2024: The Year Sustainable Finance Goes Offshore?

State of development of sustainable finance across the IFCs

Survey of Group of International Finance Centre Supervisors (GIFCS)

ABRIDGED REPORT

Developing sustainable research and thought...

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Foreword

Sustainable finance has exploded in recent years. Catalysed by first COP21 and then TFCD, rules and regulations have rapidly evolved, aligning with the TCFD reporting framework. The ISSB's publication of its international sustainability and climate reporting standards in 2023, marked another significant milestone, likely becoming the global norm after receiving rapid endorsements from the likes of the FSB and IOSCO.

Larger economies such as the EU, UK, Australia, and Hong Kong swiftly embraced sustainable finance regulations. Progress across the smaller international finance centres has varied and the true extent of development is uncertain. To address this, in collaboration with GIFCS - the Group of International Finance Centre Supervisors - a survey of its members during the third quarter of 2023. Our survey ran to more than forty questions and we assessed development across four pillars - institutional foundations; legislative and regulatory environment; market infrastructure; and community and stakeholders - in line with a UNEP model. As well as being able to provide an overall assessment, given the geographic scope of membership, we were able to categorize results into the European, the Caribbean, India-Pacific, and Rest of the World regions.

The report summarizes the findings, providing valuable insights for market participants and policymakers in these centres. **This is an abridged version of that report for public consumption. The full 36 page report and/or 30 page presentation is available on request to those with a legitimate interest.**

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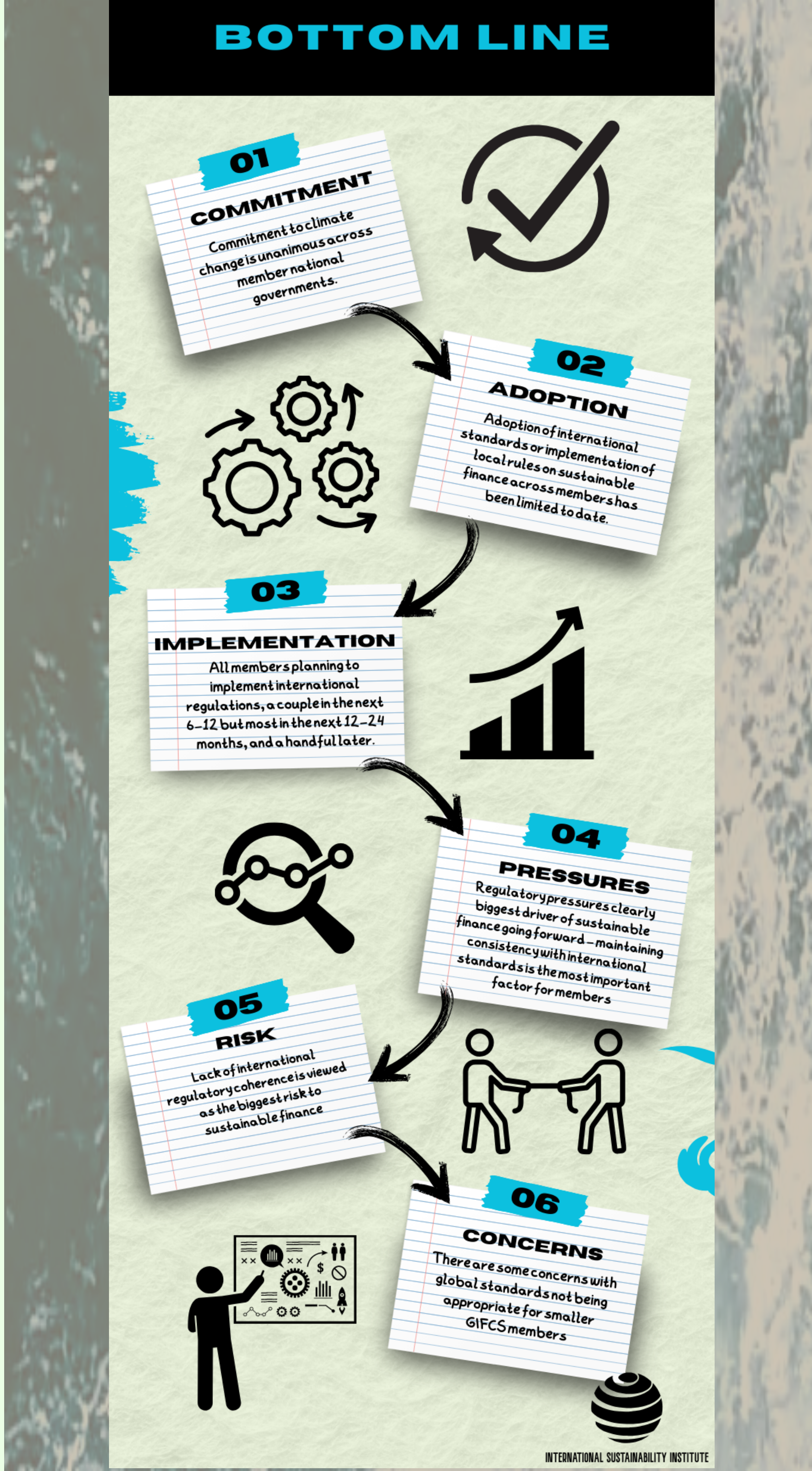
Overview

A unanimous commitment to addressing climate change is evident among member national governments. However, **the adoption of international standards or the implementation of local rules on sustainable finance has remained limited among members to date.** Catalysed by the publication of the International Sustainability Standards Board's first global standards in 2023, all members are in the process of planning to implement international regulations, with a fifth aiming to do so within the next 6 to 12 months. **The majority anticipate taking action in the next 12 to 24 months,** while a fifth expect to do so at a later date.

It's clear that regulatory pressures are poised to be the primary driving force for sustainable finance moving forward. **Ensuring consistency with international standards ranks as the most crucial factor** for members in this regard. Conversely, and somewhat ominously, **the lack of international regulatory coherence is perceived as the most significant risk** to the advancement of sustainable finance.

Furthermore, t**here are concerns among some members that global standards might not be entirely suitable for smaller GIFCS members**, highlighting the need for a nuanced approach to sustainable finance within this diverse group.



Maturity of environment

The commitment to addressing climate change is unanimous among member governments. Strategies are in place across the board. **Goverment commitments across Caribbean and India-Pacific regions tend to be more comprehensive,** with committment to biodiversity and ocean conservation widespread.

This has been accompanied by **marketing of sustainable finance, which has increased across the board,** in every sector, in every region, in every centre, though it is in the banking and funds sectors where specific product development is most reported.

Though the development of the supportive environment is less advanced. **Local training in sustainable finance is present in about a third of the centres**, with Europe having the most comprehensive coverage. Local research is generated in fewer than half of centres. Public financing for sustainable finance projects is limited and primarily found in Europe and the India-Pacific regions and absent in the Caribbean and the Rest of the World.   **Networks and events related to sustainable finance, however, are prevalent in most centres,** reflecting a high degree of enthusiam and the importance of networking.

Looking ahead, international finance centres acknowledge growth in sustainable finance, driven by regulatory pressures and climate-related risks. **Potential challenges exist, particularly greenwashing** and a lack of international regulatory coherence, emphasizing the need for effective oversight.

SUSTAINABLE FINANCE FACTS

GOVERNMENTS ACROSS THE BOARD ARE COMMITTED TO CLIMATE ACTION

BIODIVERSITY

Over 80% of centres in Carribean and India Pacific have national commitments in place to biodiversity.

MARKET DEVELOPMENT

100%

The marketing of sustainable finance products has increased across every sector, in every region, in every centre.

TRAINING

Locally provided training exists in only around a third of centres.

NETWORKS

SUSTAINABLE FINANCE NETWORKS AND COLLABORATIVE GROUPS EXIST ACROSS 60% OF CENTRES.

GREENWASHING IS MOST COMMONLY CITED RISK.

Regulation

Just a third of international finance centres have already embraced global standards, with typically banking and insurance sectors first affected. This is pretty intuitive given these sectors were those that TCFD was orginally primarily directed towards with its concern for systemic risk

There is some evidence of divergence in the pace of implementation, the India-Pacific region has seen the most fastest implementation of global standards. Europe has been most active in the development of local rules, usually of the disclosure rule variety.

Going forward it is again the banking and insurance sectors where implementation is likely to be most comprehensive. Just under half of centres, typically those with significant funds business, reported plans to extend international standards to the funds sector. And at this stage it was **just the European centres reporting plans to extend standards to the regulated fiduciary sector.**

Maintaining consistency with international standards and demonstrating a commitment to sustainable finance were both cited as the key drivers for implmentation of standard**s, surpassing concerns for financial stability.**

90%+ confirmed a move adopt international regulatory standards was the publication of the International Sustainability Standards Board (ISSB) standards in 2023.

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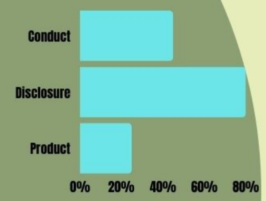
LEGISLATIVE & REGULATORY ENVIRONMENT

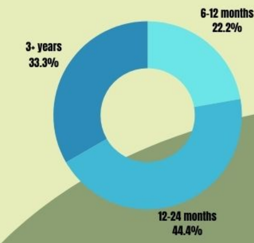
1/3 of centres claim to have adopted some international standards, mainly in banking and insurance sectors, India Pacific fastest moving region.

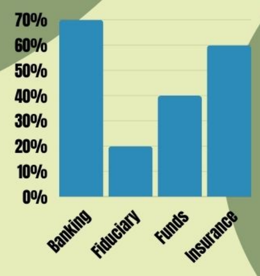


Europe moved faster in developing rules and when rules have been introduced, >75% have tended to focus on disclosure.

Almost all plan to implement international standards, most in next 12-24 months.

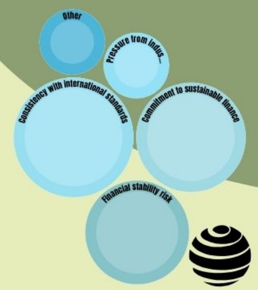
New ISSB standards cited as catalyst in 90%+ cases.





Planned implementation focussed on banking, insurance, funds with just Europeans considering extending rules to the fiduciary sector.

Maintaining consistency with international standards the biggest driver of movement.



Conclusion

The evolution of sustainable finance in international finance centres (IFCs) reveals a shared dedication to addressing climate change, influenced by Nationally Determined Contributions (NDCs).

Regulatory pressures and climate risk awareness fuel widespread growth in sustainable finance across IFCs. **Task Force on Climate-Related Disclosures (TCFD) standards have gained limited traction in insurance and banking.**

But IFCs are now poised to adopt international standards, with a focus on the International Sustainability Standards Board (ISSB).

Implementation plans span banking, insurance, and funds. Despite progress, **challenges persist, including greenwashing and a lack of regulatory coherence.** Private sector initiatives are less common, and funding for sustainable finance varies, with a concentration in the India Pacific region.

In short, IFCs have experienced growth and commitment in sustainable finance, driven by global awareness and regulatory frameworks, the issue is now how to smoothly adopt new global standards.

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About the International Sustainability Institute ('ISI')

The ISI is the only sustainability institute dedicated to the international finance centres. It was founded by Dr Andy Sloan, economist, and expert reviewer for the IPCC, whose previous career spans three decades working at the most senior levels on international financial, fiscal and regulatory policy in the offshore environment. Through the development of a core research programme, the Institute contributes to global thinking on strategy and policy in these policy areas. It publishes a forward-looking schedule of planned research topics and has a research programme open to proposals, contributions, and commissions. The ISI also provides advocacy and advisory services. Through a network of experts and researchers and leveraging their expertise and of its founder, it draws on experience of international policy work at the highest levels in economics, taxation, finance services regulation and sustainable finance.