A CUBE INDUSTRY DATA REPORT

Climate Change Risk: The Race To Regulation

Contents

With thanks to Dr Sabine Dittrich, Barrie Ingman, Jay Wolstenholme, Stephanie Sfakianos and Hannah Duncan.

Executive summary

This report is the first in a series of CUBE Industry Data Reports which leverages CUBE's proprietary inventory of standardised regulatory data to draw meaningful insights from global regulatory activity.

As the first in the series, we were keen to explore a topic of regulation that remains relatively ethereal; Environmental, Social, Governance (ESG). The data, which comes from CUBE's RegPlatform, explores 116,325 Issuances relating to ESG from global regulators and Issuing Bodies over the last 10 years.

ESG action within financial regulation is as much a source of myth and legend as it is of regulatory Issuances. 10 years ago, ESG factors were virtually unknown, or considered unimportant. However, the last two years have seen a seismic shift for ESG from investors, consumers, and regulators alike. The financial services sector is especially keen to learn what the future holds for its industry.

ESG is a broad topic with parameters which are yet to be fully defined. As such, this report focusses on the first pillar of ESG, the 'E' – Environment. In particular, it explores the frequency of reference to a number of climate-related concepts, focusing on climate-change risk but also climate disclosures, SFDR and the TCFD, among others. The report explores the references of these concepts from regulatory issuers on a global scale, with a view to understanding what topics Issuing Bodies are focused on and how they are prioritising them.

Climate-change risk

Of the 116,325 climate-related Issuances that were captured by CUBE, those that considered 'climate change risk' amounted to 110,897. This translates as 95.3% of all analysed data. Of those 110,897 Issuances, 52,409 (47%) were referenced by EU based Issuing Bodies, who consistently lead the way with regulatory messaging throughout the report. It should be noted from the outset that the UK and Switzerland feature within the continent of Europe, which is referenced as 'EU' throughout.

Greenwashing and other surprises

Across the report, the data uncovers a number of findings that challenge perceptions of how climate risk and associated topics are being managed by Issuing Bodies across the globe. Greenwashing, for example, is a hotly debated topic. However, cumulative reference to greenwashing across global Issuing Bodies remains low.

Looking at the Issuing Bodies that published the highest volume of climate-related insights for financial services was also telling. Large institutions like the European Commission and the Information Commissioner's Office have published more than 30,000 Issuances of climate-related content, but only around 500 of these were found within in-force regulation. Another insight came from Hawaii, where the Hawaiian Government have published more climate-related content (including in-force regulation) than many far more prominent bodies in other countries.

Executive summary

RegBooks and RegInsights: In-force regulation vs horizon scanning

CUBE adopts an inclusive approach to the monitoring and collection of global Issuances, extracting them direct from source. This includes everything from proposed legislation through to final and enacted regulation, and everything in between, including blogs, speeches, notices, consultation papers etc. All content that is pertinent to financial regulation is identified and categorised by Issuing Body, Issuance Type, etc.

In-force regulation, legislation and laws are grouped and tagged as **"RegBooks"**. Issuances that are not in force, blogs, news, speeches and Bills for example, are tagged as **"RegInsights"**. By comparing the two we are able to get a clearer picture of the Issuing Bodies who are regulating, and those who are simply discussing climate-related topics – as well as those that are doing both.

Unsurprisingly given the maturity and evolving understanding of this new topic, our data shows that the majority of climate-related Issuances are currently 'RegInsights'. In the EU we found 52,000 references to climate-related concepts within RegInsights, with only 2,236 references within regulatory sections of RegBooks. In North America, there were 22,384 RegInsight references, in comparison to 4,260 RegBook sections.

At first glance this points to the idea that global regulators are making commitments but failing to actually implement regulations. However, more than 8,000 global RegInsights exist as 'Bills', which suggests regulation may still be implemented.

Time is at the heart of this report, as well as the understanding that ESG, especially the 'E' poses one of the greatest challenges of our times, not only for society but for regulators and financial institutions too. As such, the data we see today is still relatively new and will undoubtedly evolve in years to come.

Key terms

RegBook®	in-force regulation, rules, legislation etc.
RegInsight®	regulatory content which is not in force e.g blogs, speeches, consultations
Issuing Body	a regulator, government or other organisation that publishes content for the consideration of financial institutions
Issuance	published content by Issuing Bodies - both RegBooks and RegInsights that concerns the operation of financial institutions
Issuance Type	the category of Issuance published by the Issuing Body. Examples of Issuance Types include blogs, speeches, consultations, regulations, legislation etc.

Key findings

Climate change risk dominates regulatory Issuances

95.3%
of all collected Issuances made direct reference to 'climate change risk'

References to the Sustainable Finance Disclosure Regulation (SFDR) featured least frequently, amounting to
47
global Issuances

References to 'ESG' amounted to
3,430
regulatory Issuances

The EU is leading the way for climate related Issuances

The EU are responsible for
47.22%
(54,926)
of all climate-related Issuances made globally to date

Asia accounts for
23.47%
(27,306)

North America accounts for
22.9%
(27,306)

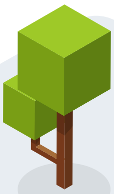
Key findings

The most active Issuing Bodies are not the ones we would expect

The European Commission:

14.4%

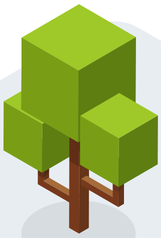
of climate-related Issuances



Japan's Ministry of Economy, Trade and Industry (METI):

9.5%

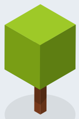
climate-related Issuances



The Information Commissioner's Office:

12.1%

of climate related Issuances



Hawaii Government:

1.8%

climate-related Issuances

Climate-related regulation is on the horizon

8,171 of 73,100

of climate-related regulatory insights were **'Bills'**

Climate-related Issuances rose sharply in 2021

101,628

climate related Issuances were published between 2017-2021

63%

of these were all published in 2021

Foreword

It is my pleasure to present this report, which covers one of the most important regulatory movements we have seen in our time. The data and analysis featured throughout this report is collected by CUBE's own technology and AI analysing the global regulatory internet.

We cannot understate that climate risk is hugely important. In October 2021, the US Financial Stability Oversight Council announced that climate change was also a threat to financial stability. This is demonstrated by the fact that over 2020 and 2021, in the face of a global pandemic, regulatory bodies the world over continued to publish climate-related content in the tens of thousands. Many expected that regulators would put activity on hold but clearly this was a topic that could not be paused.

As well as the environmental need to focus on the climate, it is also driven by a societal desire, and by the wants and needs of investors - more than ever before, investors are knowledgeable and dictating their investment funds. In the last year, for example, we have seen a huge push from celebrities and the public to take control of their pension pots and ensure they are invested in green or sustainable funds. Pensions are also moving overwhelmingly to defined contribution (DC) over defined benefit (DB), meaning by proxy that individuals have greater input in their returns.

It's not just pensions where celebrities featured. Investments have been gamified over the course of 2020/21 – you only need to look at GameStop or Elon Musk's tweets to see how individuals, when working with a common goal, can alter markets overnight. Climate change could be next. This gamification, combined with a new wave of investor, has cemented climate change on the regulatory agenda. Financial regulation is often a product of innovation or change in the financial services market. This change, in turn, is often driven by societal shifts – which are a complex amalgamation of environment, political landscape, media messaging and more. Financial regulation can therefore be indicative or reflective of the society in which it regulates. It is important to keep this in mind when considering why the data reveals what it does in this report.

At CUBE we continue to create and maintain the world's largest golden source of regulatory data, contextualized around all topical matter in the world of regulation. I hope you enjoy this report and as ever, we welcome your feedback and comments.

Ben Richmond
CEO and Founder, CUBE

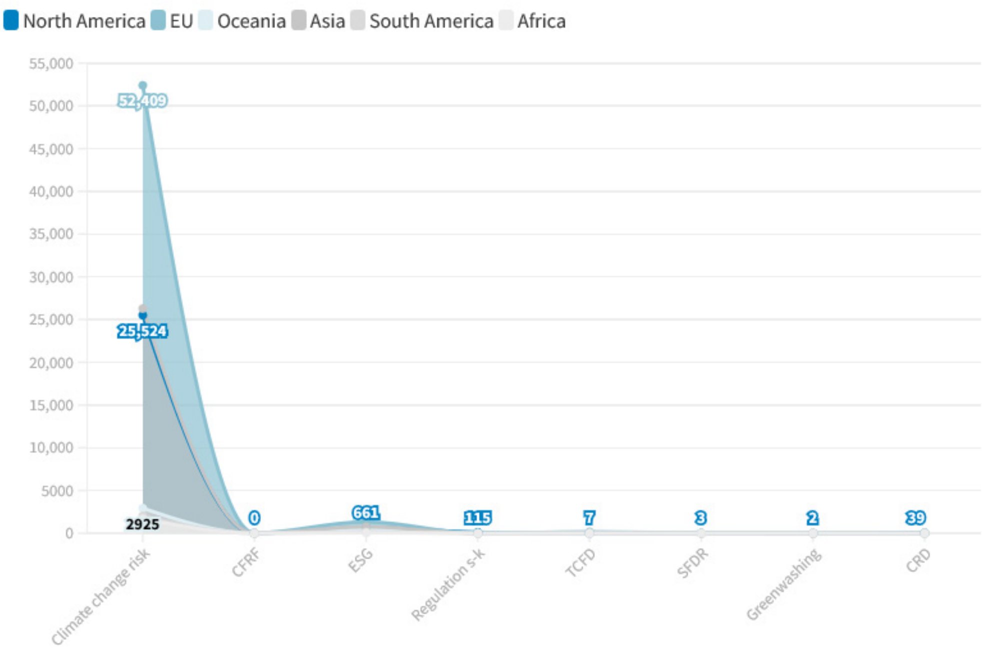
01

The whole world of climate change regulation

Historically, climate change was seldom seen on the regulatory agenda for financial services. In the last five years, however, societal and political shifts have inspired a change in regulatory attitudes. The risks associated with climate change are not only environmental but are also economic too. They include physical risks to property and assets, which affects insurance claims and lowers collateral value. Risks also include the devaluation of assets such as fossil fuels, which gradually lose their value, in turn reducing the value of associated loans and investments.

These risks are global and will affect every continent, country, government and regulator. They will also impact every financial entity. It is with that as a backdrop that we explored the cumulative total of financial regulatory data that is being published by Issuing Bodies across the globe.

Fig 1. Cumulative total of concept references by continent



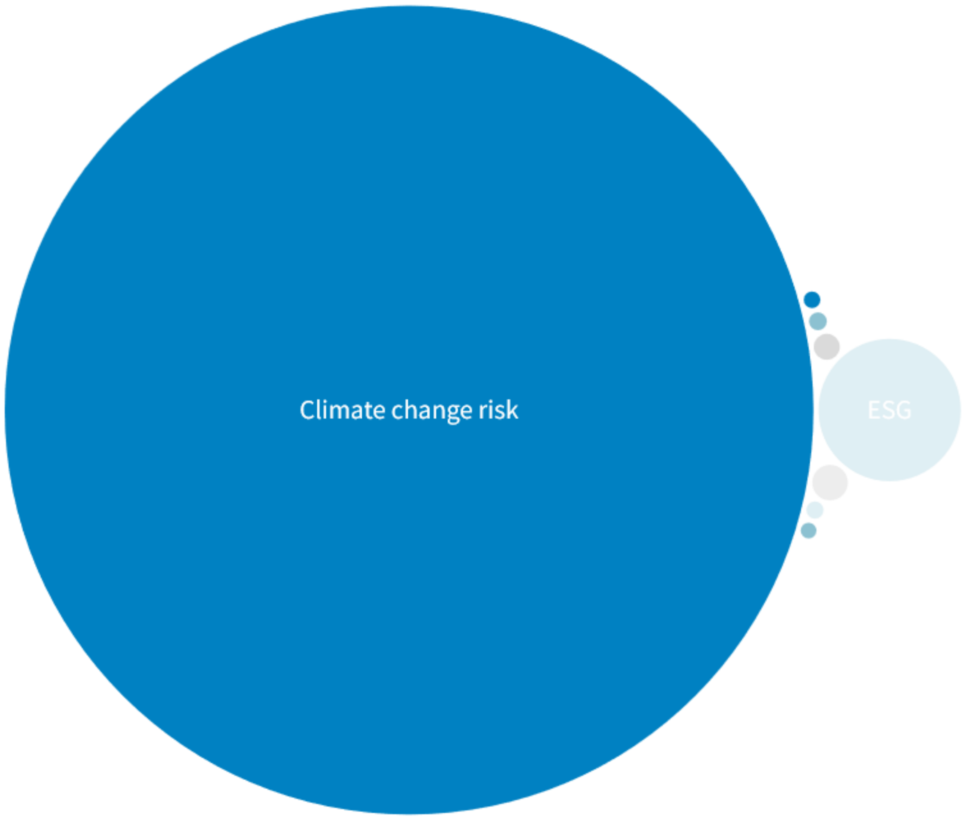
The first chapter displayed in Figure 1, looks at the cumulative total number of financial regulatory Issuances published by all Issuing Bodies, broken down by topic and concept. For every major continent, 'climate change risk' is the most frequently referenced topic across all data, accounting for 110,897 of the 116,325 entries (95.3%).

01 The whole world of climate change regulation

This is followed by North America, which makes 25,534 references of 'climate change risk' across all issued regulatory content. While this amounts to less than half of the references made in the entirely of the EU, the value should not be minimised; 25,000 references of a particular topic is significant and suggests that climate change risk is being firmly considered – or at least hotly debated – by regulators. Trailing behind in their consideration of climate change risk is Oceania (2,925), South America (2,042) and Africa (1,698). These figures are low, which is unsurprising in South America and Africa who are seldom lauded as climate-change pioneers. That Oceania only made 2,925 references to climate change risk is of some significance, especially given that New Zealand was one of the first countries to issue climate-related disclosure rules. Oceania does include a number of small islands that likely produce far less regulatory content for finance when compared to continents such as the EU. Moreover, Oceania includes countries such as Australia, which is considered to be slow moving in its commitment to tackle climate risk. Both of these factors should be considered as explanations for the diluted figures in this region.

It is worth noting that in Figure 1, the references of climate change risk are especially high, serving to visually minimise references of other concepts. However, when broken down by country, we are able to see that even Africa – the continent making least reference to climate change risk – has still made over 1,500 references. This may be a fraction of the references made in Europe or North America, but it is not inconsequential. The volume of reference to climate change risk, in comparison to other concepts, is best visualised in Figure 2, below.

Fig 2. Visualisation of concept references by volume



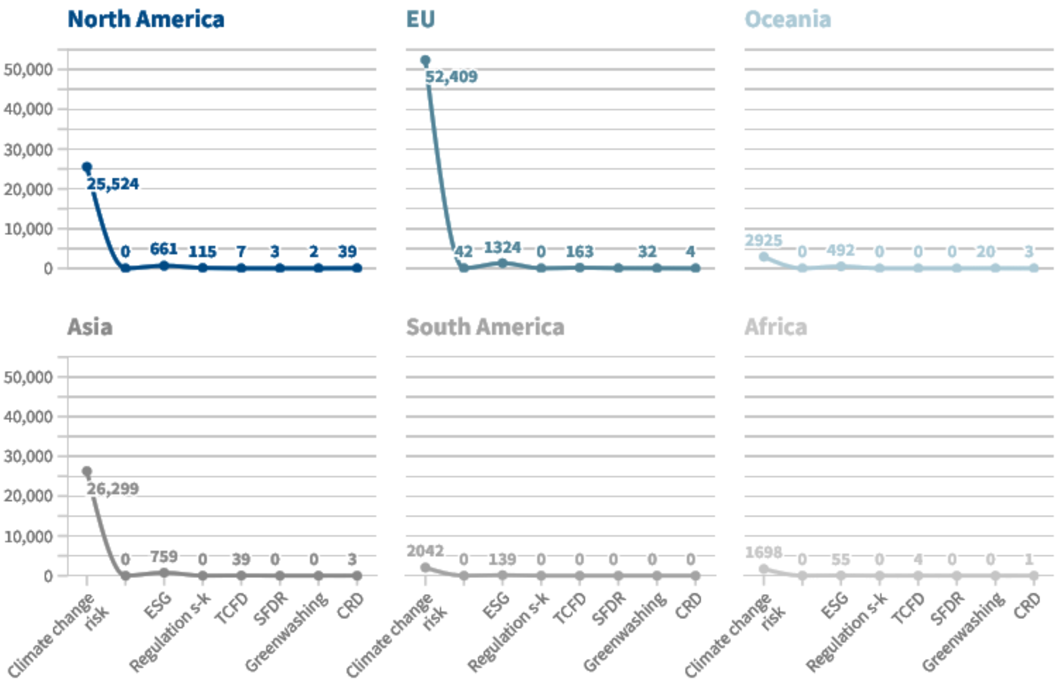
CUBE

02

Global approaches to climate-related Issuances

References to climate change risk are so voluminous in Figure 1 that it dwarfs references to other concepts. As such, it is easier to view the breakdown of referenced concept by continent. This paints a clearer picture of global Issuances and highlights the topics that bear most significance across continents.

Fig 3. Cumulative total of concept references by continent (separated)



Issuing Bodies within the EU make more reference, by far, to almost all climate change related terms. 47.22% of all references (54,926) were made by Issuing Bodies within the EU. This was followed by Asia, which accounted for 23.47% (27,306), closely tailed by North America 22.9% (26,644).

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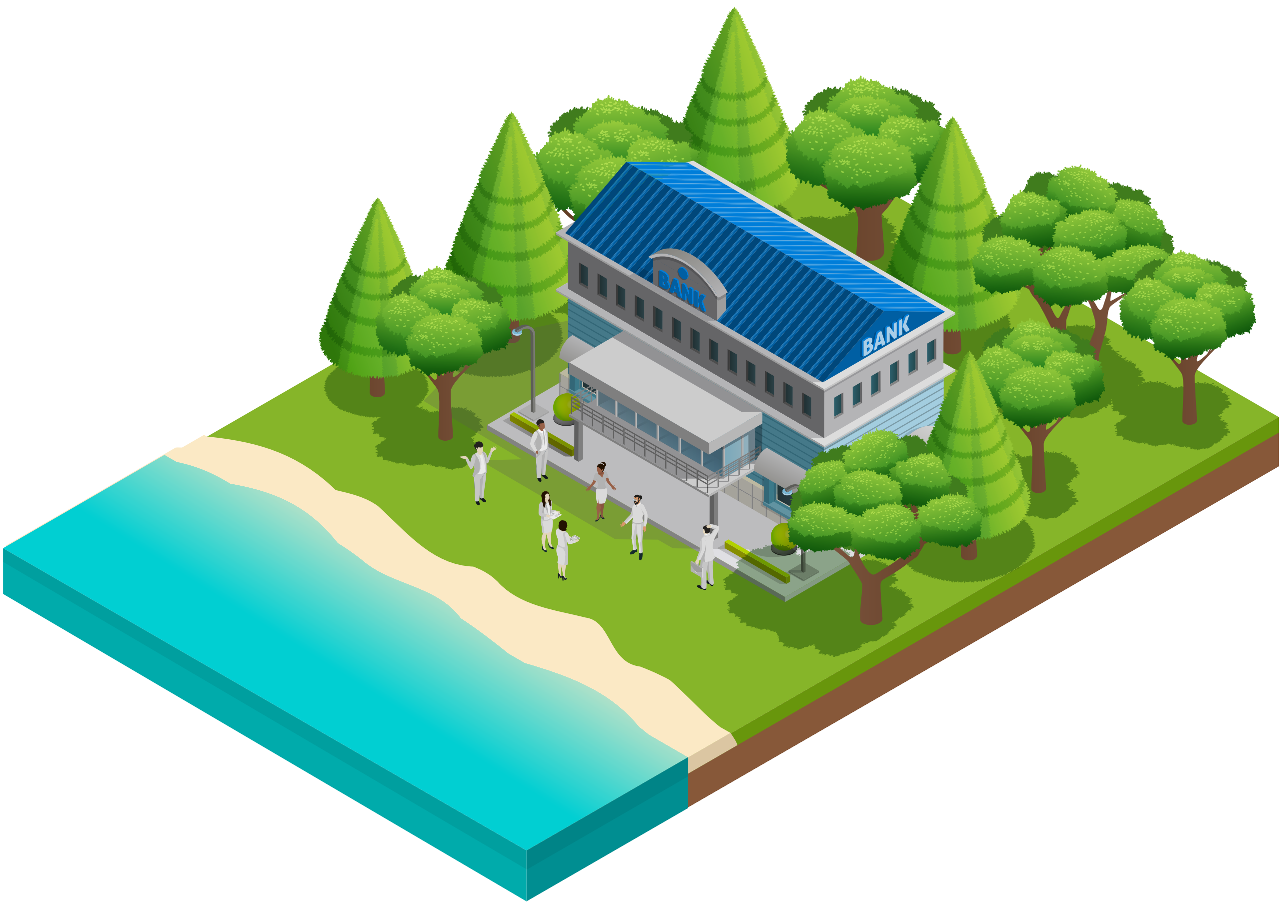
It is interesting to see that the US is nearly on the same level for sustainability related financial regulatory Issuances as Asia. This shows a big step up, since the Biden administration took office.

Dr Sabine Dittrich
Senior Global Regulatory & Policy Manager

02 Global approaches to climate-related Issuances

Environmental, social and governance (ESG) is the cumulative reference of factors spanning myriad corners of financial services, from accountability and governance to diversity and inclusion, to climate change risk. Given the breadth of this topic, paired with its increasing notoriety across the industry, it is striking that the number of references within Issuances is considerably lower than for climate change risk. As noted at CUBE's recent ESG conference, ESG is a difficult topic with which to grapple. ESG references are likely less frequent owing to its complexity and its broadness of scope. Regulators appear to be tackling the three facets of ESG in piecemeal, with narrower terms such as 'climate change risk' proving easier to consider separately than ESG as a whole.

References to greenwashing remain low within regulatory Issuances, despite news that regulators are taking steps to prevent greenwashing within financial products. In North America, for example, the Securities and Exchange Commission, in tandem with Germany's BaFIN, are pursuing a case against a large bank for claims that amounted to greenwashing. However, because regulation and rules do not currently exist for greenwashing, the SEC is pursuing the case under the umbrella of providing misleading information. The lack of reference to 'greenwashing' within the data is therefore less surprising and may be attributed to the fact that regulators are not yet equipped with the regulations or the language to effectively label actions as 'greenwashing' specifically.



02 Global approaches to climate-related Issuances

Localised nature of regulations

The data shows that global regulators tend only to refer to regulations that were created in or apply to their own region. In the EU, for example, the Sustainable Finance Disclosure Regulation (SFDR) is referenced 44 times, with no reference to the US's Regulation S-K. In North America, Regulation S-K is referenced 115 times, with SFDR receiving 3 references across all regulatory content. In Oceania, neither regulation are referenced, the same being true of Asia, South America and Africa.

Regulation S-K and Regulation S-X set out existing disclosure rules for financial services in the US, which do not extend to climate related disclosures at present. There has been some discussion about potentially expanding their scope to include new climate change disclosure rules, though it is as likely that new rules could be created.

What is interesting, however, is that while regulators look to implement regulations on a national scale, the challenge that they look to overcome (namely climate change) is not limited to a specific region. The data would suggest that regulators are operating in silos, which may cause regulatory difficulty down the line.

This is the double-edged sword of regulation. While regulation is needed and often requested by financial institutions and businesses alike, regulation in its nascent stages is often patchy and hard to implement, especially across borders.

Cross-border approaches

There have been attempts at a global approach, with one example being the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD was established by the Financial Stability Board to develop recommendations for climate-related disclosures. It is designed for – and indeed comprised of – global businesses across the G20. Members include senior executives from companies such as Mitsubishi, Tata Steel, PwC, Deloitte and HSBC, among others. The principles of the TCFD have provided a baseline for many emerging disclosure rules.

Another example is the International Sustainability Standards Board (ISSB), launched in November 2021, which looks to equip international investors with "high quality, transparent, reliable and comparable reporting by companies on climate and other environmental, social and governance (ESG) matters". The ISSB aims to create a "comprehensive global baseline of sustainability-related disclosure standards."

02 Global approaches to climate-related Issuances

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The EU taxonomy and SFDR is global, nothing can be just regional anymore. US investment funds are going to have to address SFDR core PAIs (Principal Adverse Indicators) because they have global investors. Historically, with every set of regulations, there is increasingly the attempt at a unified global approach. Accounting being a typical example, we have Generally Accepted Accounting Principle (GAAP) within the US but also the International Accounting Standards Board (IASB) and the International Financial Reporting Standards – which are global, the same will happen with ESG.

There will always be historical regional caveats, however within the field of ESG and climate change there does seem to be more and more consolidation. This is not nirvana; this is not even close. But there does seem to be progress.

Jay Wolstenholme
Investment Writer and ESG Specialist

In line with Jay Wolstenholme's comments, the TCFD is one of many such groups that operate cross-border to develop a common goal and set a unified benchmark for climate-related disclosures. It is interesting to see then that, while references to TCFD do occur across borders, the frequency of such references is not consistent across G20 countries.

While regulators are all broadly considering the principles of TCFD, some are considering it more than others when looking to build disclosure frameworks. It could also be suggested that there are few references to TCFD in some continents, not because regulators are not considering the principles but because they are yet to begin explorations for disclosure rules entirely.

In the year ahead, the Taskforce on Nature-related Financial Disclosures (TNFD) will likely become the next widely implemented global group from climate risk in finance, though regulatory discussion around TNFD returned very few results for the purpose of this report.

03

The Issuing Bodies making the most noise

Industry murmurings and perceived regulatory activity has pointed to ideas that the EU and UK are especially proactive in their approach to considering climate change within financial services, while the US struggles to catch up. Asia and Oceania are seen as having some way to go. This perception is broadly proved by the data, though the US is making more progress than some might have anticipated.

Fig 4. Top performing Issuing Bodies by volume of regulatory Issuances

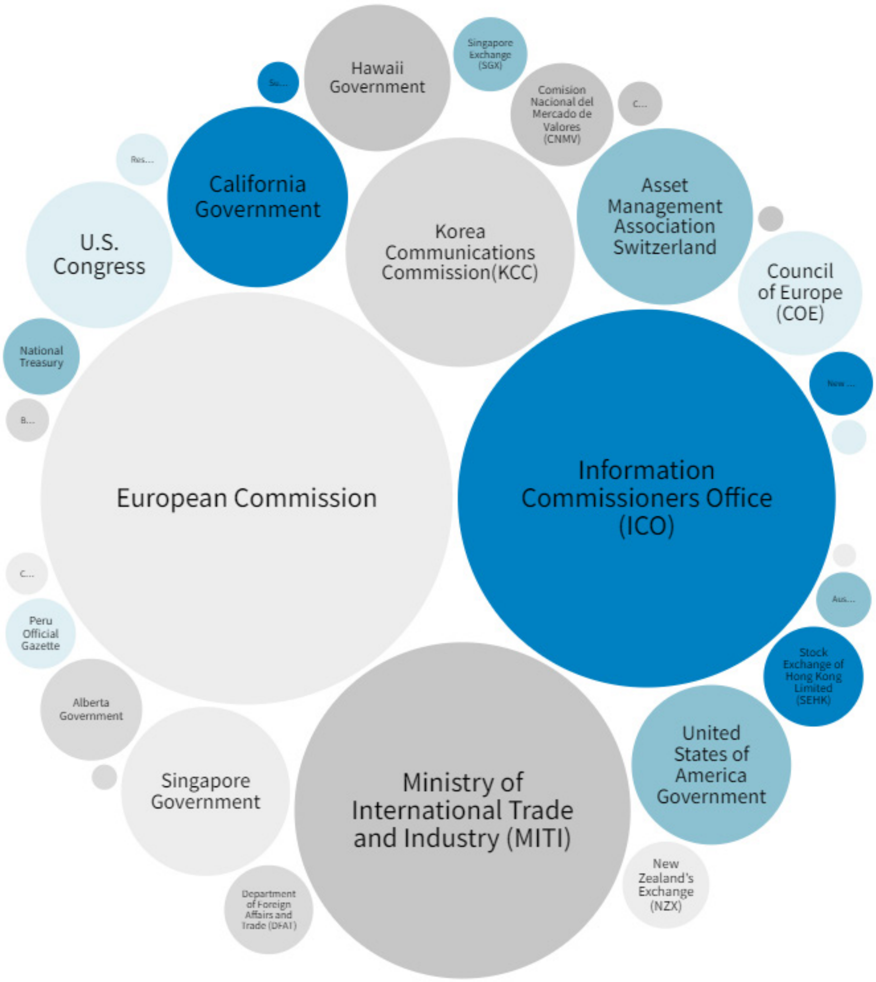

Figure 4 visualises the regulatory Issuing Bodies that have published the most content relating to climate change within financial services. The larger the circle, the greater the number of Issuances that refer to the selected concepts.

03 The Issuing Bodies making the most noise

Fig 5. Top performing Issuing Bodies by volume of Issuance, split by RegInsights and regulatory sections of RegBooks

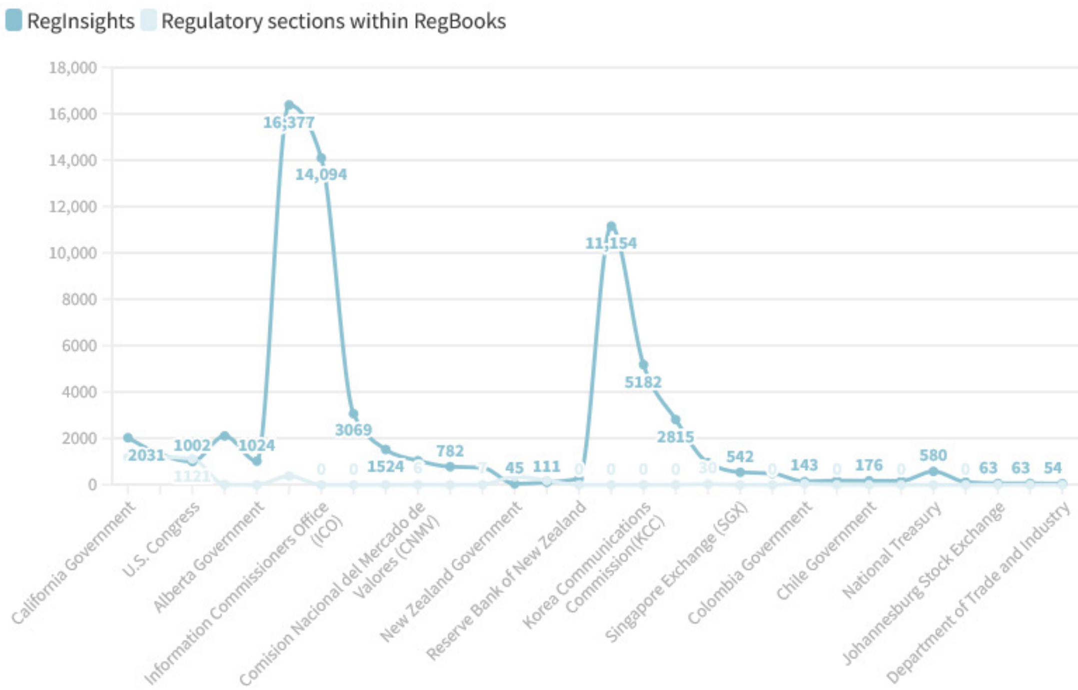

Figure 5 presents the same data but breaks Issuances from Issuing Bodies down into RegInsights and regulatory sections of RegBooks.

Comparing the two, we are able to see which Issuing Bodies have enacted hard-law, and which are simply talking about or developing it.

The Californian Government, for example, references climate-related concepts within 2,031 RegInsights and 1,188 regulatory sections of RegBooks. The European Commission, however, has referenced such concepts within 16,377 RegInsights but only 381 sections of RegBooks. It is particularly interesting to see that large regulatory institutions such as the Information Commissioner's Office (ICO) have published more than 14,000 Issuances that reference climate-related concepts that pertain to financial services. None of these references exist within sections of RegBooks.

As we would have expected, the afore mentioned EU-based European Commission, along with the UK-based ICO account for the lion's share of regulatory content, especially with regard to RegInsights. However we also see a number of unexpectedly prolific Issuing Bodies, as well as the absence of a number of bodies - for example, the European Banking Authority (EBA) or the International Organization of Securities Commissions (IOSCO) - who are not issuing as much content as their counterparts.

03 The Issuing Bodies making the most noise

Japan's Ministry of Economy, Trade and Industry (METI)

Japan has an interesting history in its approach to tackling climate change and the associated risks. Historically, it was a pioneer, adopting the Kyoto Protocol in 1997/2005 with a commitment to limit and reduce greenhouse gasses. Following COP26 in 2021 however it was widely reported that despite commitments to the contrary, Japan continues to back oil and gas. The Climate Action Tracker denotes Japan as "insufficient" in its efforts to meet net zero.

METI has outlined "Japan's Roadmap to 'Beyond-Zero' Carbon", which hosts a full library of information about Japan's commitment to tackling climate change and the associated risks. However, looking at the data in Figure 5, all the content published by METI is a RegInsight, with 0 of the 11,154 pieces of content amounting to rules or legislation. Given Japan's track record for meeting its climate commitments, it could be suggested that METI's Roadmap bears little weight in accounting for genuine action for climate change or ESG for financial services.

The Hawaiian Government

The Hawaiian Government is not an Issuing Body that receives a lot of airtime in the regulatory world, but is clearly making a firm commitment towards climate-change and finance. This could be driven by the environmental and societal factors that influence Hawaii.

As an archipelago, Hawaii looks to suffer more than other US States, with a combination of rising sea levels and erosion likely to cause permanent and irreversible damage. In April 2021, Hawaii became one of the first state legislatures to declare a climate emergency and was the first state to commit to using 100% renewable energy by 2045. In October last year, Hawaii's Governor, David Ige spoke at COP26 to highlight the challenges that Hawaii will face if we are unable to keep global warming at less than 1.5 degrees.

It is in this context, through understanding the environment in which Hawaii exists, that we see Hawaii's Government publishing a significant amount of climate-related regulatory data, with 2,108 references within RegInishts, and 12 within sections of RegBooks.

The New Zealand Exchange

In Oceania, the number of climate-related Issuances have been low enough to place it at the bottom of the leader board for climate-related content. However, looking at the comparative totals of content published by global Issuing Bodies, New Zealand's Exchange (NZE) has referenced climate-related concepts within 747 items - 740 RegInsights and 7 sections of RegBooks. This places it higher than other 'big name' Issuing Bodies, including the SEC, the FCA and Germany's BaFIN – all of which have been touted as pioneers for ESG and climate change.

Of course, this is an Exchange, and many of these Issuances will be related to ESG and climate related investments, some of which will be investments in genuine sustainable assets – and others that may operate under the guise of sustainability.

In October 2021, New Zealand became one of the very first (and very few) countries to impose mandatory climate-related disclosures. Under New Zealand's Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill 2021 (Climate Bill), all companies listed on the NZX are required to make climate-related disclosures or explain why they have not been able to. This might also account for the high level of climate-related Issuances from the Exchange.

03 The Issuing Bodies making the most noise

Absence of the UK's Financial Conduct Authority

The general perception of the UK in its regulatory approach to climate-related risk within finance is that it is, in many respects, a pioneer. In comparison to many other countries, the UK appears to be doing well. The UK has made firm commitments to meet net-zero targets by 2050 and saw a 40% fall between emissions in 1990 and 2019. With regard to financial regulation, the FCA has been active in implementing 'comply or explain' disclosure and reporting rules, which came into effect on 1 January 2022.

In April 2021, the FCA appointed Sacha Sadan as Director of Environment, Social and Governance (ESG). Speaking at COP26 in November 2021, FCA CEO Nikhil Rathi, said "It is time to walk the walk and take the next step on the journey to transform our sector. And with it, our economy and our future." He then committed to supporting green finance and other ESG matters. In all, the FCA has been proactive in its approach to sustainability within finance.

It is surprising, then, that the FCA only accounts for 0.004% of all regulatory instances within the data, making reference to climate concepts in 298 RegInsights and 220 sections of RegBooks. As the UK's primary financial regulator, we may have expected it to rank more highly with the amount of regulatory content it has published. There may be a number of reasons for its absence in Figure 5. Firstly, while it is the UK's largest regulator, it is comparatively small in terms of scope and resource. The ICO, while UK based covers the length of data which, by its very nature, operates across borders.

Moreover, it could be suggested that unlike Japan's Ministry of Economy, Trade and Industry, while the FCA has not published as much climate-related content it has published impactful regulatory content, amounting to an almost even number of in-force regulation as to ephemeral content. It can be concluded then that volume of content published does not equate to action taken.

Absence of the US's Securities and Exchange Commission

The US has a number of significant financial regulators and a far more complex regulatory landscape than the UK. The SEC is one of the larger financial regulators that many would expect to see publishing high volumes of climate-related regulatory content. This is particularly true with the current administration's nomination, Gary Gensler, at the helm. As SEC Chair, Gensler has been clear in the SEC's approach to climate risk. In July 2021, Gensler expressed a desire to "bring greater clarity for climate risk disclosures" and announced that the SEC was developing a mandatory climate risk disclosure rule proposal for consideration.

Despite this, SEC Commissioners are not unified in their approach to ESG disclosure rules, which may account for why it is yet to implement firm rules or regulations. However, there is no doubt that the topic is being mooted. The SEC accounts for 0.0004% of instances within the data, comprised of 501 RegInsights and 9 sections of RegBooks. It is unsurprising that the number of references to climate concepts within RegBooks trail far behind the number in the UK (the US is yet to implement the rules that Gensler proposed), but it is surprising that the SEC falls behind Issuing Bodies such as Peru's Official Gazette and Korea's Communications Commission in their climate-related Issuances. The SEC may have further to go than initially predicted.

04

In-force regulation and regulatory messaging: are regulators practicing what they preach?

Regulatory change, as demonstrated by the data, is a constant. It is imperative that financial institutions are able to keep ahead and anticipate risk and rules before they materialise. Within the realm of compliance it is essential to anticipate, identify and understand the impact of upcoming regulatory change.

By comparing regulatory content by type (RegBook v RegInsight), we are able to see which regulators are talking about ESG issues, which regulators are implementing hard-law around such topics, and the regulators that are doing both.

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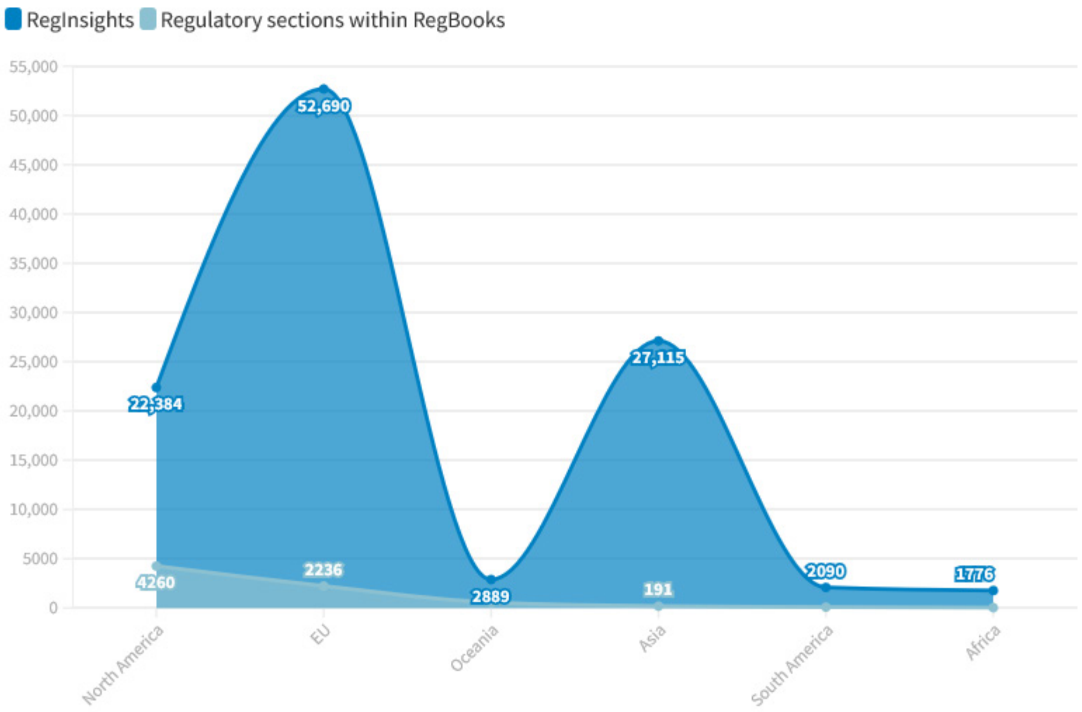
Rather than approaching peak ESG regulatory enactment, the world remains at the foot of a mountain of upcoming measures, spread across all jurisdictions, and dwarfing the existing suite of enacted material. This data also shows that ESG regulation is no longer a predominantly European phenomenon with the rise of proposed measures growing exponentially (using the word in its mathematical sense) in all three Northern Hemisphere continents, with a more modest increase in Africa and the Southern hemispheric continents. This north-south divide correlates with the Brandt line, as does the nature of the regulation, which the data shows is enormously skewed to E, reflecting the fact that the climate crisis affects rich and poor countries alike, whereas social crises are principally a poorer country phenomenon.

Barrie Ingman
Regulatory Lawyer

04 In-force regulation and regulatory messaging: are regulators practicing what they preach?

Fig 6. Comparison of climate-related RegInsights and regulatory sections of RegBooks published across continents



Looking at Figure 6, there is a clear divergence across most continents in terms of what could be considered regulatory 'chatter' and in-force regulation. This is especially true of the EU, in which we see more than 52,000 RegInsights with instances of our specified concepts, but only 2,236 within sections of RegBooks. There is less of a disparity in North America and Asia. While references within RegInsights remained high – 22,384 and 27,115 respectively - the corresponding gap between RegInsights and sections from RegBooks is comparatively smaller.

In Oceania, South America and Africa the gap is significantly narrower:

- Africa – 1,776 RegInsights and 40 sections from RegBooks (1,736)
- South America – 2,090 RegInsights and 95 sections from RegBooks (1,995)
- Oceania – 2,889 RegInsights and 559 sections from RegBooks (2,330)

It should be considered that the large divergence in the EU appears to minimise the divergence in other countries, especially in the latter three. However the difference is not insignificant. Even in Africa, which had the lowest numbers across both RegInsights and RegBooks, the difference still sits at 1,736.

04 In-force regulation and regulatory messaging: are regulators practicing what they preach?

Regulatory Issuances by reference to concepts

The data can be explored at a deeper level when looked at the volume of climate-related concepts that appear within RegInsights and sections of RegBooks across continents. These results are indicative of the areas in which certain continents are placing their focus, albeit in speeches or in the regulations themselves.

Fig 7. Comparison of RegInsights and sections of RegBooks across continents referencing 'climate change risk'

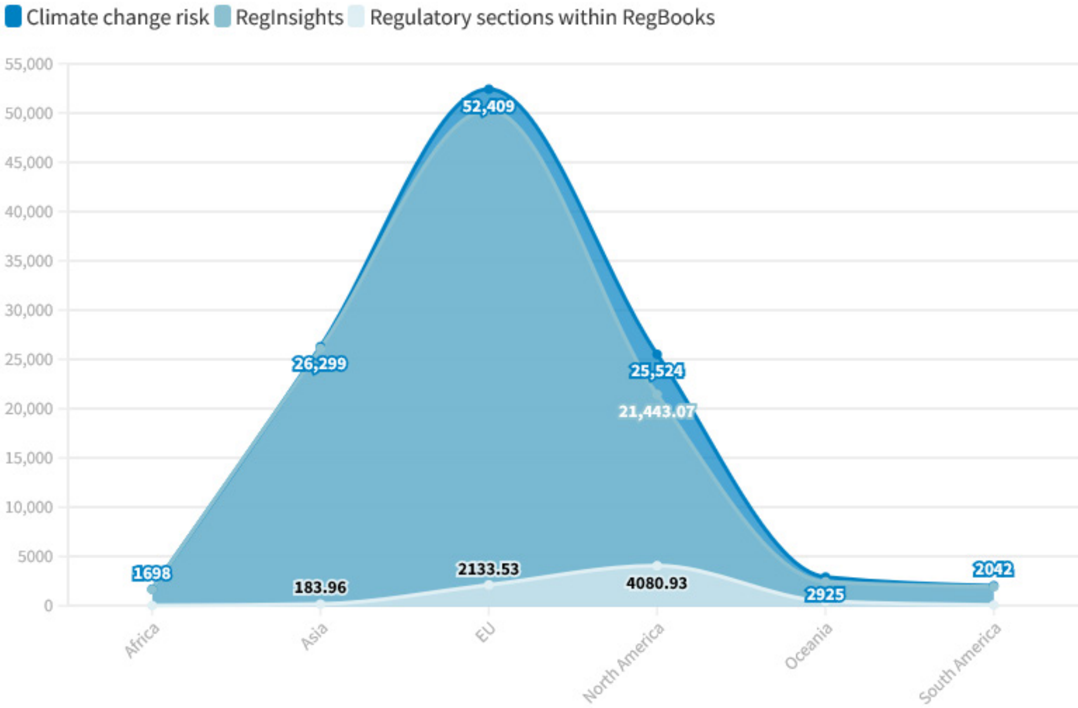


Figure 7 explores the regional comparisons between RegInsights and regulatory sections of RegBooks that reference 'climate change risk'. The results are telling. In the EU, there is a huge volume of soft regulatory content being published – this takes the form of speeches, blogs and press releases as well as Bills and consultations. What Figure 7 tells us, however, is that this soft-content is not necessarily translating into hard law, rules or regulations.

Conversely, in North America there is still a high volume of soft content or 'chatter' referencing climate change risk, but comparatively more in-force regulation, and indeed more in-force regulation than the EU. This suggests that while Issuing Bodies in North America are less prone to publishing swathes of regulatory content, they are committing to regulations that take climate change risk into account for financial services. This is broadly contrary to industry opinion, which often views the EU as leading the way for climate-related risk, especially with regard to emerging regulation. However, perhaps the industry perception is such because the EU talks more but is actually implementing less.

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Considering how close we are to climate meltdown. We are not as close to panicking as we should be. This report doesn't tell me that our leaders are on the right side of history. There could be all sorts of explanations – whether someone is calling it something else with greenwashing, whether it's the pandemic, but this data is definitely an indication that action is still something that is being put off.

Stephanie Sfakianos
Sustainable Capital Markets Expert

Understanding an absence of in-force regulation

The results displayed in Figure 6 are broadly reflective of what we would expect to see, and echo messaging from the industry and regulators alike. This is especially true of climate-related disclosure rules for financial services, which have seen endorsements from most regulators, governments and even some financial institutions – though little implementation. This is supported by the data in Figure 7.

In Canada, for example, Prime Minister Justin Trudeau has recently asked that the country's Minister of Finance "move toward mandatory climate-related financial disclosures based on the Task Force on Climate-related Financial Disclosures (TCFD) framework and require federally regulated institutions, including financial institutions, pension funds and government agencies, to issue climate-related financial disclosures and net-zero plans." Canada's regulator, OSFI, has also committed to developing a climate-related disclosure framework.

In the US, the Securities and Exchange Commission (SEC) published a sample letter that highlighted the mistakes that firms were making – or were expected to make – when submitting climate-related disclosures. For many, this was a prediction of regulation to come. This is a moot point, however, as there are fields of thought that suggest climate-related disclosure rules exist within current regulations, as well as within fiduciary duties in the US. SEC Commissioners, Allison Herren Lee and Elad Roisman have both highlighted areas in which obligations already exist within both federal securities laws and state-rooted fiduciary duties within the US (the two commissioners have opposing views on whether the current regime is "sufficient", however).

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In the UK, there have long been calls for disclosure rules, which came into force in January 2022. The UK, New Zealand and France are some of the first and only countries to actually implement climate-related disclosure rules.

It should be considered that a significant disparity between in-force regulation and more ephemeral content within RegInsights does not necessarily mean that regulation is not imminent:

- **The first and most cynical conclusion would be that regions– such as Asia or the EU – are talking more and doing less. Their messaging is strong, with commitments and promises, but their actions do not stand up to what they commit to.**
- **The second conclusion points to more work for the compliance team. RegInsights include content such as speeches and blogs, but they also include consultations and proposals. Consultations point to emerging regulation and is indicative of regulation to come. In North America, for instance, it could be inferred that while very few references to climate risk exist within sections of RegBooks, the beginnings of such regulations are in a phase of inception within RegInsights. Regulation is on the horizon; it just hasn't reached its final stages yet.**

Cutting out the noise: RegInsights by Issuance Type

In order to draw a firm conclusion to the above, we must look at the Issuance Type existing within the RegInsight. News articles and press releases, for example, only go so far towards creating new rules and regulations. As such, there is limited inference we can draw from the existence of our chosen concepts within these types of Issuances. Consultations and Bills on the other hand, especially Bills, often point to impending regulatory change.

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Fig 8. Global RegInsights by Issuance Type

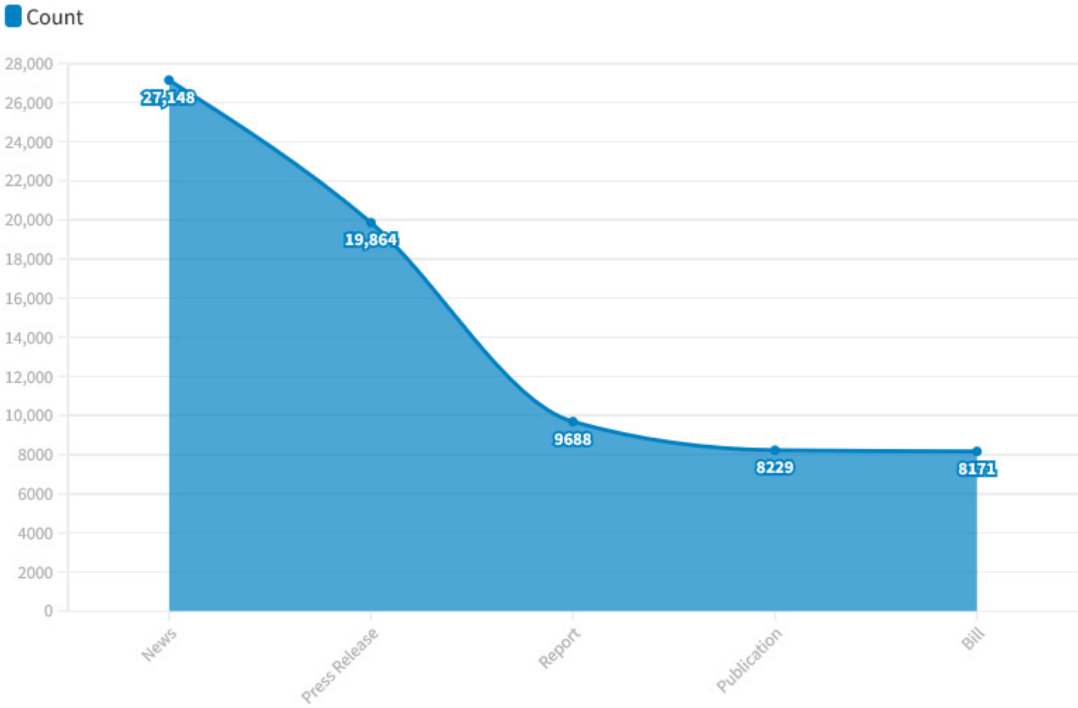


Figure 8 breaks down references made within RegInsights by Issuance Type. Of the 73,100 RegInsights published, 8,171 of those Issuances are Bills. Bills often point to proposed legislation under consideration. Not all these Bills will be passed and come into force, but it shows that over 8,000 pieces of climate-related legislation are currently in the pipeline. For global financial institutions and regulated businesses, this could mean an influx of regulatory obligations in the coming months and years.

05

How climate-related regulatory activity has changed over time

Ten years ago, climate risk within financial services was almost unheard of. The entirety of environmental, social and governance (ESG) matters had been waiting in the wings. Speaking at the London Green Horizon Summit in November 2020, Bank of England Governor, Andrew Bailey, noted that "a mere five years ago climate change was considered more of a charitable cause within the financial sector". In that same speech he called for "greater ambition" and the "wider adoption of best practices". Looking at the data, Bailey's ambition has translated into a reality.

Fig 9. Total number of climate-related Issuances between 2017-2021

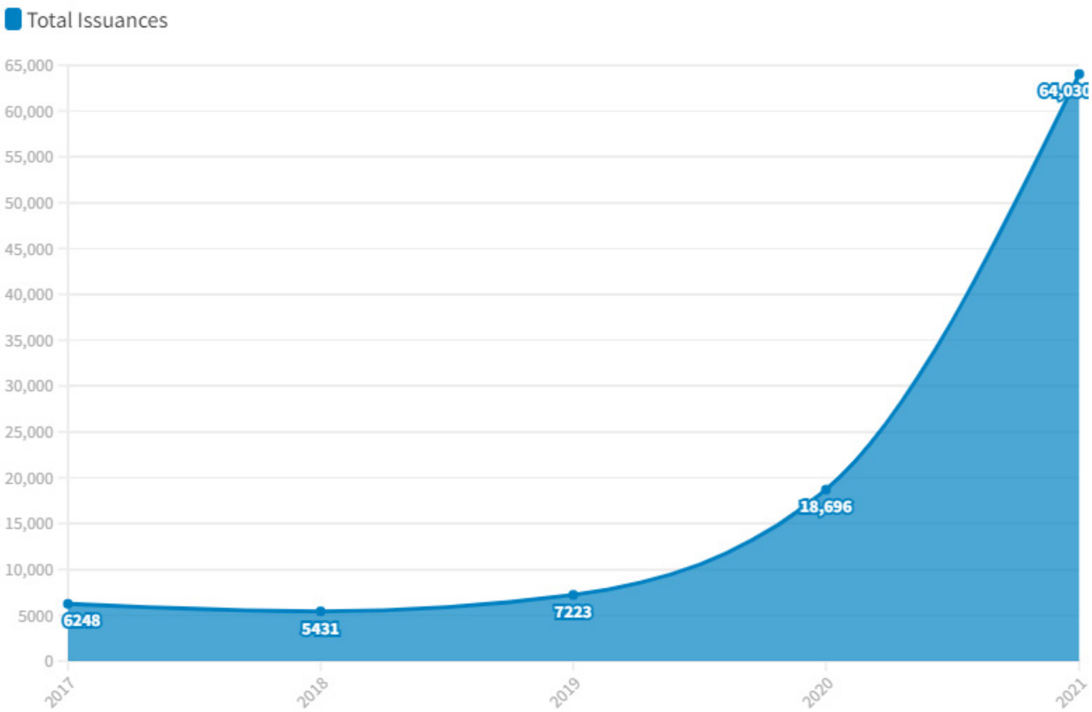


Figure 9 shows the total number of Issuances that referenced climate-related concepts across all continents and all Issuance Types. During the period 2017-21, 101,628 Issuances were published. 2021 – a year once again dogged by a global pandemic – saw the greatest increase in Issuances across all regions, amounting to 63% of total Issuances across the entire 2017-2021 period. Compared to 2017, 2021 represents a 10.24 fold increase in the number of Issuances made.

![CUBE]

05 How climate-related regulatory activity has changed over time

The global increase in regulatory Issuances

Fig 10. Total number of climate-related Issuances between 2017-2021 by continent

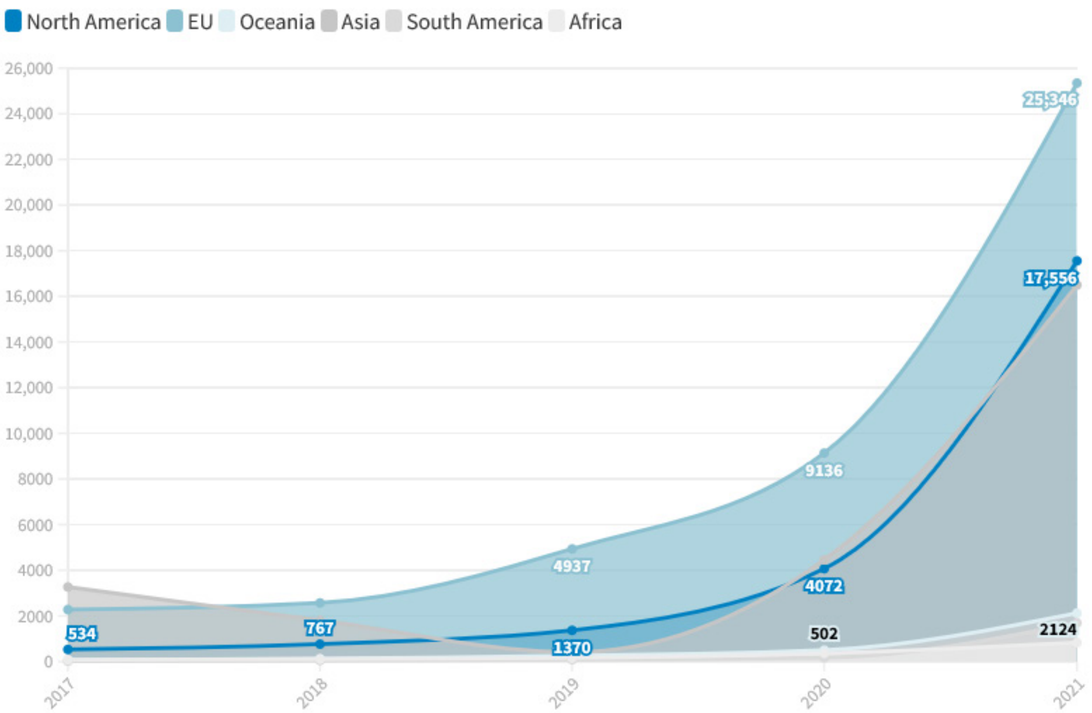


Figure 10 breaks down the increase in climate-related Issuances by continent. It is striking that Issuing Bodies were publishing climate-related content in the thousands as far back as 2017. It is even more striking, however, that 2020 and 2021 saw a sharp rise in climate-related content across every continent. These were years in which regulators pumped "significant resources" into their response to covid-19. As such, it was widely anticipated that regulatory messaging around non-pandemic topic areas may be put on pause. This is clearly not the result we see.

There are many reasons why climate change and associated concepts would remain high on the regulatory agenda in 2020 and 2021. In North America, of course, the election of President Biden will have had an impact on climate-related issued. Climate change is not a topic that cannot simply be put on pause. Unlike, for instance, new payment rules or newly altered AML regulations, the landscape surrounding climate change is evolving at pace and is outside the realm of control for mere mortals. Regulators have therefore continued to consider climate risk, despite the enduring pandemic.

06

What does this mean for the future of regulation?

When you first look at the data comparing RegInsights (or not in-force regulation) with the number of regulatory sections within RegBooks (in-force regulations) it is easy to initially conclude that the pace of change for climate-related regulation is slow, or that regulators are not practicing what they preach. We often hear speeches, see blogs, and press releases from financial regulators and governments making firm commitments and aspirational promises about ESG and climate change. However, looking at this in comparison to the number of RegBooks it's easy to assume that this is all talk.

This is true, to an extent, especially in places such as Canada – which rank exceptionally low on climate indicators and have done little to tackle climate change within regulation. However, there is a more promising picture looking ahead. Instead of viewing the lack of regulatory changes as a negative, it should be viewed as a sign of regulation to come.

As mentioned, within these RegInsights will be volumes of consultations, Bills and reports exploring how financial regulation should be imposed globally. This is not a simple task, as many will know. Especially given the difficulty in setting parameters around what matters for ESG, what climate change constitutes, what climate risk involves, and many other factors. As countries such as the UK, France and New Zealand implement climate-related rules and regulations, other countries will surely follow suit. Switzerland, for example, has committed to climate disclosure rules in 2024. Slowly, parameters will be defined. Slowly, there will be an understanding of what climate risk involves and what is needed to manage that risk.

What does this mean for the future of regulation? Regulation is coming. It is not necessarily going to come over night, it is not necessarily going to be clear, but it will come, and as we know of regulation, will evolve with experience. Financial institutions of all shapes and sizes, from small advisors to global banks and asset managers will need to be ready and able to manage such regulations, rules and guidance. Now is the time for financial services to be looking at what their global counterparts are implementing, and what their obligations are, and putting in plans so that when their turn is up, they are ready too.

The regulatory landscape is constantly evolving, with emerging issues such as climate risk taking centre stage for 2022. This year, most financial regulators will be looking to widen their regulatory parameters to include every factor of ESG, from climate change to corporate governance. What does this mean for compliance teams? A deluge of emerging regulation and expectation.

About CUBE

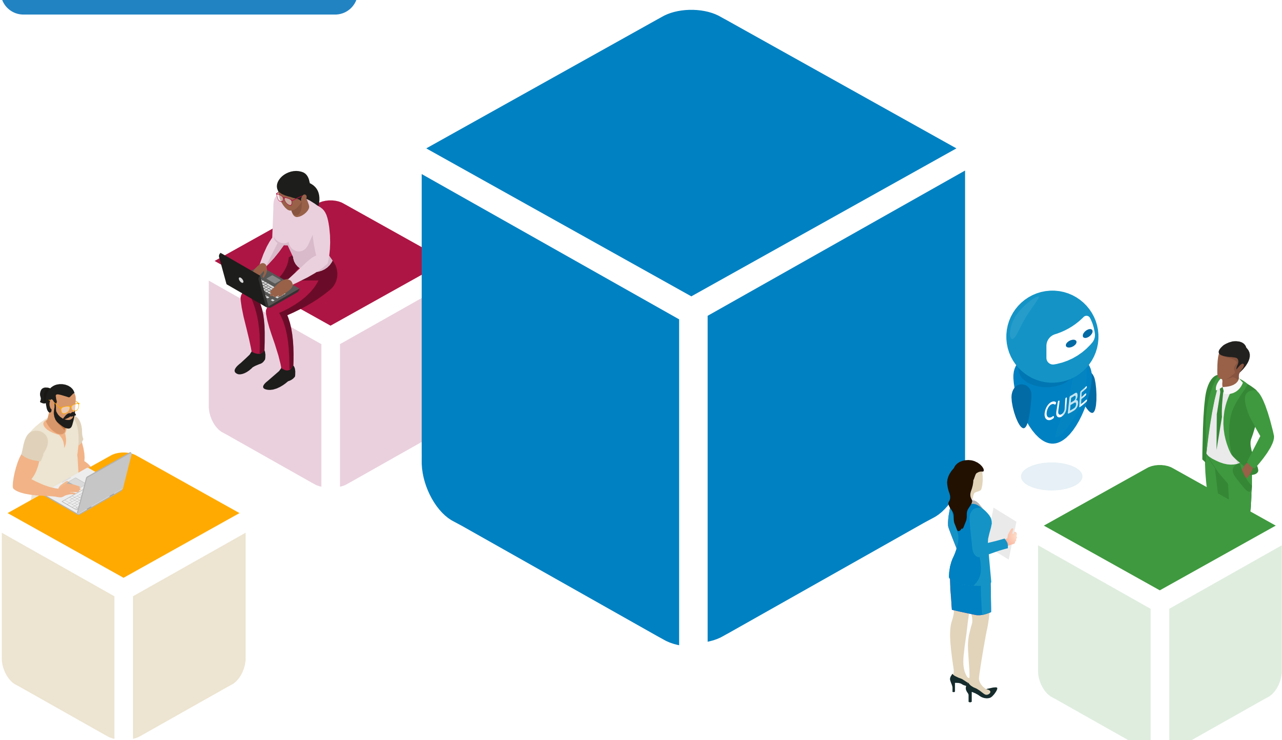
CUBE is a SaaS based RegTech designed to take the complexity out of regulation using artificial intelligence and automation to deliver Automated Regulatory Intelligence.

In short, we track, capture and monitor every regulatory change across the globe and makes sense of it for our customers. Drawing on ten years of experience, we have a mature data set which covers the length and breadth of global regulatory content. As displayed in this report, CUBE has a golden source of regulatory data, covering emerging regulatory topics as well as more traditional areas, from AML to prudential and more.

This means that we make accurate inferences and intelligently link regulatory changes across different regulations and regulators, spot trends and make predictions rooted in data. This can all then be automatically mapped to our customers' policies and controls – leaving compliance officers to implement regulatory change across the organisation.

Whether you're a large, multinational bank, or a small financial organisation with up to a handful of compliance officers, we've got a suite of products tailored to you.

Speak to the team



The report was written and edited by Jennifer Clarke, Senior Editorial Manager for CUBE.

The data in this report is from CUBE RegPlatform.

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