

## Central Bank Dear CEO Letter on Climate and Other ESG Issues

On 3 November 2021, the Central Bank of Ireland (“**Central Bank**”) published a “Dear CEO” **letter** on its supervisory expectations regarding climate and other ESG issues, which was published to coincide with the 26th UN Climate Change Conference (“**COP26**”). The Central Bank notes that its expectations apply to all regulated financial service providers (“**RFSPs**”) (including fund management companies) and are articulated on the basis that they can be applied by RFSPs in a proportionate manner aligned to the nature, scale and complexity of the individual firm. The expectations do not override or replace any legal, regulatory or supervisory requirements applicable to RFSPs (such as requirements under the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation).

The Central Bank notes the challenges of adhering to statutory and regulatory requirements in this area and states that its approach will evolve and will be kept under review. The Central Bank will also consider the need for sector-specific guidance.

The Central Bank’s expectations focus on five key areas, as set out in the table below.

<p><b>1. Governance</b></p>	<p>RFSPs need to demonstrate clear ownership by their boards of climate risks affecting the firm and to promote a culture that places emphasis on climate and other ESG issues.</p>
<p><b>2. Risk Management Framework</b></p>	<p>Firms need to understand the impact of climate change on the risk profile of the firm and to enhance their existing risk management frameworks to ensure robust climate risk identification, measurement, monitoring and mitigation.</p>
<p><b>3. Scenario Analysis</b></p>	<p>Scenario analysis and stress testing are critical to assess the impact of future climate outcomes, including impacts on capital adequacy, where applicable.</p>

<p><b>4. Strategy and Business Model Risk</b></p>	<p>Firms should undertake business model analysis to determine the impacts of climate risks (and opportunities) on the firm’s overall risk profile, business strategy and sustainability and to inform strategic planning.</p>
<p><b>5. Disclosures</b></p>	<p>Existing legal requirements on disclosure emphasise the importance of transparent disclosure to protect investors’ interest and wider market integrity. Firms need to ensure they do not engage in “greenwashing”. The letter states:</p> <p>“Asset managers and investment product providers are responsible for providing disclosures to their clients and customers on the sustainability risks and where relevant, impacts of investment products. They must ensure that such disclosures are clear, fair and not misleading”.</p>

The letter refers to the establishment of the Climate Risk and Sustainable Finance Forum (the “**Climate Forum**”) which will bring together stakeholders to share knowledge and understanding of the implications of climate change for the Irish financial system.

Addressing climate change will no doubt continue to be a strategic priority for the Central Bank and, as noted in the letter, we can expect its position to evolve as further legislative and regulatory measures are published and as the market responds and adapts to these developments and to investor demand.

*Please get in touch with your usual Asset Management and Investment Funds Department contact or any of the contacts listed in this publication should you require further information in relation to the material referred to in this briefing note.*

*Full details of the Asset Management and Investment Funds Department, together with further updates, articles and briefing notes written by members of the Asset Management and Investment Funds team, can be accessed at [www.matheson.com](http://www.matheson.com).*

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