



Let's tackle climate risk together.

TCFD and Operational Readiness Guide

November 2021

Introduction



Overview

Climate related physical and transitional risks and opportunities, among other environmental and social issues, are changing the way financial institutions operate and deliver critical functions to a variety of stakeholders.

The Central Bank of Kenya (CBK) has issued guidance on Climate Related Risk Management aimed at guiding financial institutions to manage their climate related risks by integrating climate risk management into their business decisions and activities.

What are the requirements?

The guidance requires Banks to:

- i. Embed considerations of the financial risks from climate change in their governance structures.
- ii. Incorporate financial risks from climate change into their existing financial risk management practices.
- iii. Develop an approach to disclosure on the financial risks from climate change.

TCFD Principles

The CBK guidance is aligned to the Task Force on Climate related Financial Disclosures (TCFD) which addresses **governance, strategy, risk management, and metrics and targets**, and are supported by 11 recommended disclosures.

Responsibilities

The guidance requires the **board of directors** and **senior management** of financial institutions to **formulate** and **implement** climate related risk management strategies, policies, procedures and set minimum standards for their institution.

Reporting

Internal Reporting: Financial institutions will be required to **define reporting structures for internal reporting** to the board of directors and senior management to provide status updates on the identification, assessment and management of climate-related risks.

Reporting to CBK: Banks are required to **submit an approved time bound plan** on how they intend to comply with the guidance provided by **30 June 2022**. Thereafter, the institutions will be required to **submit progress reports** on implementation on a **quarterly basis**. This should be within 10 days after the end of every calendar quarter **from the quarter ending 30 September 2022**.

Reporting of climate related disclosures: Institutions will be required to disclose climate related information between the period **January 2023 and June 2023**. Disclosures can be done through the following channels as appropriate and accessible to stakeholders:

- i. Annual reports
- ii. Sustainability reports
- iii. TCFD reports
- iv. Separate climate related risk reports

The Big Picture – Key elements of TCFD

Banks will need to focus their **Operational Readiness** within each of these elements, in order to achieve overall TCFD **Disclosure Readiness**.

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.

Operational Elements TCFD Framework



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**.

Disclosure Readiness: Ability to report and disclose across all TCFD elements.

Operational Readiness: structures and capabilities to meet expectations and prevailing practices, and consistent with aspirational disclosures.

Source: <https://www.fsb-tcf.org/recommendations/>

Assessment and Roadmap

Key requirements to achieve compliance

Governance

Board oversight :

- Board governance structure and board committee oversight over climate risk.
- Processes and frequency of informing the board on climate-related issues including topics covered and actions raised.
- Board or board committee(s) consideration of climate related issues when reviewing and guiding strategy.
- Board monitoring and oversight progress against climate-related goals and targets.
- Insights from outside experts and / or board members on this topic.

Senior Management roles and responsibilities

- Processes of informing management about climate-related risks and opportunities.
- Management monitoring of climate-related risks and opportunities.
- Management and board reporting.
- Delegation of authority responsible for the company's assessment and management of financial risks from climate change.
- Incorporation of climate-related performance metrics into remuneration policies.

Risk Management

Process for identifying and assessing climate related risks

- Risk identification process with consideration for climate risk impact on key risk stripes (e.g., credit, market, liquidity) and business units.
- Implications of physical vs. transition risks across risk stripes and business units.
- Business area prioritization, including key products and customer segments that are or will likely be subject to climate risk.
- Use of models and analytical techniques for assessing and measuring risks.
- Use of data and vendors to support risk analytics and modelling.

Process for managing risks

- Internal climate risk reporting processes.
- Incorporation of climate risk into Business As Usual (BAU) risk management processes (e.g., credit, market, liquidity).
- Incorporation of climate risk into stress testing processes.
- Integration of climate risk analytics and strategic decision making.

Enterprise integration

- Integration of climate risk management practices into broader Enterprise Risk Management (ERM) framework.

Key requirements to achieve compliance

Strategy

Climate-related strategies (Short and Long Term)

- Corporate business strategy and identified impacts of climate-related risk and opportunities over the short-term and long-term.
- Incorporation of climate vulnerabilities on an institutional level due to broad strategic trajectories.

Impact on the Bank's business, strategy, and financial planning

- Incorporation of climate related issues and risk analysis into the bank's business and financial planning processes.
- Consideration of granularity / segmentation approach, including geographies, sectors, products, services, operations, capital etc.

Resilience of the Bank's strategy in various scenarios

- Scenario design and stress-testing approaches to integrate/address climate risk impacts.
- Business portfolios' resilience based on risk analysis, including scenario analysis and stress testing.

Metrics and Targets

Define climate risk metrics

- Metrics to track the potential impact from climate change at portfolio or segment level in line with the bank's strategy and risk management process, such as metrics to assess impacts of climate-related risks on lending and other financial business activities in the short, medium and long term.
- Appetite or tolerance thresholds set by the business or risk team to define action, and the monitoring processes in place of those metrics.
- Metrics incorporating results from scenario analysis and impact assessments over the long term (e.g., the impact of a 2°C temperature rise on a specific portfolio), or trend analysis (e.g., weather-related catastrophe losses over the years).

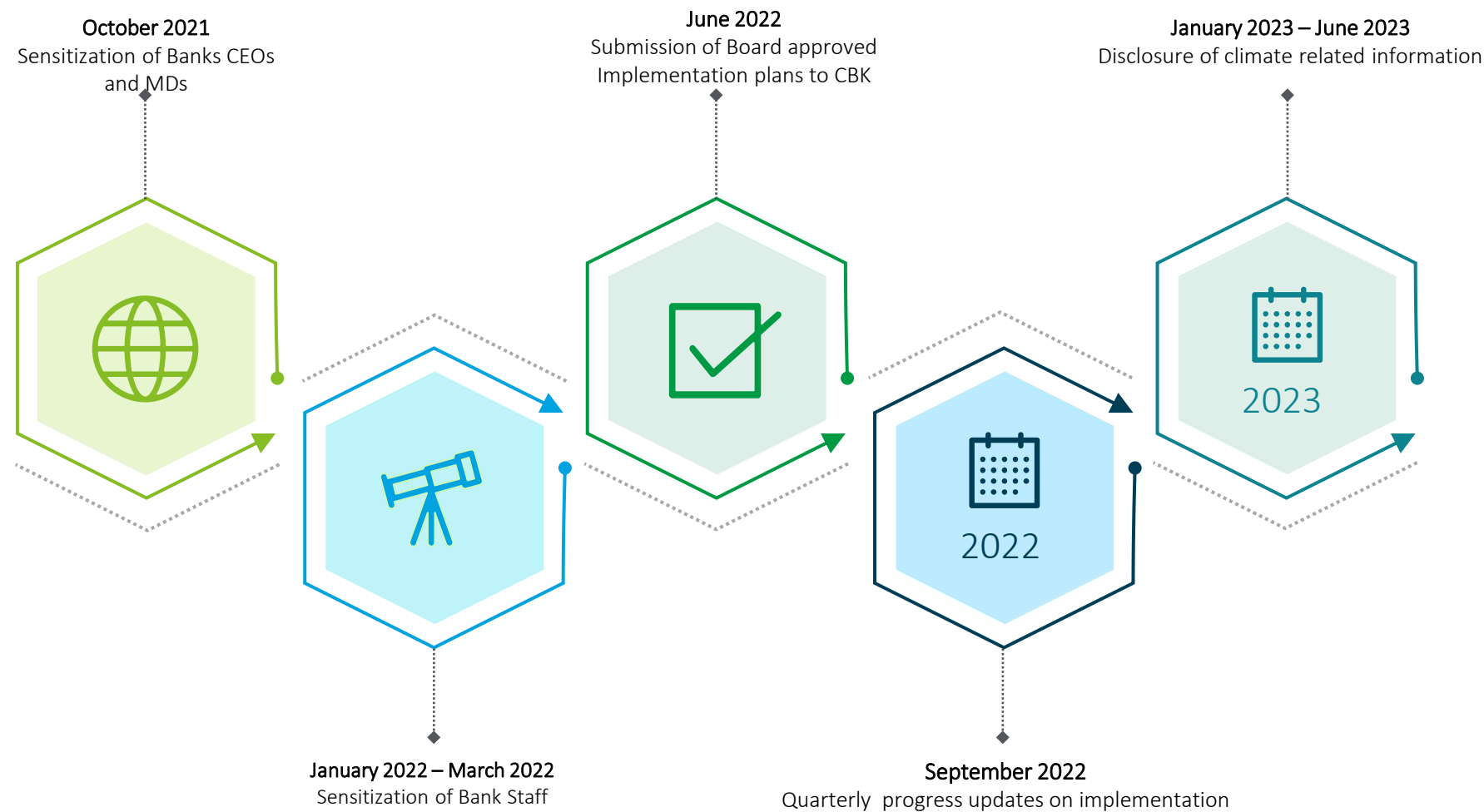
Identify GHG Scope 1, 2, and 3 greenhouse gas (GHG) emission calculations and disclosures

- Identify the main sources of Scope 1, 2 and 3 emissions.
- Define data collection and measurement readiness of Scope 3 emission categories, in particular emissions from investment portfolio in line with leading GHG measurement methodologies, such as PCAF Global GHG Accounting and Reporting Standard for Scope 3 reporting for the Financial Industry.
- Measurement methodologies for Scope 3 emissions.

Established climate-related targets

- Context and internal plans and developments of meaningful targets.
- Different target options from certain GHG reduction goals, net zero or science-based targets, that match management ambition and desired outcomes.
- Identify choices of target or options to consider for relevant commitments (e.g., what a decarbonization journey could look like and how investments can play a part in decarbonizing the economy).
- Target setting and commitments.

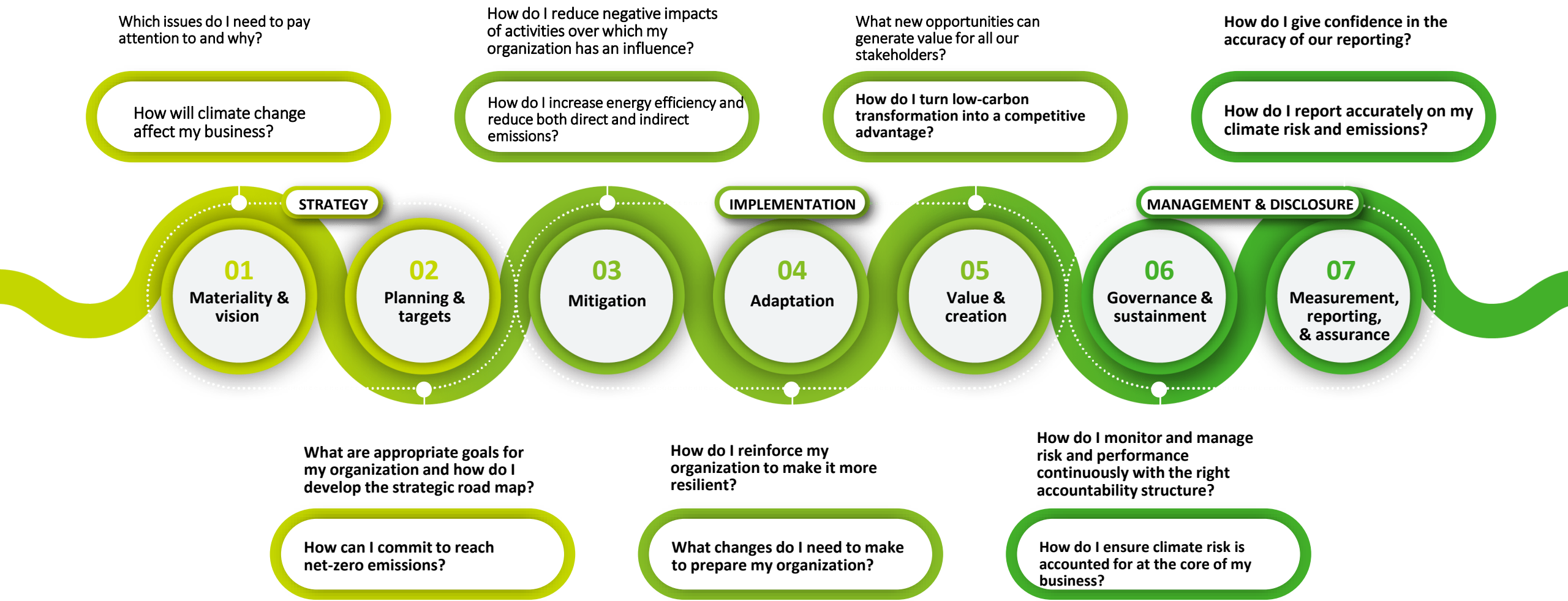
Key milestones



Deloitte approach to climate risk management

How Deloitte can help.

Deloitte helps answer your questions and provides integrated services for every step of the sustainability journey.



Deloitte Climate & Decarbonization Services

Climate & Decarbonization



Strategy

MATERIALITY & VISION

- Board level education for corporate purpose
- Scenario modeling (including stress testing)
- Physical and transition risk and opportunity assessments
- Economic impact assessments, market studies and valuation services
- Policy scanning & tracking

PLANNING & TARGETS

- Net-zero and decarbonization strategy and commitments (e.g., science-based targets)
- Environmental Tax advisory



Implementation

MITIGATION

- Carbon footprint analytics
- Emissions reduction advisory (direct and indirect)
- Sustainable supply chain advisory (restructuring / collaboration)
- Capital project delivery
- Carbon tax and cap and trade advisory

ADAPTATION

- Resilient operating model design (operational implementation of strategy)
- Business continuity planning and physical risk
- Critical infrastructure adaptation solutions (C) and financial modeling
- Disaster risk insurance advice
- Divestment advisory

VALUE CREATION

- Business model transformation
- Circular systems, value chain advisory and product research
- Technology and business scouting and identification of innovation options
- Tax, grants and incentives advisory for sustainable innovation R&D
- Impact finance advisory (e.g., green and social bonds)
- Acquisition advisory



Management & Disclosure

GOVERNANCE & SUSTAINMENT

- Integrating climate risk into “core” risk management
- Defining ESG governance and associated accountability structure
- Internal carbon pricing

MEASUREMENT, REPORTING & ASSURANCE

- Climate related financial disclosure and emissions reporting advisory & assurance
- Green bond assurance
- ESG Due Diligence and legal advice on asset transactions (e.g., renewables M&A)

Deloitte Climate & Decarbonization services

Climate & Sustainability



Strategy

MATERIALITY & VISION

- Board level education and gaming – corporate purpose
- Materiality assessment
- Scenario modeling (including stress testing)
- Risk and opportunity assessments
- Environmental and social policy scanning and tracking
- Taxonomy advisory
- Economic impact assessments and market studies
- Asset valuation services

PLANNING & TARGETS

- Sustainability strategy (including integration into broader strategy)
- Net-zero/decarbonization strategy
- Target setting and commitments (e.g., science-based targets)
- Carbon tax and cap and trade advisory
- Sustainable product design
- Financing plans for sustainability initiatives or programs
- Sectoral and regional economic analysis



Implementation

MITIGATION

- Environmental and social footprint analytics
- Emissions reduction advisory (direct and indirect)
- Sustainable supply chain advisory (restructuring/collaboration)
- Health and Safety advisory and assessments
- Capital project delivery
- Portfolio management

ADAPTATION

- Resilient operating model design (operational implementation of strategy)
- Business continuity planning and operational risk
- Critical infrastructure adaptation solutions
- Critical infrastructure financial modeling
- Divestment advisory
- Disaster risk insurance advice

VALUE CREATION

- Circular systems and product research and action plans
- Tax, grants and incentives advisory for sustainable innovation R&D
- Waste management – circularity implementation
- Impact finance advisory (e.g., green products, green & social bonds)
- Business model transformation
- Technology and business scouting and identification of innovation options
- Ecosystem mapping and innovative value chain advisory
- Acquisition advisory



Management & Disclosure

GOVERNANCE & SUSTAINMENT

- Integrating climate risk into “core” risk management
- Defining ESG governance and associated accountability structure
- Internal carbon pricing
- Enterprise resource planning

MEASUREMENT, REPORTING & ASSURANCE

- ESG reporting advisory and assurance
- Green or social bond assurance
- ESG due diligence and legal advice on asset transactions
- Blockchain and internet of things for supply chain traceability and reporting
- Intuitive and interactive digital tools for reporting and analysis

Why Deloitte?

Deloitte has the extensive sustainability experience and technology to build sound climate transition strategies to reduce carbon and meet new sustainability standards, as well as create value.

For **more than 20 years**, we have turned all aspects of sustainability challenges into measurable competitive advantages for hundreds of our clients.

We leverage our **extensive and rapidly expanding network of sustainability practitioners** in more than 150 countries to provide our global clients with localized support to navigate linguistic, cultural and geopolitical complexities wherever they are faced.

Through our **culture of collaboration and extensive partnership network**, we bring together industry leaders and experts to bridge the gap between business and academia, technology and science to provide answers and guidance our clients need.

Deloitte has built **market-leading assets to help navigate the complexity of climate transition and mitigation risks**,

as well as realize the opportunities of a transition to a lower-carbon world. [Deloitte Decarbonisation Solutions™](#) is a proprietary suite of interactive modules that help to accelerate the delivery of climate risk and strategic decarbonization projects tailored to your organization.

We are leading the way and, in September 2020, launched [WorldClimate](#), our enhanced strategy to drive responsible climate choices within our organization and beyond. We set a goal of net-zero emissions by 2030, ahead of the 2050-time frame set by the Paris Agreement.

Deloitte's [Supplier Code of Conduct](#) and [Responsible Business Practices statement](#) both reinforce our dedication to addressing climate change.

We participate in internationally recognized initiatives to advance sustainability including:

- [World Economic Forum International Business Council \(IBC\) “Compact for Responsive and Responsible Leadership”](#)
- [The Business Roundtable Statement on the Purpose of a Corporation](#)
- [Financial Stability Board’s Task Force on Climate Related Financial Disclosures](#)
- [Accounting for Sustainability](#)
- [Sustainability Accounting Standards Board](#)
- [World Business Council for Sustainable Development](#)

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Act Responsible. Think Sustainable.



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