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# Putting ESG front and centre for our business and risk management strategy

Regulations and internal risk management frameworks of banks have often played catch up to cover risks after they manifested themselves, for example, the introduction of liquidity coverage requirements after the 08-09 crisis. It is difficult to set guidelines and internal constraints without a clear historical example of what can go wrong.

This is where ESG themes, and in particular climate risk, are breaking new ground. We cannot afford to witness multiple events with catastrophic environmental, social and financial consequences, before acting. Hence, the need to be forward-looking, proactive and brave.

At CS, we have committed to setting Science Based Targets within the next 24 months for achieving net zero emissions from our operations, supply chain & financing activities no later than 2050. We have developed sector-specific Client Energy Transition Frameworks (CETFs) which identify priority sectors/industries and set out a methodology to categorize clients that operate in these sectors according to their energy transition readiness. In this way, we aim to actively encourage clients to transition along the CETF scale over time and support them through financing and advisory services.

To advance framework developments across the ESG spectrum, we participated in many industry-wide initiatives, including, the Equator Principles, the PACTA project[1], and the Task Force for Nature-Related Financial Disclosures (TNFD).

Key concepts such as reporting greenhouse gas emissions, disclosing biodiversity-related aspects and reporting D&I statistics, are increasingly becoming standard. However, there is a need for more transparency and standardization on an international level to make approaches more comparable and to minimize greenwashing, while increasing the availability of reliable data. This should not come at the expense of flexibility required to recognise emerging risks.

At CS, we have aligned Reputational, Sustainability, Credit and Compliance processes to develop a more holistic perspective when managing the bank's client risks. ESG factors are currently considered mainly based on qualitative criteria, but we are adding more structured KPIs, leveraging internal & third-party data. Credit decisions should be taken with full consideration of ESG matters, especially for clients in sensitive sectors & countries.

Looking ahead, we see merits in exploring mechanisms in the prudential framework to provide a preferential treatment for green investments while ensuring that requirements remain risk-sensitive. Capital needs to be sized based on a forward view, while existing models tend to look back. Forward-looking stress testing is the key tool to obtain insights and explore risks to inform business strategy. Unfortunately, models are still at an early development stage, and data is scarce.

Our ambition is to become a Sustainability leader. However, the financial system can only facilitate the transition - governments must also play their part by charging the cost of pollution at source. Together, we share the responsibility to protect the planet and drive towards sustainable prosperity.

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[1] Paris Agreement Capital Transition Assessment