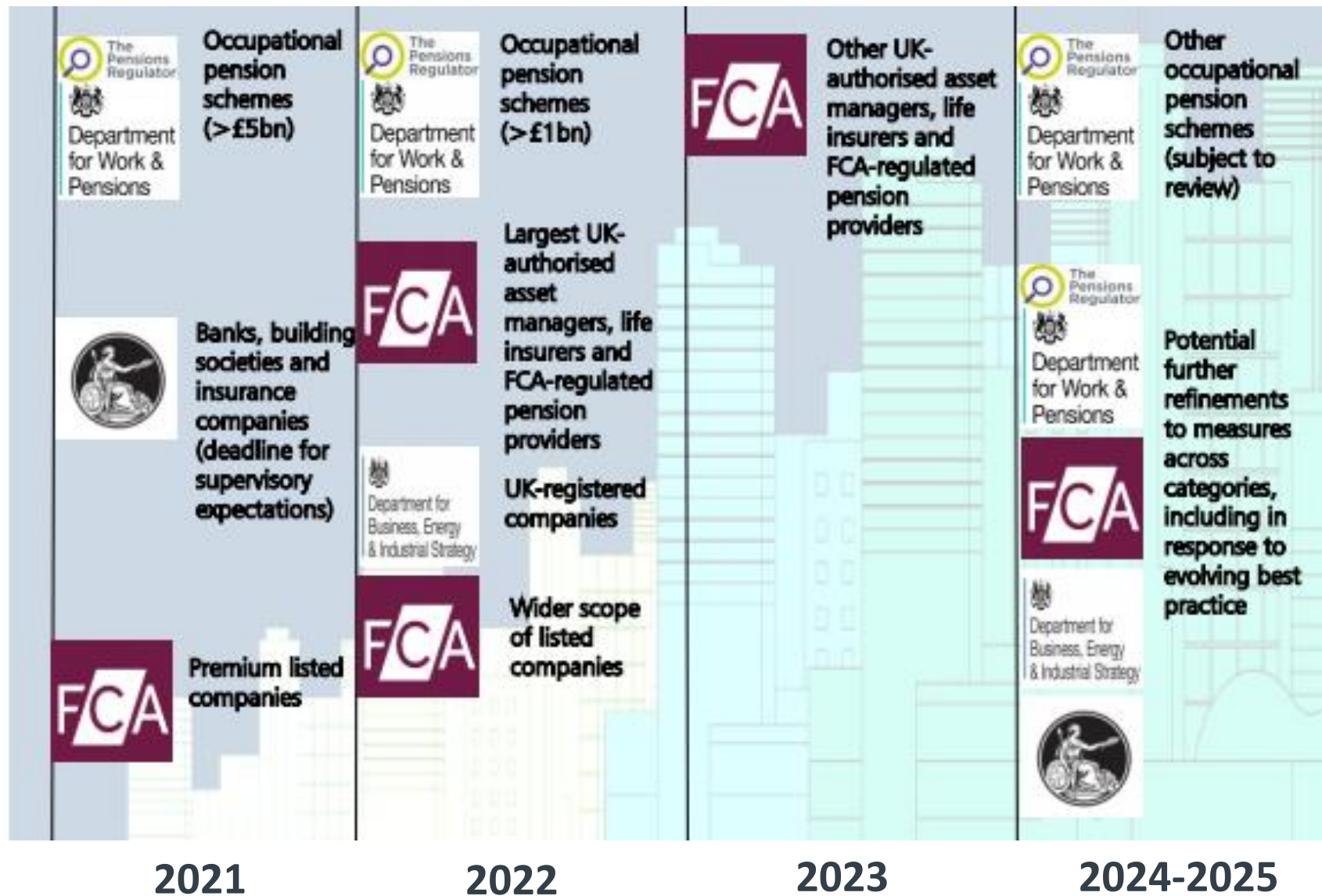
- EBA Action Plan on Sustainable Finance
- EBA Discussion paper
- Survey on credit institutions' disclosure of information related to ESG risks



EBA Timeline on Sustainable Finance

- **2020** – Publishing of the consultation paper.
- **2021** – Publishing of final draft RTS & final EBA Report on incorporation of ESG risk into management & supervision.
- **2022-2024** – Possible updates to guidelines & publishing of discussion papers.
- **2025** – Final report on classification and prudential treatment of assets from a sustainability perspective.





Gender Neutrality & Diversity

“A diverse mix of voices leads to better discussions, decisions, and outcomes for everyone” ~ Sundar Pichai

Management Bodies should be sufficiently diverse to facilitate **independent opinions** and **critical challenge**. Diversity should therefore be one of the criteria for the composition of management bodies, and should be addressed in **recruitment policies** more generally.

Gender balance is of particular importance to ensure adequate representation of the population and your workforce.

What was introduced in CRD IV?

It is the responsibility of the **Nomination Committee** to:

- Decide on a **target** for the representation of the underrepresented gender in the management policy;
- Prepare a **policy** on how to increase the number of the underrepresented gender in the management body in order to meet that target; and
- **Publicise** the target and policy.

CRD V – Gender Neutral Remuneration

CDRV updates Article 74 to determine that remuneration policies and practices should be gender neutral.

This is defined in Article 3 as “*a remuneration policy based on **equal pay for male and female workers for equal work or work of equal value***”.

What about post-Brexit?

The **UK Equality Act 2010** already includes provisions for equal pay and gender neutral remuneration. The FCA and PRA have released statements that a new remuneration requirement on gender neutrality would “further [its] commitment” to upholding its public sector equality duty, and support its actions as a regulator in helping to eliminate “poor conduct” prohibited by the Act.

Looking Forward

Gender equality is one small piece of the puzzle when it comes to inclusion and diversity.

A number of organizations worldwide are leading the charge for the representation of:

- Black, asian and minority ethnic (BAME) groups;
- LGBTQ+;
- Disability.

True inclusion is not a tick box exercise.

Questions

Comments