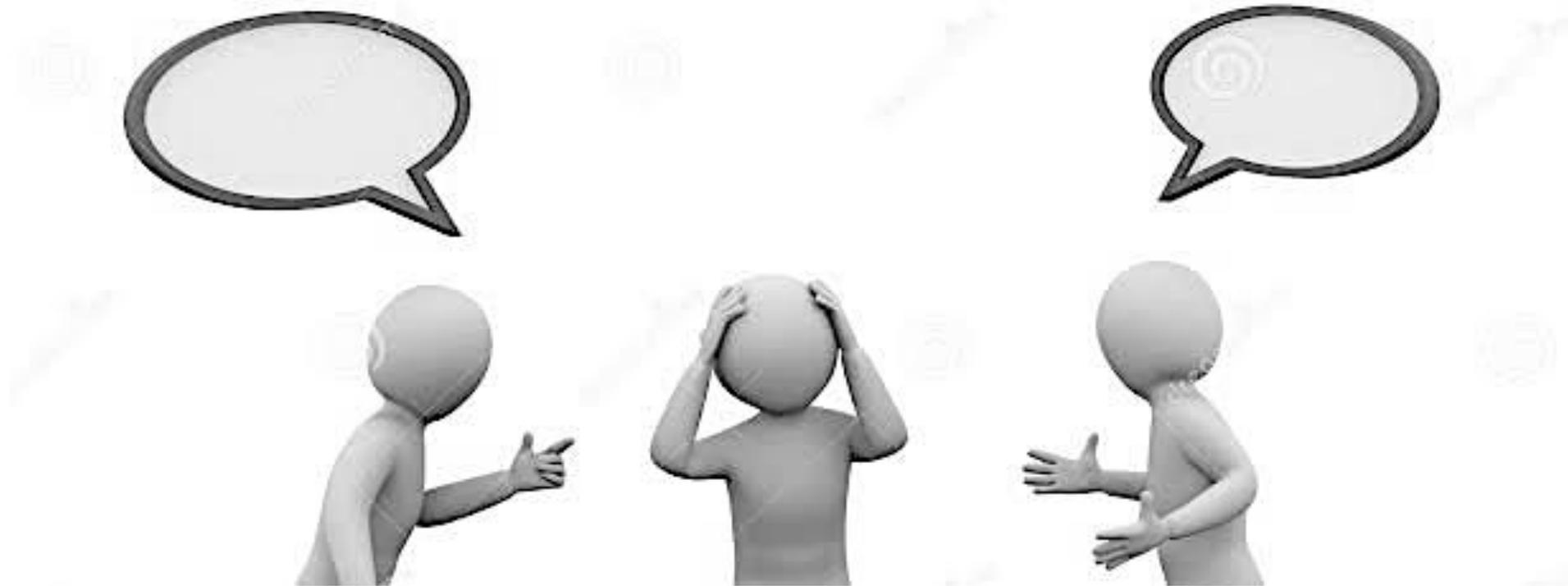


Implications of Climate Change for Compliance Function

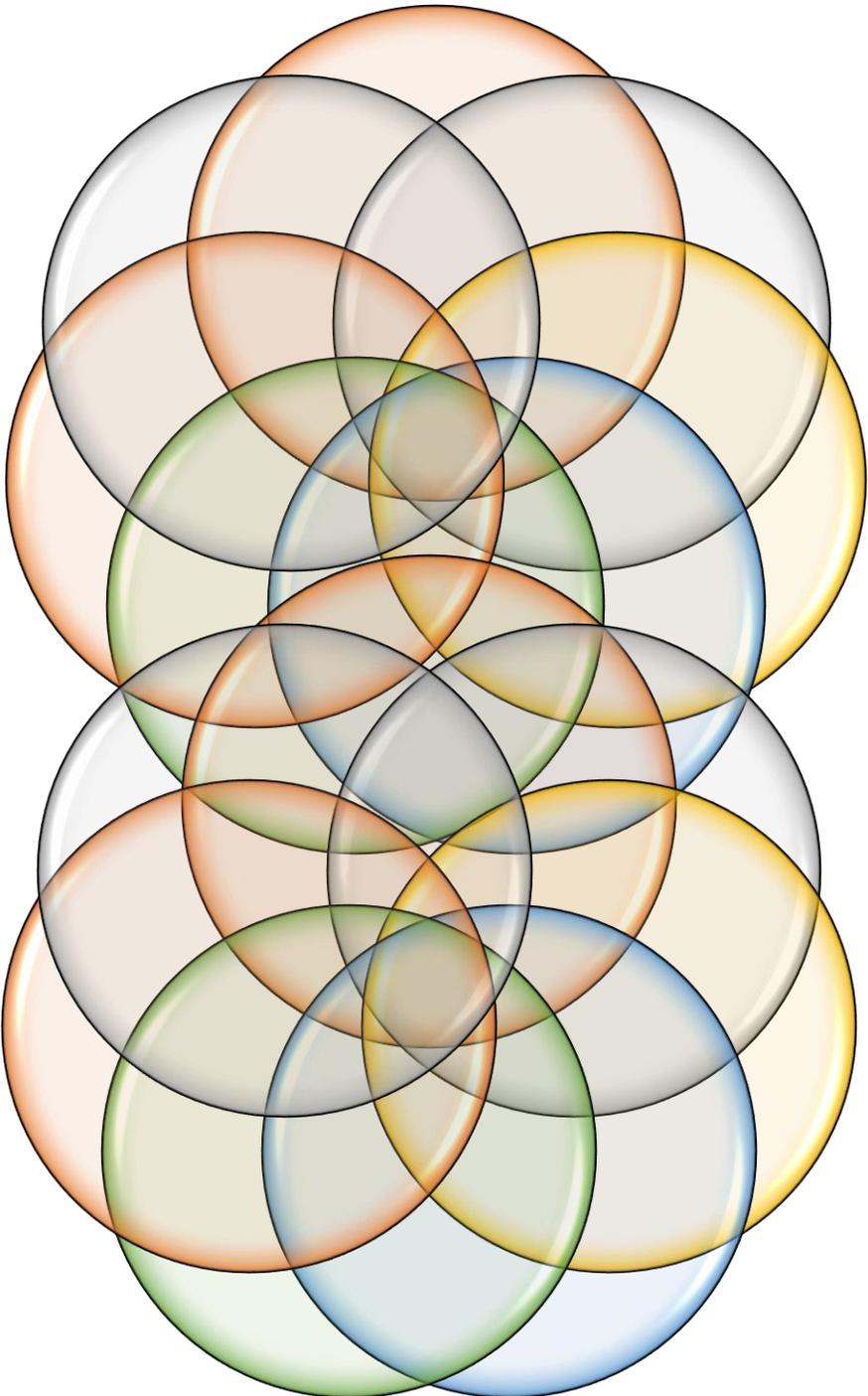
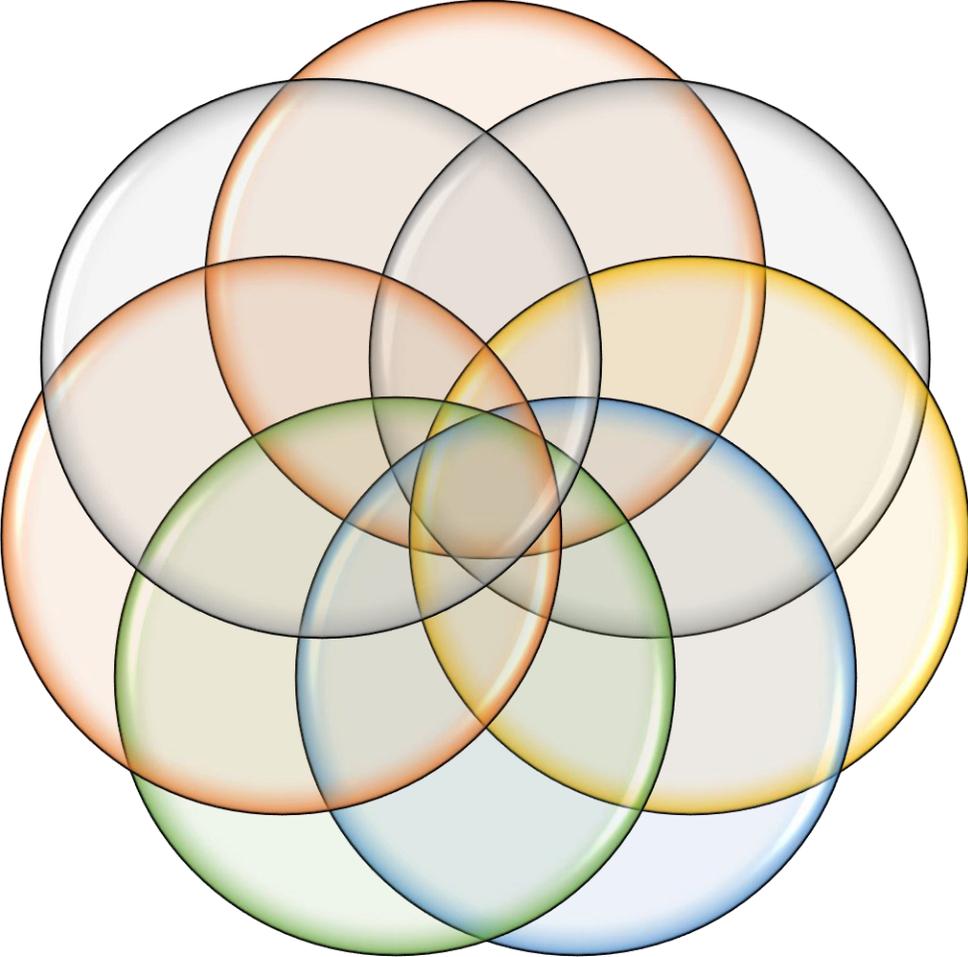


Dr. Ahmed Fouad Khalil

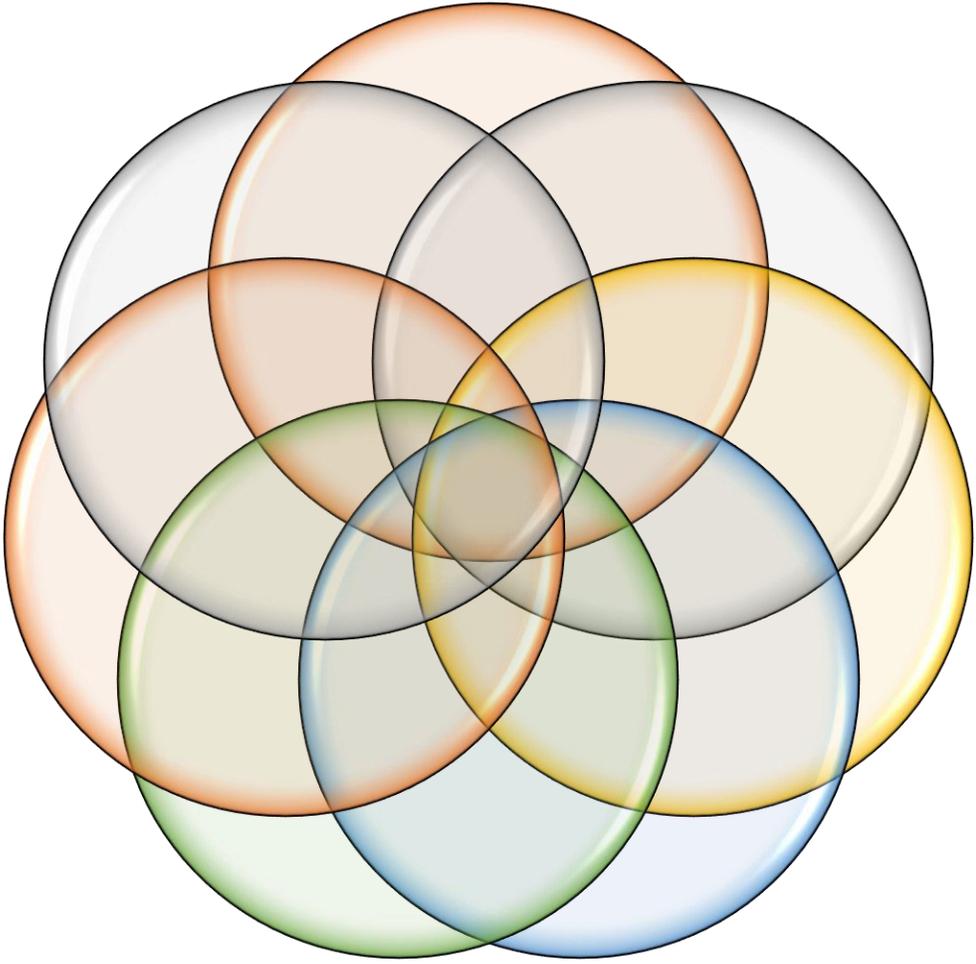
Banque Misr

AML Conference, Sharm Elsheikh, 8 June 2024

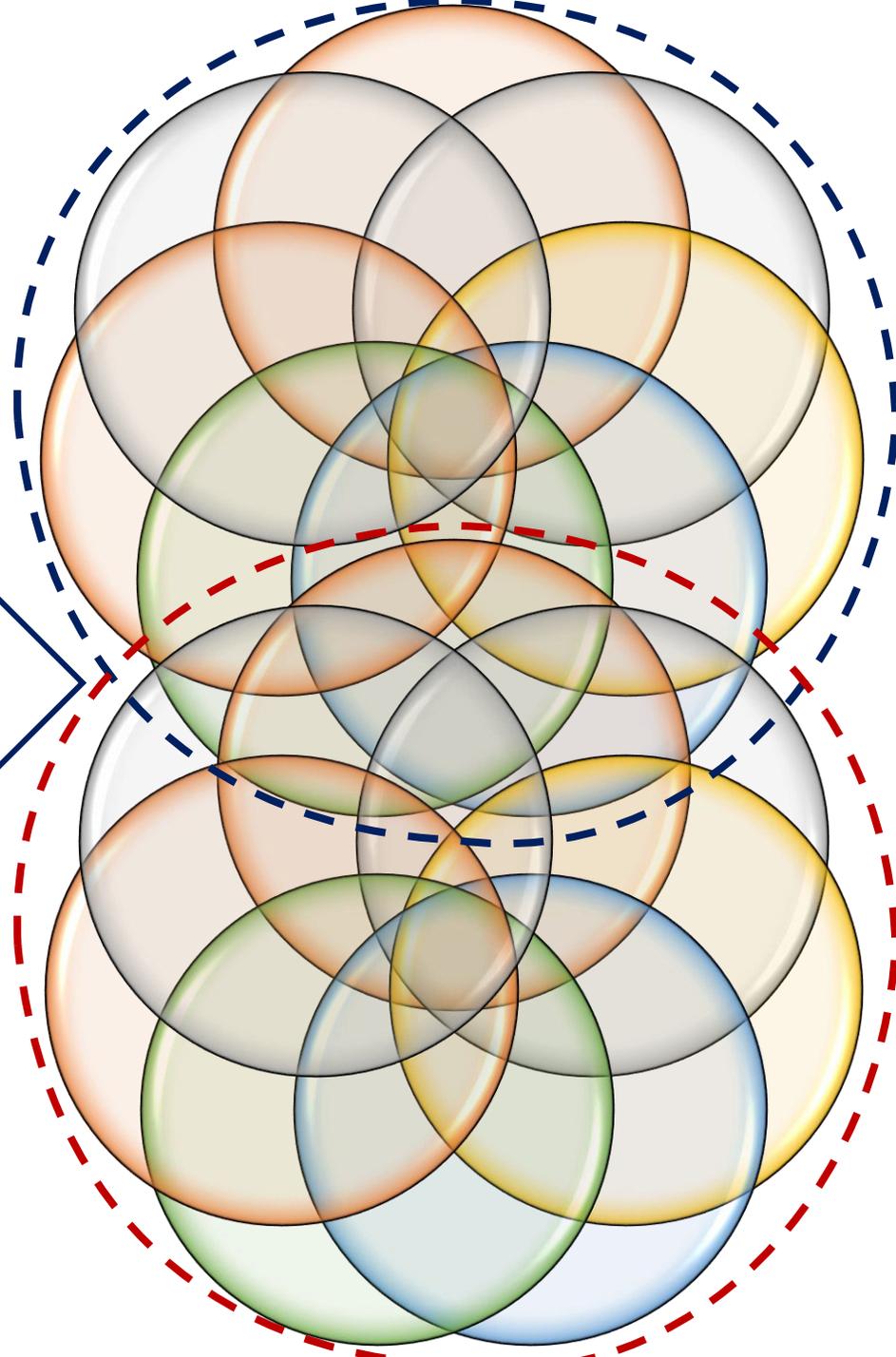
Banks before Sustainability & Climate Change



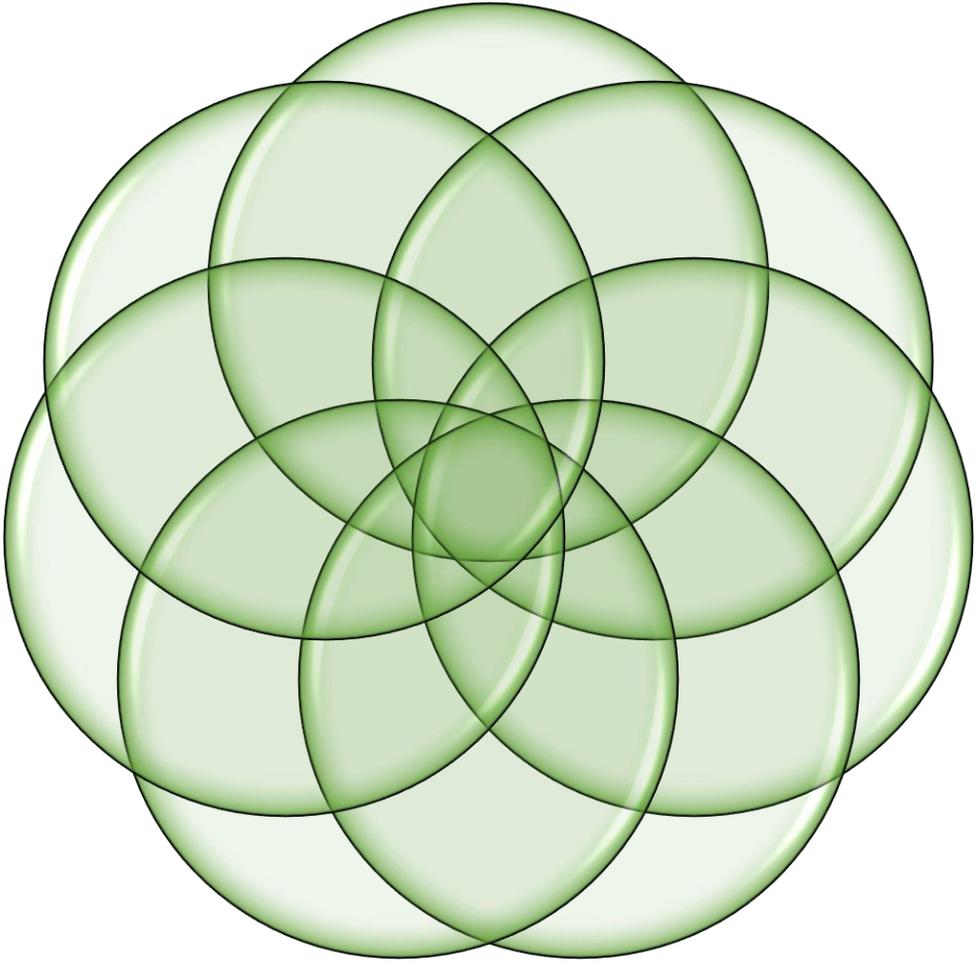
1st LOD



2nd LOD

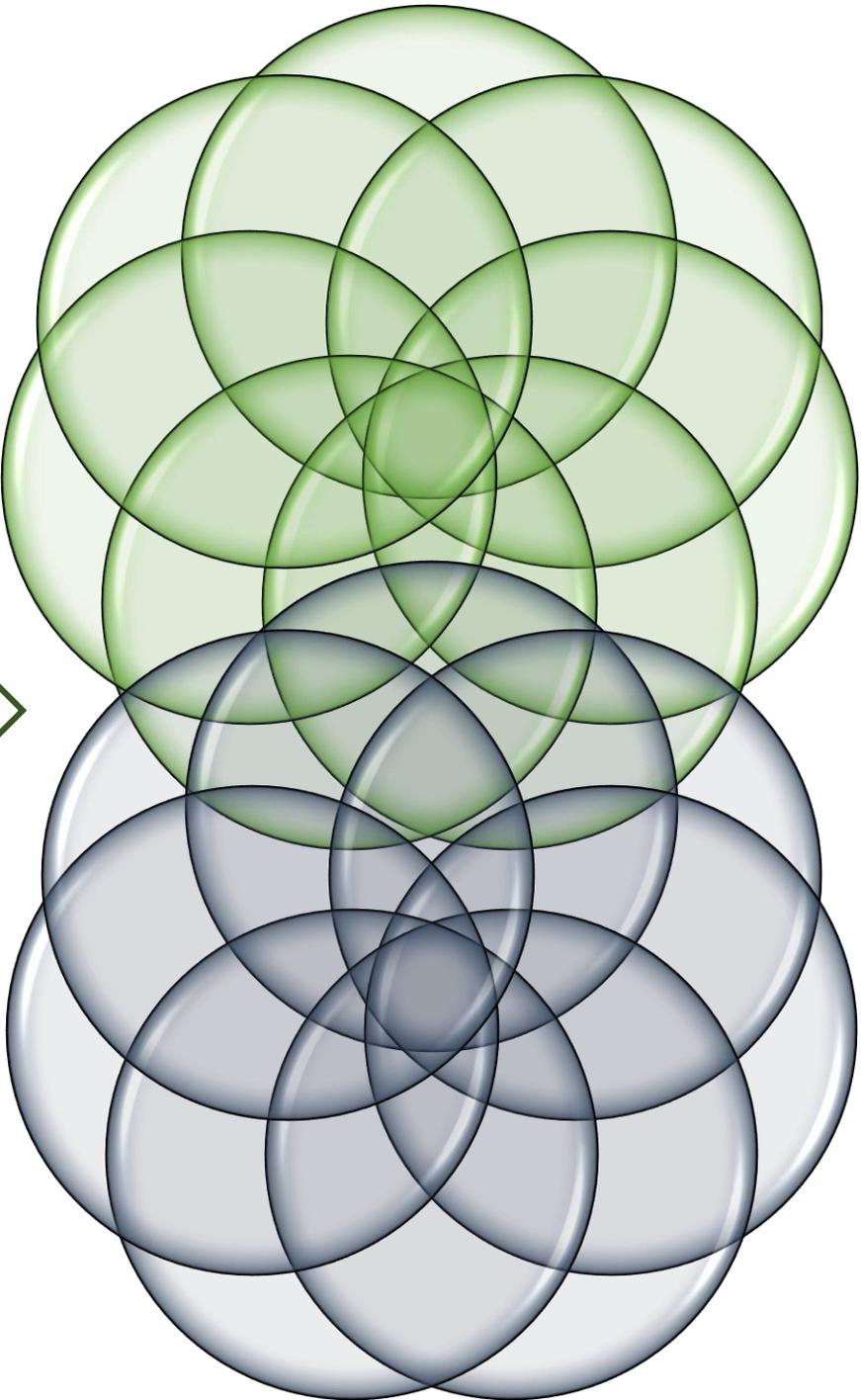


1st LOD

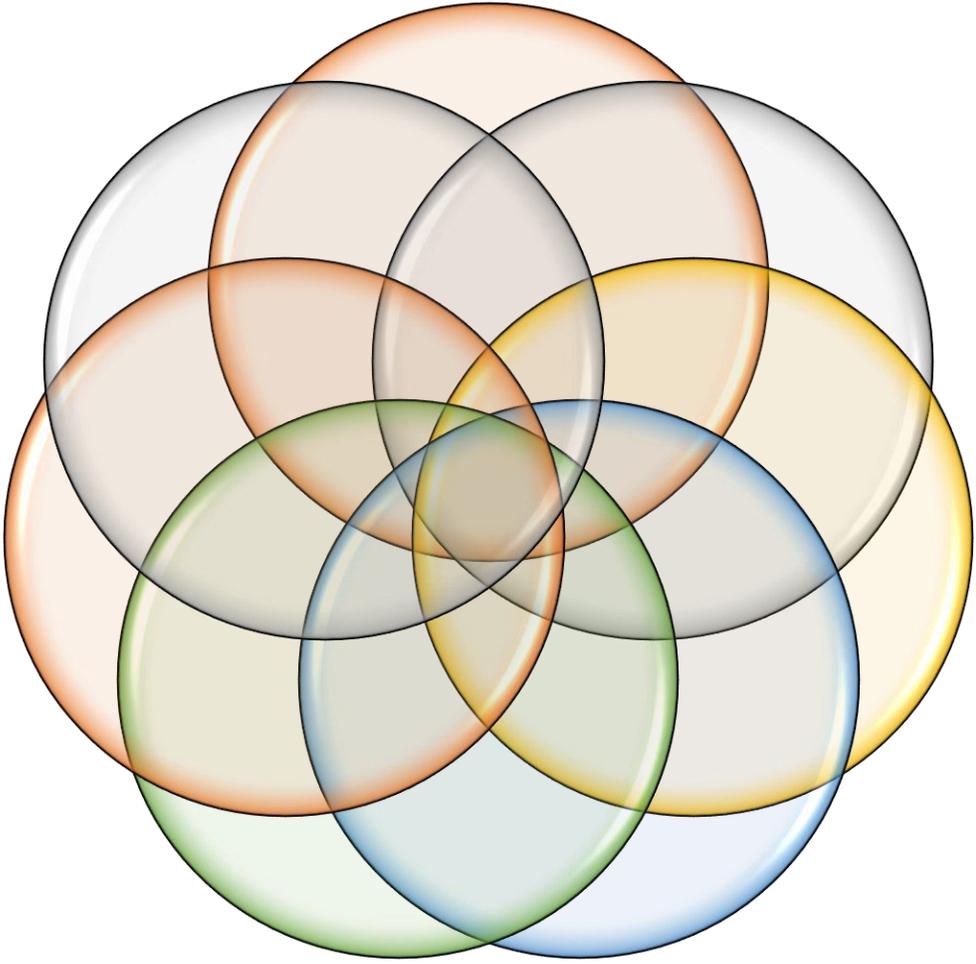


Now

2nd LOD

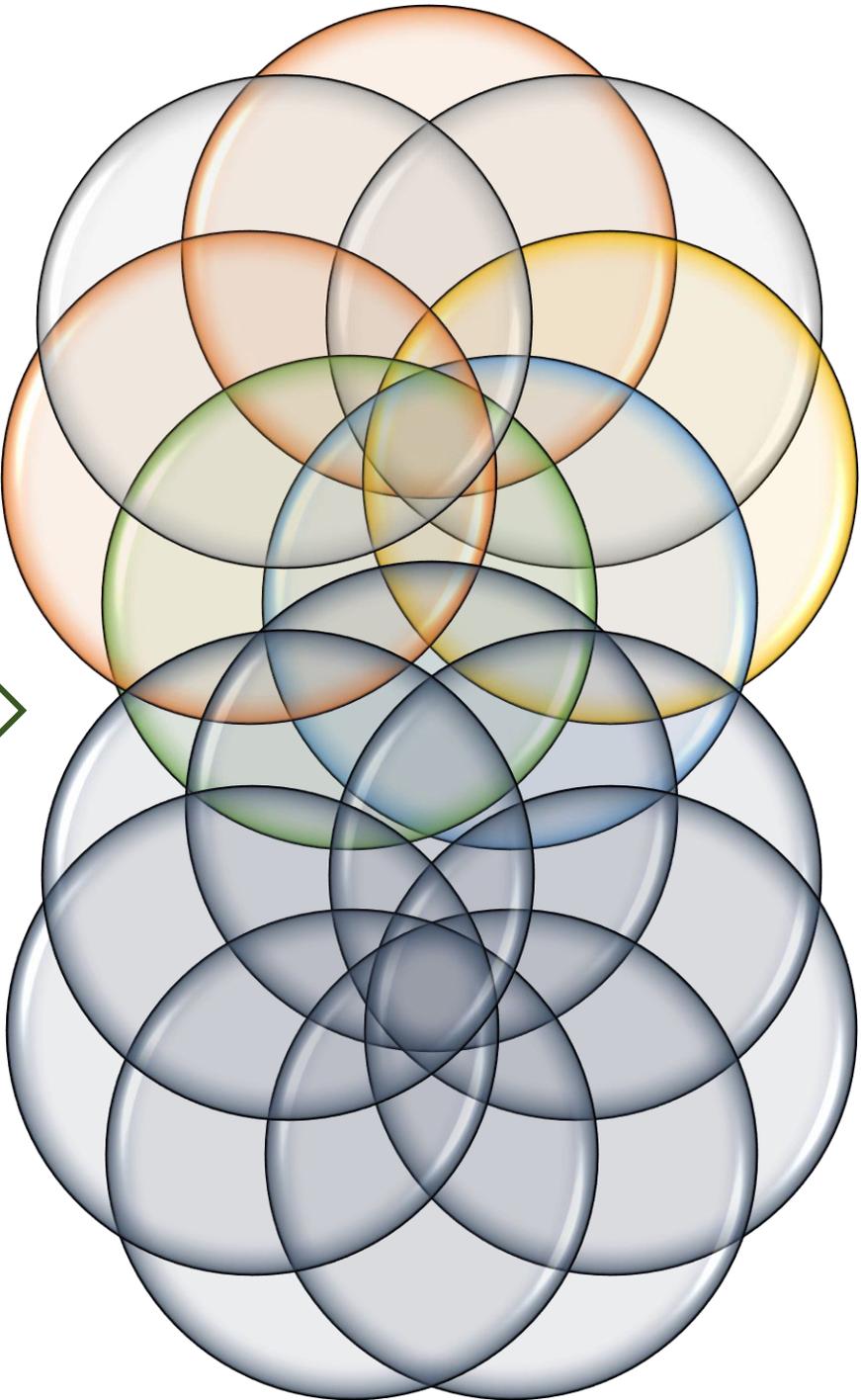


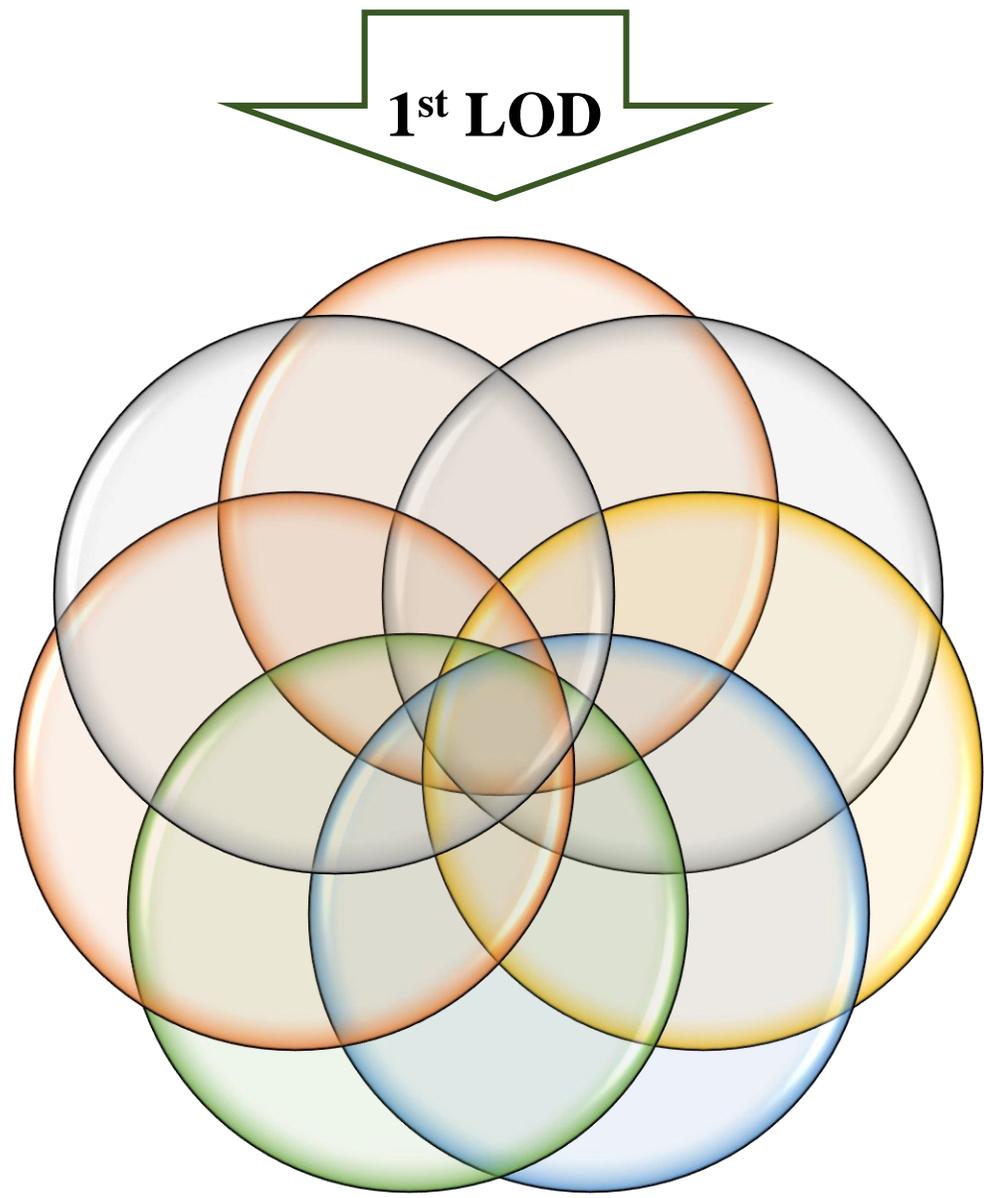
1st LOD



Now

2nd LOD





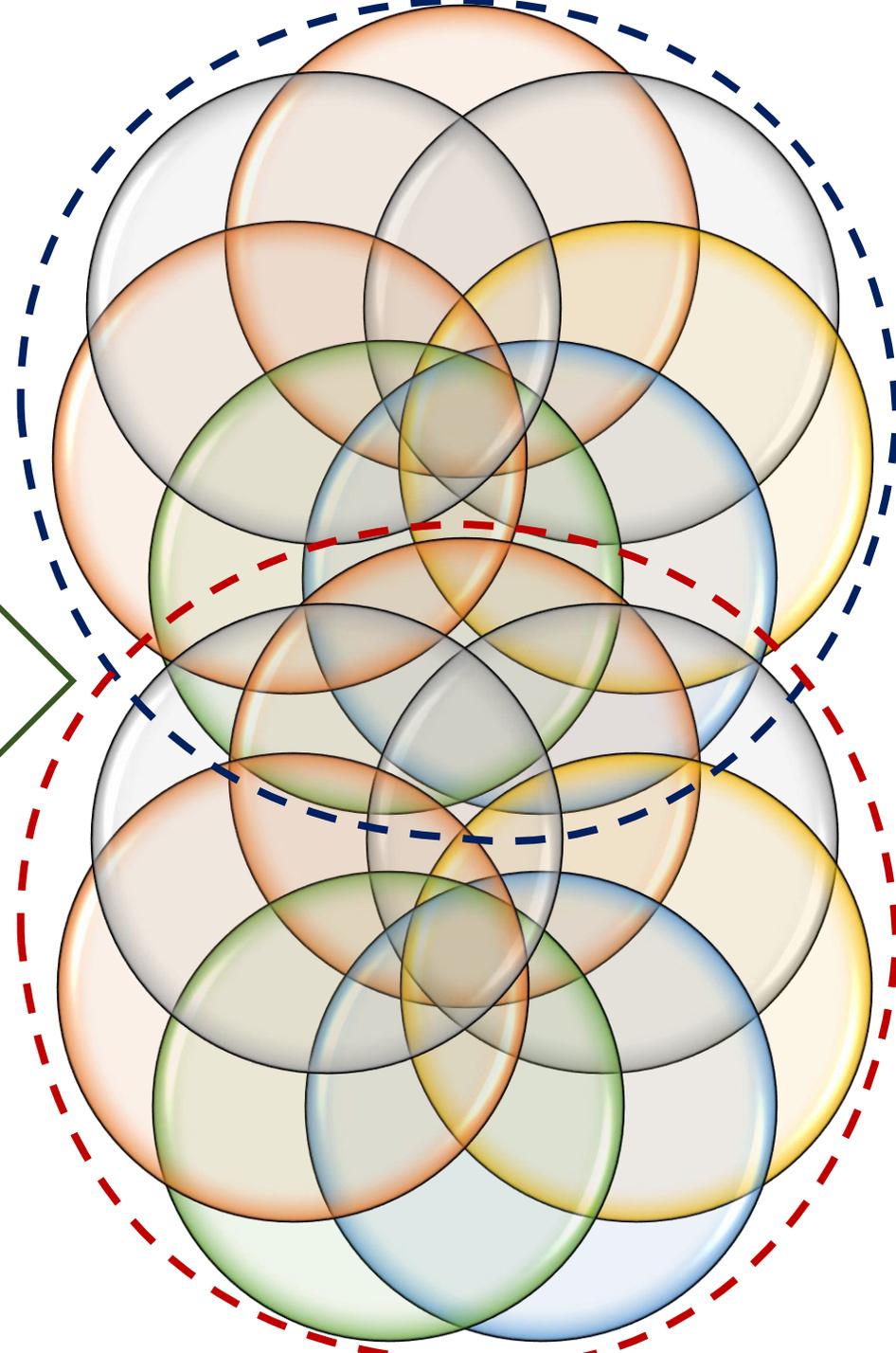
Front-Line Operations

Target

Risk Management

2nd LOD

Compliance



The Three Lines of Defense

Front-Line Operations
Directly deals with risks in daily activities, identifying, assessing, and mitigating risks in their areas.

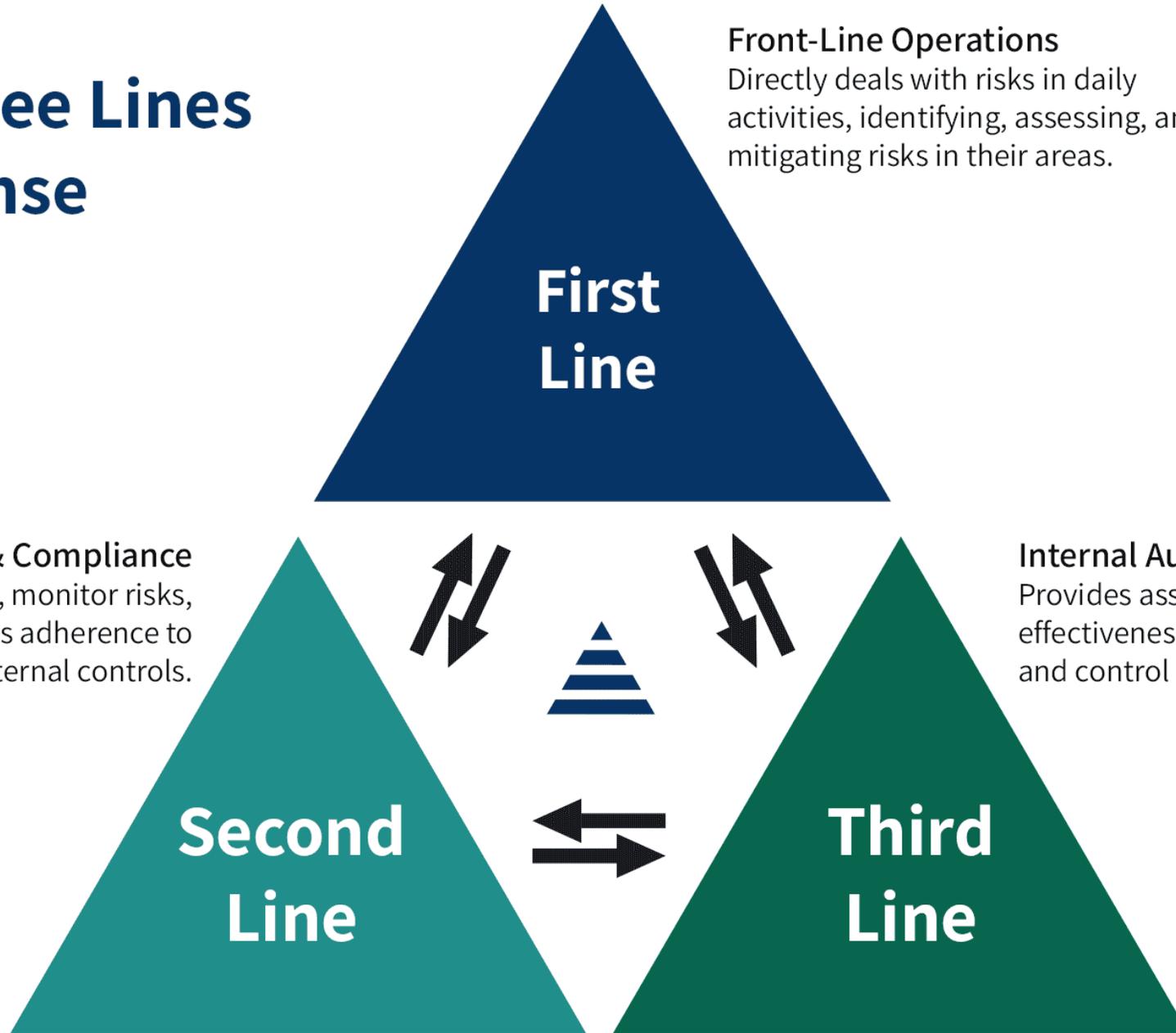
First Line

Risk Management & Compliance
Establishes policies, monitor risks, and ensures adherence to regulations and internal controls.

Second Line

Internal Audit
Provides assurance and evaluates effectiveness of risk management and control processes.

Third Line





SUSTAINABLE DEVELOPMENT GOALS

17 GOALS TO TRANSFORM OUR WORLD

1 NO POVERTY

2 ZERO HUNGER

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

5 GENDER EQUALITY

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

11 SUSTAINABLE CITIES AND COMMUNITIES

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

SUSTAINABLE DEVELOPMENT GOALS

Environmental

Social

Governance

FINANCIAL INSTITUTION



RISK

OUTSIDE-IN

The outside world's
impact on the bank

INSIDE-OUT

The bank's impact
on the outside world

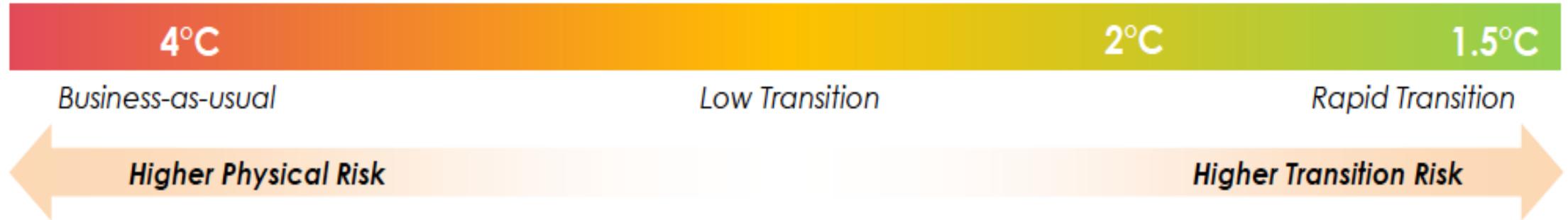
ACT

materiality for banks.

Climate Change Risks

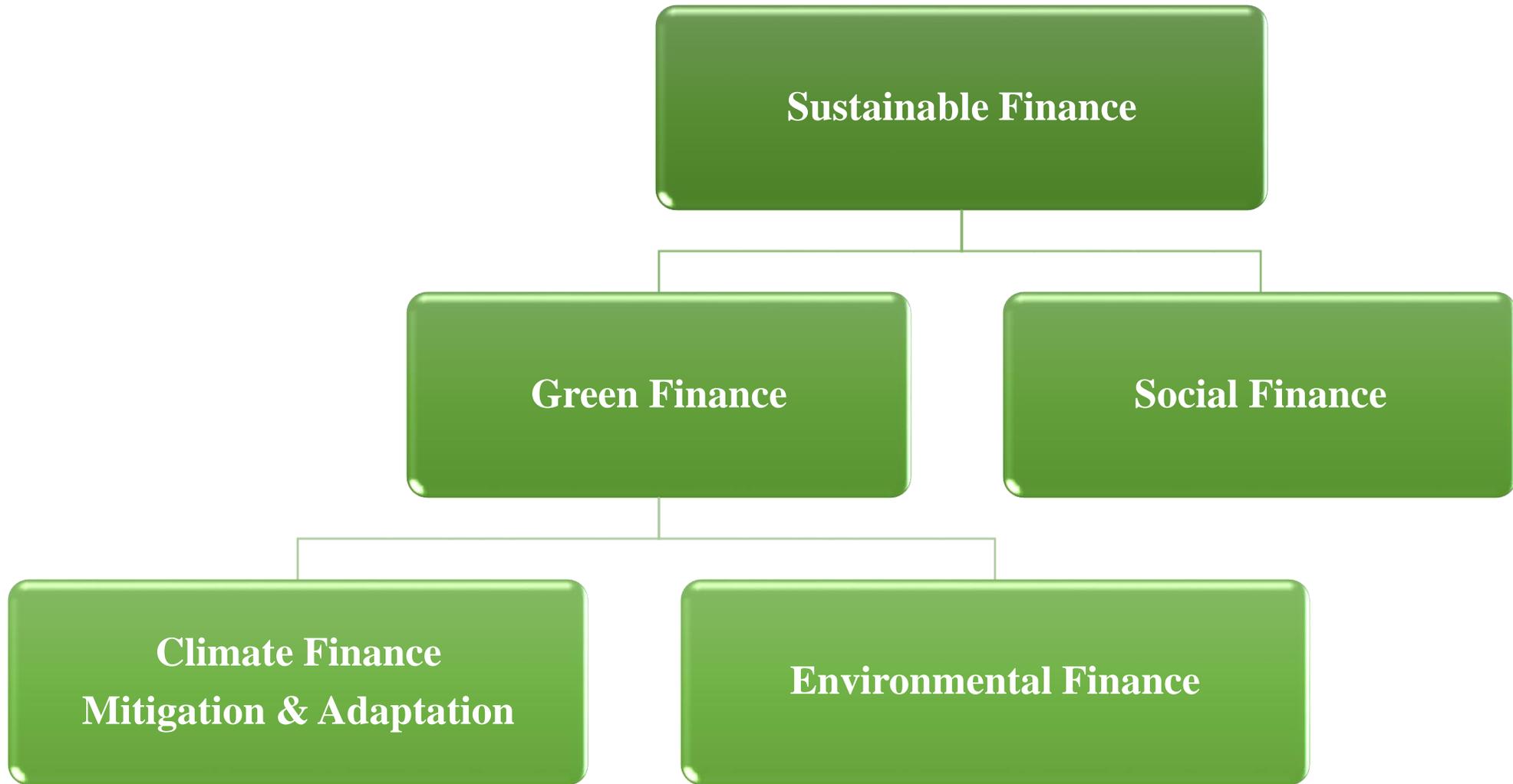
Physical Risk

Transition Risk



Climate-related Financial Risks







Sustainability

Sustainable Finance

ESG

ESRM

AML & Environmental Crimes

Regulatory Compliance & Disclosure Requirements

Governance & ESG Governance



Climate Change

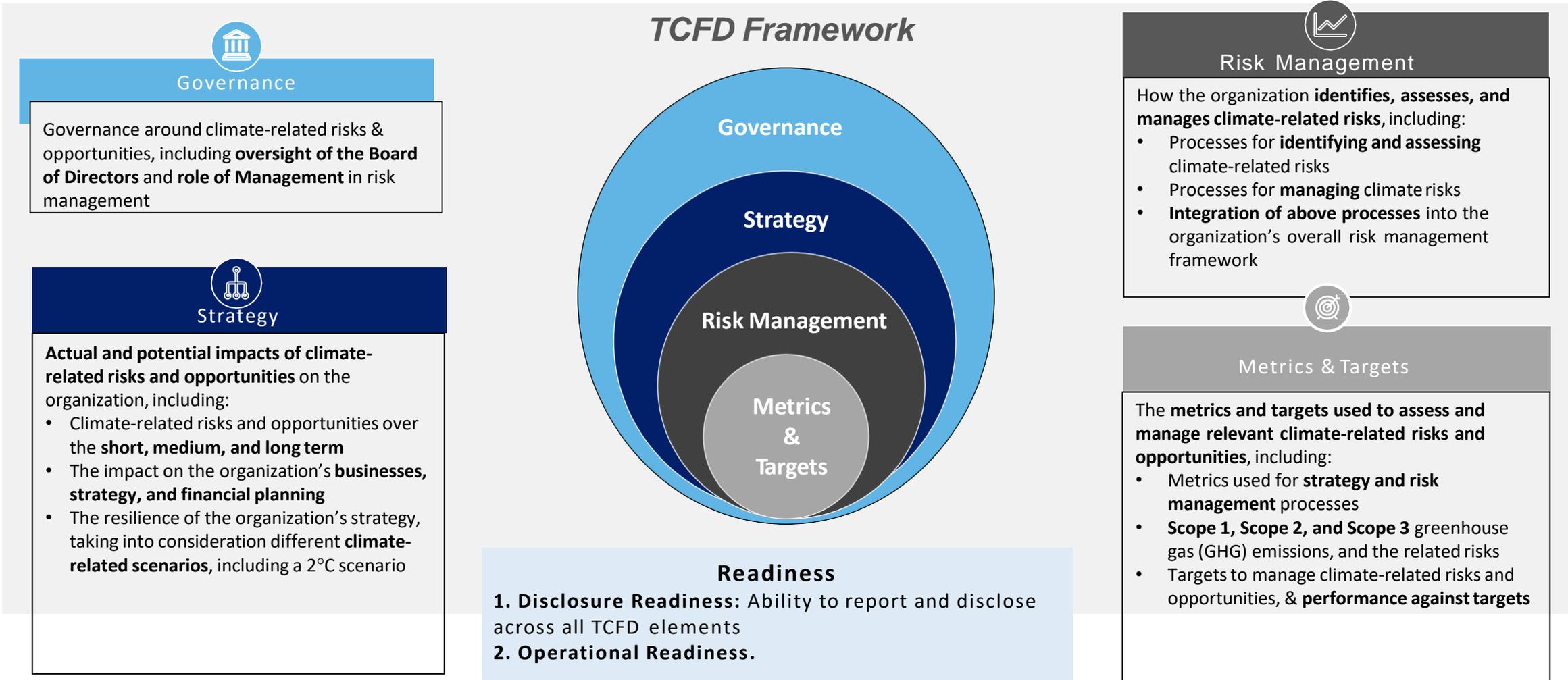
Climate change is a reality, and one of the most important challenges of this generation. Financial institutions are exposed through both physical and transition risks, and have an important role to play in mobilizing resources for investments in climate mitigation. In most financial institutions, Senior Management, Risk functions and some business areas are already very active in climate related efforts. However, **Compliance only working at the fringes of climate related initiatives and often in a tactical manner.**

Bank Strategy

- Business Strategy
- Objectives
- KPIs
- Policies & Procedures
- Operations
- Sustainability
- Sustainable Finance
- ESG
- DFIs
- Reporting

- Risk Management
- Compliance & Governance
- ESRM
- ESG Risk Assessment
- Data Governance
- ESG Compliance
- Disclosure Requirements
- Regulatory Compliance

Task Force on Climate-related Financial Disclosures (TCFD)



Governance

Governance around climate-related risks & opportunities, including **oversight of the Board of Directors** and **role of Management** in risk management



Strategy

Actual and potential impacts of climate-related risks and opportunities on the organization, including:

- Climate-related risks and opportunities over the **short, medium, and long term**
- The impact on the organization's **businesses, strategy, and financial planning**
- The resilience of the organization's strategy, taking into consideration different **climate-related scenarios**, including a 2°C scenario

TCFD Framework



Readiness

- 1. Disclosure Readiness:** Ability to report and disclose across all TCFD elements
- 2. Operational Readiness.**



Risk Management

How the organization **identifies, assesses, and manages climate-related risks**, including:

- Processes for **identifying and assessing** climate-related risks
- Processes for **managing** climate risks
- **Integration of above processes** into the organization's overall risk management framework



Metrics & Targets

The **metrics and targets used to assess and manage relevant climate-related risks and opportunities**, including:

- Metrics used for **strategy and risk management** processes
- **Scope 1, Scope 2, and Scope 3** greenhouse gas (GHG) emissions, and the related risks
- Targets to manage climate-related risks and opportunities, & **performance against targets**

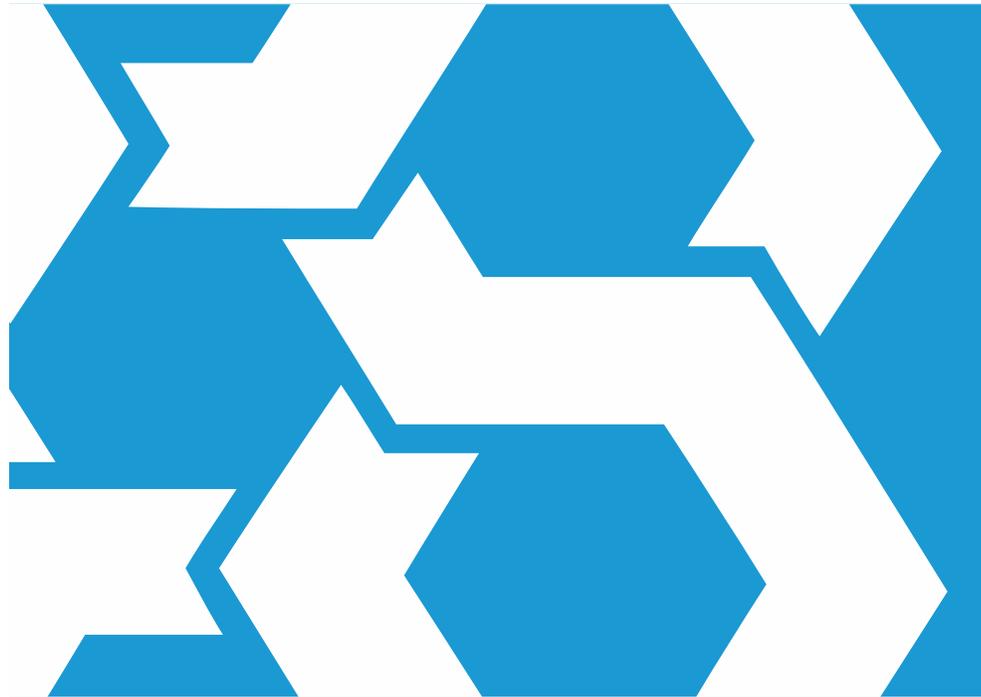


June 2023

IFRS S1

IFRS® Sustainability Disclosure Standard

**General Requirements for Disclosure of
Sustainability-related Financial Information**



International Sustainability Standards Board

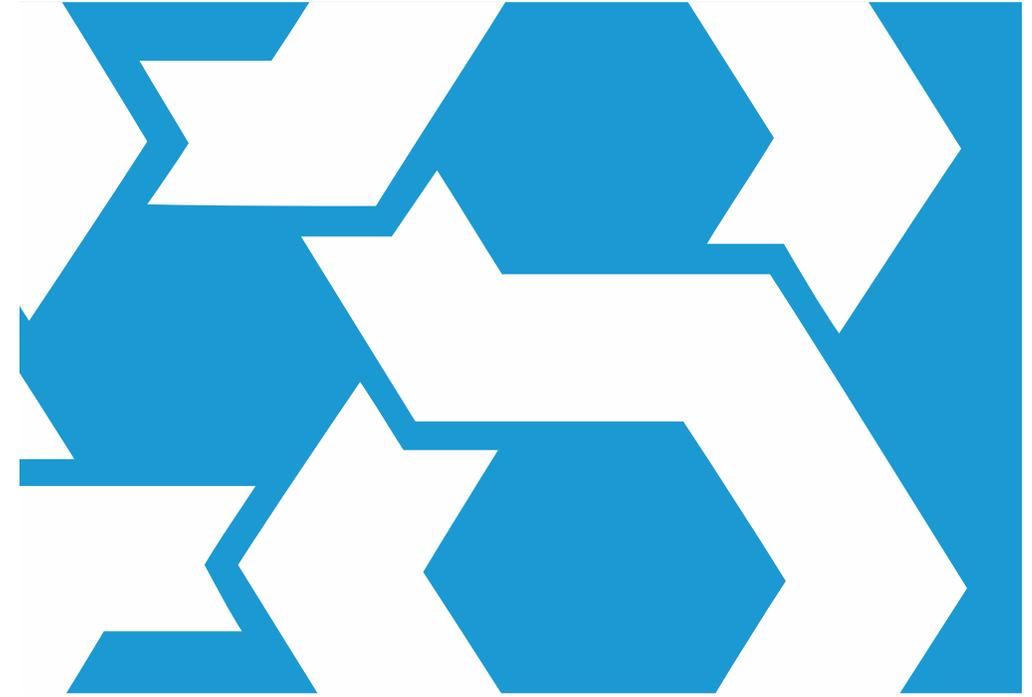


June 2023

IFRS S2

IFRS® Sustainability Disclosure Standard

**Accompanying Guidance on
Climate-related Disclosures**



International Sustainability Standards Board

Climate Change and Compliance

- Climate change is a reality, and one of the most important challenges of this generation.
- Financial institutions are exposed through both physical and transition risks, and have an important role to play in mobilizing resources for investments in climate mitigation.
- In most financial institutions, Senior Management, Risk functions and some business areas are already very active in climate related efforts. **However, But Compliance only working at the fringes of climate related initiatives and often in a tactical manner.**

Organisational considerations for Compliance Officers

Starter questions for compliance managers

- Are you aware of the Board level discussion and strategy for your banks' approach to climate risk management?
- Which function is responsible for developing the enterprise wide risk management framework for managing climate risk?
- Do you have a stand-alone Sustainability Team or ESG function at the Group or Divisional level?
- What are the roles and responsibilities of different functions across the 3 lines of defence? What is the role of the compliance function within this risk management framework?

Organisational considerations for Compliance Officers

Starter questions for compliance managers

- . Who is the senior manager responsible for climate risk management and what are their responsibilities?
- . Does the Compliance function participate in governance bodies which manage climate-related risks?
- . Is your team trained on the firm's climate risk management framework and the evolving regulatory environment?
- . What is the level of interaction between your compliance team and ESG and Sustainability colleagues?

Compliance Top Down Strategy

Compliance already has many tools in its arsenal to help financial institutions achieve their climate objectives but needs to deploy them in a strategic way.



Recommendations

1. Developing a Compliance strategy covering ESG.
2. Enhancing the compliance risk management framework and updating related compliance plans to reflect the changing risk profile of ESG-related compliance risks.
3. Evaluating the target state for ESG-related compliance activities (e.g., regulatory development, advisory, monitoring and testing) and identifying enhanced ‘ways of working’ to support the bank as it embeds ESG into its key frameworks and decision-making processes.

Recommendations

4. Cross-functional collaboration, and close alignment of the business and IT functions.
5. ESG data and technology strategy must be closely integrated into the broader ESG and business strategy, with active sponsorship and a clear mandate from the highest levels of leadership.

Thank You