

## BCBS Consultative Document

# Climate-related financial risks

**B**asel Committee issues public consultation on principles for the effective management and supervision of climate-related financial risks. Through the publication of this consultative document in the form of BCBS Guidelines, the Committee seeks to promote a principles-based approach to improving risk management and supervisory practices related to climate-related financial risks.



# Principles for the management of climate-related financial risks

The consultative document includes 18 high-level principles. Principles 1 through 12 provide banks with guidance on effective management of climate-related financial risks, while principles 13 through 18 provide guidance for prudential supervisors. The proposed principles seek to achieve a balance in improving practices related to the management of climate-related financial risks and providing a common baseline for internationally active banks and supervisors, while maintaining sufficient flexibility given the degree of heterogeneity and evolving practices in this area.

The proposed principles are intended to be applied on a proportionate basis depending on the size, complexity and risk profile of the bank. They should therefore consider the potential impacts of climate-related risk drivers on their individual business models and assess the financial materiality of these risks. Banks should manage climate-related financial risks in a manner that is proportionate to the nature, scale and complexity of their activities and the overall level of risk that each bank is willing to accept.

The Committee's report on transmission channels noted that some climate-related risks may also materialise beyond a bank's traditional two- to three-year capital planning horizon but within the maturities of longer-dated positions. Other climate risks may materialise over a much longer time horizon. The high degree of uncertainty around the timing of these risks suggests that banks should take a prudent and dynamic approach to developing their risk management capacities. Different time horizons should be considered in the process of risk identification and assessment as well as in scenario analysis. The board of directors and senior management are also expected to take a long-term consideration of climate-related financial risks.

The Principles are divided into further categories:

- Corporate governance
- Internal control framework
- Capital and liquidity adequacy
- Risk management process
- Management monitoring and reporting
- Comprehensive management of credit risk
- Comprehensive management of market, liquidity, operational and other risks
- Scenario analysis
- Prudential regulatory and supervisory requirements for banks
- Responsibilities, powers and functions of supervisors

**Detailed analysis of each Principle would be published in subsequent posts.**