



News release

15 October 2018

PRA consults on its expectations for the management of financial risks from climate change

Today the PRA has published a consultation paper on a draft supervisory statement (SS) which sets out expectations regarding firms' approaches to managing the financial risks from climate change. These centre on how managing the far-reaching and foreseeable risks from climate change requires a strategic approach which considers how actions today affect future financial risks. The supervisory statement is relevant to all UK insurers, banks, building societies and PRA-designated investment firms ("firms").

Climate change and society's response to it presents financial risks that are relevant to the PRA's objectives of safety and soundness. Whilst these risks may crystallise in full over longer-time horizons, they are becoming apparent now. Firms are enhancing their approaches to managing these risks, but more need to take a forward-looking, strategic approach if financial risks are to be minimised.

With this context, the SS sets out proposed expectations in respect of the embedding of firm's management of financial risks arising from climate risk in a number of areas:

- **Governance:** There should be clear board -level engagement and responsibility for managing the financial risks from climate change. This includes identifying the relevant Senior Management Function (SMF) holder(s);
- **Risk Management:** Risks should be addressed through firms' existing risk management frameworks, in line with their board-approved risk appetite, while recognising that the nature of financial risks from climate change requires a strategic approach;
- **Scenario analysis:** This should be conducted (where proportionate) to inform a firm's strategic planning and determine the impact of the financial risks from climate change on its overall business strategy;
- **Disclosure:** Firms should consider the relevance of disclosing information on how financial risks from climate change are integrated into governance and risk management processes. This includes firms

engaging with the wider initiatives on climate related financial disclosures, such as the Task Force on Climate-related Financial Disclosures (TCFD).

The PRA will embed these expectations into its existing supervisory framework and expects firms' responses to be proportionate to the nature, scale and complexity of their respective businesses.

The Financial Conduct Authority (FCA) has also today published a discussion paper setting out its approach to climate change and green finance. We welcome this report and look forward to engaging with the FCA in the Climate Financial Risk Forum.

The consultation period ends on 15 January 2019.

ENDS

Notes to Editors

1. Consultation paper 23/18: [Enhancing banks 'and insurers' approaches to managing the financial risks from climate change](#)
2. [Transition in thinking: The impact of climate change on the UK banking sector](#)
3. [The Impact of climate change on the UK insurance sector :September 2015](#)
4. [Quarterly Bulletin June 2017: The Bank's response to climate change](#)
5. [Bank of England climate change website](#)