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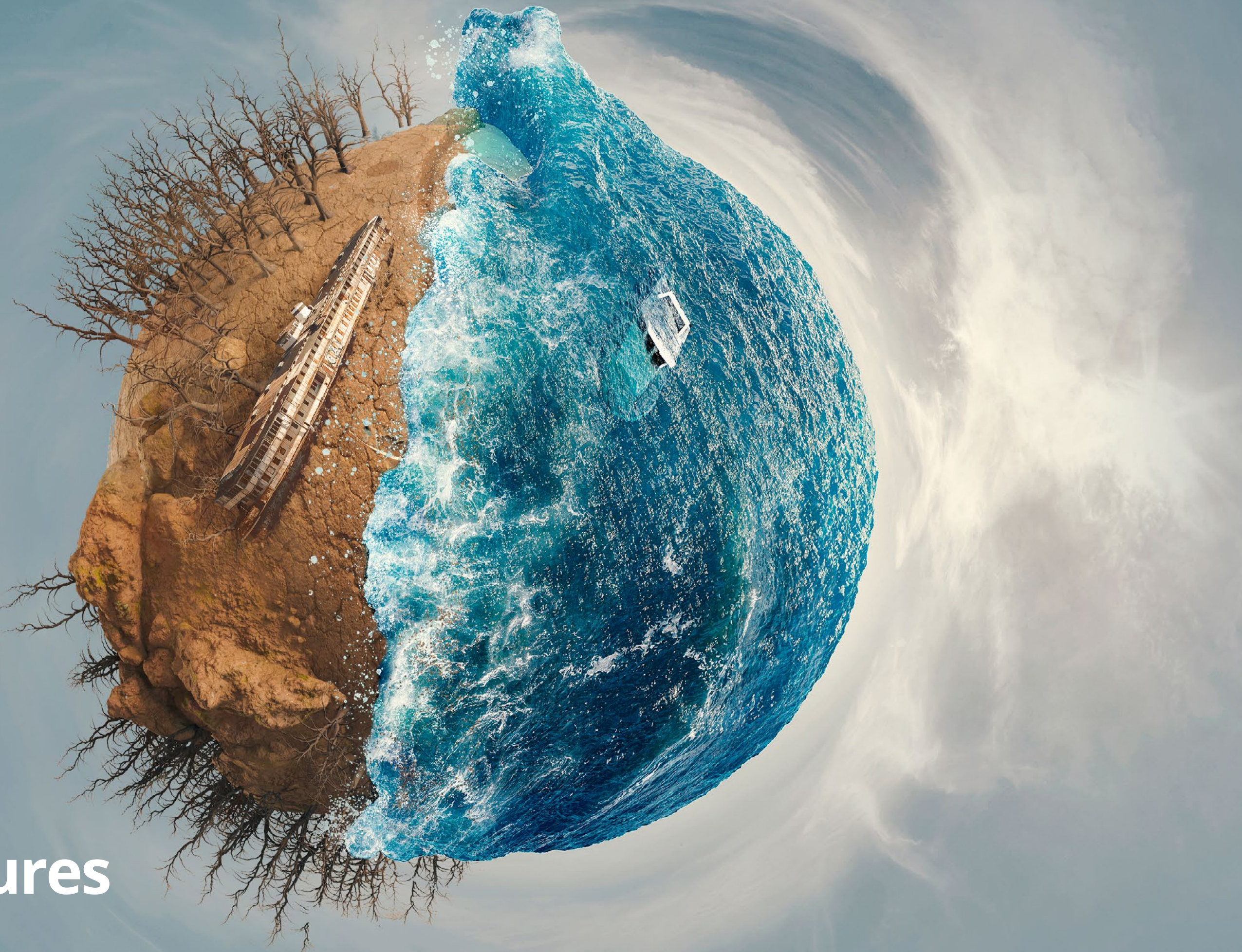

Final Guidance Notes: Climate-Related Governance and Risk Practices and Disclosures for Banking

Follow-on series from the proposed guidance notes issued in 2023

June 2024

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Contents

Foreword

Following their draft guidance published in 2023, the **Prudential Authority (PA)** has published their final **Guidance Notes (GNs)** on **Climate-related governance and risk practices** and **Climate-related disclosures** for banks. Alongside these GNs, the PA released a **Feedback Note** providing feedback on their PA's public consultation process on the draft GNs, a **Climate Risk Practices Observation Report** presenting feedback on discussions held with select financial institutions on the PA's 2023 "flavour-of the-year" topic of climate related risks, and the PA **Climate Roadmap** setting out their regulatory and supervisory plans for 2024 – 2026.

Deloitte has unpacked these publications, and this paper provides a holistic analysis across all four documents. This is the second paper we have released on the GNs. Our first publication on the draft GNs was released in August 2023. In this we explored practical ways banks can respond to the PA's expectations and provided some positive and negative supervisory indicators that the PA is likely to use in assessing whether institutions are responding appropriately.

This edition explores the enhancements made to the draft GNs. It provides a consolidated view of the industry's common challenges and level of ambition in complying with the GNs. The paper highlights the noteworthy updates to the PA's expectations in the thematic areas of climate-related risk, viz. **governance, strategy, risk management, scenario analysis and stress testing** and **metrics and targets** and summarises the PA's observations on institutions' approaches to climate risks and opportunities in each of these areas.

It is important for the financial services industry to advance the work on climate risk management and disclosures to ensure that institutions and the financial system build resilience to the risks of climate change. This paper's intention is to help banks fulfil this leadership role, in a manner that meets regulatory expectations.

Introduction

The **Prudential Authority (PA)** issued two final **Guidance Notes (GN)*; Climate-related governance and risk practices** and **Climate-related disclosures** for banks. Alongside these GNs, the PA released a **Feedback Note**, a **Climate Risk Practices Observation Report** and the **PA's Climate Roadmap**.

PA Climate Risk Practices Observation Report

Provides feedback on discussions held with select financial institutions on the PA's 2023 "flavour-of the-year" topic of climate-related risks.

The report provides an illustration of the range of practices observed across the thematic areas of governance, leadership and strategy, risk management, scenarios and stress testing, and disclosures and reporting. This is shown separately for banks and insurers. Notable examples and considerations are also described.

The PA indicated that the information gathered during these engagements will inform their regulatory and supervisory approach to climate risks within a broader sustainable finance agenda.

The observation report is for informational purposes as the PA believes it may be useful for institutions as they expand their understanding, practices and risk-management approaches to climate-related risks.

PA Feedback Note

Describes the process undertaken to finalise the GNs and provides feedback on the PA's public consultation process and comments received following the publication of the draft GNs in 2023.

The PA took into consideration the stakeholder responses in revising and enhancing the guidance notes.

The feedback note is for informational purposes as the PA believes it may be useful for institutions in their approach to climate-related governance, risk management and disclosures.

PA Climate Roadmap

Provides an overview of the PA's regulatory and supervisory plans for 2024 – 2026.

The roadmap provides an indication of how the PA plans to DEVELOP their climate risk management regulatory and supervisory tools, how they intend to EMBED this into industry and supervisory practices, and how they will aim to ENHANCE these practices in line with domestic and international policy and standard progression.

Guidance Notes on Climate-Related Governance and Risk Practices and Climate-Related Disclosures

The GN on **climate-related governance and risk practices** provides guidance to banks on integrating climate-related risks into their governance and risk management frameworks, including guidance on banks' Internal Capital Adequacy Assessment Process (ICAAP). The GN on **climate-related disclosures** provides guidance to banks on their disclosures on this topic.

These GNs provide the **minimum expectations** for institutions but are not mandatory. The GNs seek to provide structure to evolving practices, promote comparative transparency and ensure appropriate international alignment in climate-related governance and risk practices and disclosures.

Deloitte's perspective on these publications

The publications as a whole, provide an insightful picture of where institutions currently are in their approach, capabilities and ambition versus where the PA would like them to be, at a minimum. Although the GNs are not mandatory the **PA have indicated that they will continue to monitor their implementation** though ongoing supervision and will consider other regulatory instruments (e.g. Prudential Standards) that require mandatory compliance. The PA roadmap reflects this intention. We believe that institutions should aspire to achieve constant progression in terms of climate-related risk practices and associated disclosures over time.

Structure of this paper

This paper firstly provides a consolidated summary of the key challenges and areas highlighted in the PA's feedback note. The paper is then structured according to the thematic areas of **governance, strategy, risk management, scenario analysis and stress testing** and **metrics and targets**. In each theme it provides an overview of the current practices observed by the PA and highlights the key amendments between the proposed GNs and the final GNs.

(*) A guidance note is a regulatory instrument issued under Section 6(5) of the Banks Act to provide guidance on the applications of various regulations, market practices or standards. Guidance notes do not create any specific legal obligations but provide clarity on the application of the various Standards.

Feedback Note and Climate Roadmap 2024 – 2026

The PA's feedback note provides an overview of the responses to the public consultation on the draft GNs to provide context and clarity into the changes and updates made in finalising the GNs. The PA have sought to achieve a balance between challenges raised and additional areas that stakeholders sought guidance on by **setting minimum expectations** in the GNs **as a baseline from which to develop further requirements**. They acknowledged that they are taking an iterative approach, cognisant that climate-related risks have unique features warranting specific focus but should ultimately be integrated into existing processes and frameworks.

Responses to the questions the PA asked regarding the proposed GNs

Level of ambition

- Was deemed to be appropriate and reasonable, although mixed responses on the level of ambition for metrics and targets
- Consensus on the need for a differentiated or proportionate approach based on nature, size and complexity
- Universal agreement on the need to align with existing frameworks, particularly the ISSB
- Challenges in scenario analysis and stress testing.

Key challenges

- Common challenge was the access to and availability of credible, accurate, consistent data
- There was a view of scarcity of technical skills and expertise, particularly those related to climate models and scenario analysis
- The ability to implement and coordinate these challenges given the pace, breadth and depth of regulatory development across different jurisdictions.

Additional areas

Areas that the GNs did not include:

- South African specific context including scenarios and transition pathways
- Sufficient references to just transition and biodiversity
- Exit lists
- Guidance on how climate-related risks are included in Investment policies
- Promotion of nature-based solutions and climate-specific competencies.

Next steps and Timeline for the PA

- The PA will continue to progress the work on climate risk management and disclosures to ensure the financial services industry builds resilience to the risks of climate change
- The PA will continue to engage in relevant local and international discussion forums on how regulator frameworks and supervisory practices need to be adjusted to account for climate risks.

Plans for 2024-2026

DEVELOP: Climate risk management tools to strengthen financial sector resilience.

EMBED and CONTRIBUTE: Industry and supervisory practices. Evolve climate data and disclosure ecosystem and integration with existing ESG practices.

ENHANCE: Nature-related risks and transition planning, risk assessment tools, scenario and stress testing and other assurance considerations.

Snapshot of what has changed

GN: Governance and Risk Practices

GN: Discloures

Both GNs have had a significant amount of rewording and have been restructured to align with the ISSB, making them simpler and more to the point. Additionally, some of the information previously located in the appendix of the proposed guidelines has been moved to the main body of the revised guidelines for greater clarity and to prevent duplication.

- The principle of proportionality has been incorporated across all GNs, with the focus on "without undue cost and effort"
- Additional clarification is provided on transition planning
- The term "governance structure" has been enhanced to be a board committee or equivalent body charged with governance
- Further amendments include additional guidance and clarification on scenario analysis and stress testing. Key point is that these should be selected based on appropriateness and proportionality
- Further emphasis that stress testing should be sufficiently severe but plausible
- No additional guidance is provided on the stress testing and scenario analysis frameworks to be used and they should rather be designed based on appropriateness and proportionality
- The time horizon for climate-related risks should be longer than 3 years (3 years being the minimum) has been included
- The quantitative metrics have been expanded to align with ISSB requirements
- Reiteration that the objective of a GN is to provide guidance and is not a legally enforceable regulatory instrument, therefore no need for transition period.

- The core disclosure content largely remained the same from the draft to the final GN. Key difference is that certain content had been brought from the Appendix of the draft version and is now incorporated into the final version
- The definition of "materiality" has been aligned with ISSB. Materiality of risk should be determined by the institution in accordance with its risk appetite statement
- Further clarification that disclosures are to be done at a consolidated group level
- Confirms that the reporting period should be the same as the organisation's annual financial statements
- Further clarification is provided that the focus is on disclosure of climate-related risks. Other environmental risks and sustainability disclosures may be considered in the future
- Clarity provided that mandatory disclosures would be dependent on numerous factors, i.e. Should SA adopt IFRS S1 and S2, the PA might not need to issue additional guidance
- Disclose to what extent and if any parts of the value chain are included/excluded from the process of managing climate-related risks and opportunities
- Final version has been amended to clarify that the guidance is to disclose how South African-specific context is considered in scenario analysis
- It also specifies that the timeline on mandatory disclosures is determined by several factors, i.e. non-financial corporate sector and international standard bodies.

Snapshot of what has changed

Deloitte's perspective

The PA made some amendments and additions to show the **alignment with the ISSB standards**, most notable is the inclusion of additional metrics and targets. Although SA has not yet committed to adopting the ISSB reporting standards, we expect our local reporting landscape to align in time. The efforts made by the PA to align expectations more closely with the ISSB standards will facilitate one set of comprehensive disclosures that meets the needs of the PA and other stakeholders.

The GNs provided some **technical guidance** on aspects such as emissions reporting, scenario analysis, stress testing, transition planning, and legal risk.

We caution against adopting a "wait and see" approach but rather encourage constant progression in climate-related practices. Although the GNs are voluntary and not legally enforceable, the **PA will continue to monitor their implementation** through ongoing supervision. The PA will consider other regulatory instruments (prudential standards) that require mandatory compliance.

As banks advance their understanding, management and mitigation of climate-related risks, the **granularity of their disclosures will evolve**.

Quality and **reliability of data** remains a key challenge, along with relevant skills to perform **scenario analysis and climate-risk modelling**. Institutions will need to invest in skills, data and systems not traditionally found in banking. These skills extend all the way up to Board level.

Institutions need to remain **vigilant** of the many local and international standards and frameworks being developed. The PA is a member of many international bodies and are following global developments closely.

Governance

The revised GNs provide more detailed, clear and actionable steps for effective governance in managing climate-related risks. They provide a more integrated and holistic approach to governance, emphasising the foundational role of good governance and strong corporate culture. The importance of ensuring consistency of internal strategies with public commitments and the need for regular reviews is also highlighted.

PA key observations of CURRENT PRACTICE among banks

- In general, there is growing awareness and understanding of climate risk at board level across banks
- Banks recognised climate risk as a cross-cutting and transversal risk, which amplified other primary risk types
- Financial institutions broadly presented a double materiality approach – impact of climate risk on their clients and their operations, and impact of climate change
- Banks conducted training at Board and senior management level, and some even at staff level
- Most banks reported climate matters at both Board Risk Committee and Social Ethics Committee. Remuneration Committee for key performance indicators
- At some banks, the Boards appeared reluctant to address any shortcomings due to challenges around data, lack of quantification methodologies and a lack of regulatory requirements

Enhancements to the GNs

Climate-related Governance and Risk practices for Banks

- The approach to governance is **consolidated** and **simpler**. It removes duplication and the overlap that existed in the draft version
- Strong governance arrangements that are supported by the **bank's corporate culture** has been included in the GN
- The GN requires that the Board **evidence ongoing oversight** of climate-related risks
- The GN states that it is the Board and senior management's responsibility to ensure that their internal strategies and risk appetite statements are **consistent with any publicly communicated climate-related strategies and commitments.**

Climate-related Disclosures for Banks

- The **definition of a governance structure** has been updated to include "a board, board committee, or equivalent body charged with governance". In addition, the term Board refers to all relevant governance structures in the GN
- Further clarification and guidance regarding disclosure (previously part of Draft GN: Appendix A):
  1. Banks should disclose **governance practices, processes, controls and procedures** in maintaining appropriate oversight over climate-related risks and opportunities.
  2. Banks should disclose the **role of management** in the governance process, controls and procedures.

Governance

Deloitte's perspective

The PA sees governance as key to the successful management of climate-related risks and opportunities. The multifaceted nature of climate-related challenges **requires focus from the Board**, with the board chair playing a critical role as the leader of the Board, strategic partner to management, and as ambassador and tone-setter for the organisation.

Many chairs are **seeking tangible strategies and leading practices to bolster sustainability and climate initiatives** and to effectively tie climate actions to business outcomes.

The PA will look for tangible evidence that **Boards understand and evaluate the impact of climate-related risks on their respective bank's business model**. This includes understanding and assessing a bank's exposure to structural changes in the economy, financial system and competitive landscape in which the bank operates.

Boards should balance long-term ambitions for sustainable growth and prosperity with short-term performance expectations.

Climate-related risks have a more gradual and forward-looking perspective with a high degree of uncertainty, than other risk types.

The impacts of many sustainability- and climate change-related goals are expected to be felt over the medium to long term. However, it's imperative that Boards maintain their focus – and management's – to help protect organisations from risk and drive value, all while managing stakeholder expectations.

A key requirement of the PA going forward is for **Boards to specify the board members with climate-related experience**.

It is crucial for both the Board and senior management to have the adequate skills and competencies to understand the nuances of climate-related risks and opportunities to ensure they have been appropriately considered and integrated into the business.

Strategy

The revised GNs integrate the importance of incorporating climate-related risks and opportunities into the overall business strategy and decision-making process, and to better understand the effect on banks financial positions, performance and cash flows. Banks should evaluate the climate resilience of their strategy and business model by incorporating insights from climate-related scenario analysis and stress testing.

PA key observations of CURRENT PRACTICE among banks

- Banks in general indicated that climate risk is seen as urgent/strategic, global and a systemic, material risk
- Banks reported that climate risks and opportunities were recognised within broader environmental, social and governance (ESG) and sustainable development goals (SDGs) or sustainability agenda and were embedded within their overall business strategy
- Most institutions communicated a clear top-down endorsement of their climate strategy, while others expressed some reservations and trade-offs that appeared short term in nature

Enhancements to the GNs

Climate-related Governance and Risk practices for Banks

Strategy is no longer a separate section within the GN. The strategic requirements have been **incorporated into the Governance** and **Risk Management sections**. The key changes in the respective sections include:

- **Governance:** The need to incorporate the identified climate-related risks into the business strategy and financial planning process
- **Risk Management:** To be able to identify and understand the impact of climate-related risks on the bank's business model and strategy, including capital resources and liquidity positions.
- **Risk Management:** To develop appropriate quantitative and qualitative methods/metrics to monitor, relative to strategy and risk appetite
- **Risk Management Function:** To develop appropriate climate-related risk quantitative and qualitative methods and metrics to be used to monitor progress relative to its strategy and risk appetite.

Climate-related Disclosures for Banks

Further clarification and guidance regarding disclosure (previously part of Draft GN: Appendix A):

1. **Disclose parts of the value chain** that are included or excluded from its process for identifying, assessing and managing climate-related risks and opportunities
2. Disclose climate-related risks that affect the **business model, strategy and financial planning** over the short, medium and long term
3. Identify and disclose current and anticipated effects on climate-related risks and opportunities on the bank's **business model and value chain**
4. Define and disclose the **bank's strategy and decision-making process** as it is related to climate-related risks
5. Describe the climate-related risk and opportunity effects on the bank's **financial position, financial performance and cash flows**
6. **Describe the climate resilience** of the bank's strategy and business model considering climate-related scenario analysis
7. Be able to disclose how and when **climate-related scenario analysis** was performed.

Strategy

Deloitte's perspective

The PA believe that banks have a **key role to play in the just transition** and they want to understand the extent to which the bank's strategy considers the impact resulting from climate-related risks and opportunities.

Given the nature of climate-related risk, **a climate strategy cannot be independent of the business strategy**. Having a clearly defined strategy, which incorporates climate-related risks and opportunities is imperative in setting the tone from the top.

The PA will want to gain comfort that the **material climate-related risks and opportunities have been appropriately prioritised into their business strategy and financial planning**.

A clearly defined business strategy must integrate climate-related risks and opportunities. This is especially important when understanding the effect on the bank's business model and overall value chains of the business.

The PA expects annual disclosure of the current and anticipated impacts of climate-related risks and opportunities.

As part of this disclosure, **banks should demonstrate a thorough understanding of the resilience of their strategy to these risks and have adequate response strategies in place.**

Over time the **PA may consider other regulatory instruments, such as Prudential Standards, that require mandatory compliance**. Addressing climate-related risks and opportunities is not just about compliance but about creating long-term value and resilience.

By integrating key climate-related considerations, impacts and opportunities into the business's core strategies and operations, companies can better navigate the transition to a sustainable future while driving innovation and competitive advantage.

Risk Management

The revised GNs offer a more comprehensive and integrated approach to managing climate-related risks, emphasising the importance of embedding these risks into all aspects of the bank's risk management framework. They highlight the need for continuous monitoring, capacity building, and adaptation of internal policies, along with a more detailed approach to reporting and compliance.

PA key observations of CURRENT PRACTICE among banks

- Banks indicated that climate risk management is a work-in-progress with the view of developing additional metrics and tools over time
- There was widespread awareness of the strategic importance of climate risks, but challenges to account for this risk are due to data limitations, climate models over long-term horizons. Data challenges are exacerbated in Africa (outside SA)
- Not all banks have a specific climate risk appetite statement, and some included it into the overall risk appetite
- All banks were looking at the impact of climate risk on credit risk, with some considerations for operational, market and reputational risk
- Some institutions indicated initial steps to integrate climate risk in their investment process and portfolio monitoring. Some have basic climate-related exclusion criteria with qualitative scores and heat maps

Enhancements to the GNs

Climate-related Governance and Risk practices for Banks

- The approach to Risk Management is **consolidated** and simpler. It removes duplication and the overlap that existed in the draft version
- Inclusion of understanding the impact of climate-related risks on the bank's **business model and strategy, including their capital resources and liquidity positions**
- **Risk Management Process section** is consolidated covering the risk management process, function, framework and provides further clarity on these items
- Material risks should be reported on and disclosed in the bank's annual reporting, as per the **Internal Audit Function**
- **Legal risk** and **Climate litigation risk** are now part of the remit of the Risk Management Function (previously Compliance Function)
- **Transition planning** remains an important component of climate risk management. It should support practices to test the resilience of the bank's strategy. The bank needs to understand and manage the risks associated with various transition pathways and changes to the business model. The GN is not prescriptive of the form or disclosure at this stage.

Climate-related Disclosures for Banks

Further clarification and guidance regarding disclosure (previously part of Draft GN: Appendix A):

1. Banks should be able to describe the **relative significance of climate-related risks** in relation to other risk exposures, as well as the process for **prioritising climate-related risks** and how **materiality** is determined
2. The **input parameters** the banks uses must be described, i.e. data sources, scope of operations covered in the processes
3. Banks must describe how they use **climate-related scenario analysis** to inform climate-related risks
4. Disclose the process to assess the **nature, likelihood and magnitude of the effects** of climate-related risks, i.e. quantitative, qualitative, thresholds etc.
5. **Reporting** of climate-related risk process, and any changes from previous years.

Risk Management

Deloitte's perspective

The PA are clear on **the need for an integrated and holistic approach to climate-related risk management**.

A key purpose of the GNs is to be applied as building blocks starting with the core elements, and then expanding to additional considerations, in proportion to the nature, size and complexity of the organisation.

The PA will expect banks to be able to **demonstrate that climate risk management is having a consequential impact on business decisions**. Risks need to be incorporated in risk appetite frameworks (including quantitative and consequential risk limits, early warning indicators and escalation procedures) and cascaded through to relevant business units and portfolios.

Climate risk appetite statements should also be supported by board-level metrics.

How climate-related risk is integrated into the business strategy will be of interest to the PA.

Organisations must re-evaluate and prioritise many aspects of their business through a new lens of climate risk – from products, services and organisation, to financial choices, marketing and communication.

Transition planning is an important component of climate risk management. The inclusion of transition planning in the GNs demonstrates this importance, and possible future requirements for supervisory engagements. Transition plans are a valuable tool to manage climate-related risk and achieve climate target commitments.

A strategic approach to developing and executing transition plans can help mitigate and manage key risks, as well as improve resilience. Not only for the short-term, but to safeguard the long-term value creation of the business.

Financial services regulators worldwide are moving quickly to ensure that banks identify risk exposures from climate change and establish strategies and adjust business models to manage them.

They are demanding **more detailed and timely disclosures of businesses' climate-related risks and opportunities, and are increasingly scrutinising plans for resiliency against short-term, medium-term, and long-term climate scenarios**.

ICAAP: Scenario analysis and Stress testing

The revised GNs provide more detailed and structured guidance on integrating climate-related risks into the ICAAP, with an emphasis on aligning with the bank's overall risk management framework. They also introduced more comprehensive reporting requirements and stressed the importance of actionable outputs from stress-testing and scenario analyses for strategic decision-making.

PA key observations of CURRENT PRACTICE among banks

- Banks' approach to climate scenario analysis and stress testing is an exploratory and developing practice. Their objective was to better understand risks and to test the resilience of their strategies
- Banks are developing their capabilities to assess and quantify the impact of physical and transition risks using scenario analysis and stress testing. Banks are preparing for the 2024 SARB macroprudential Climate Stress Test (CRST)
- Banks are considering, aligning or leveraging with 2 or 3 of the scenarios developed by the Network for Greening the Financial System (NGFS)
- Some banks reported specific analysis of their property and/or agriculture portfolios sensitive to climate risks
- Few banks reported undertaking transition risk stress tests
- Banks reported a high-level view of their initial work around transition pathways. Policy uncertainties and concern around data quality are key challenges
- Banks report that the results produced are to be used with caution given the challenges

Enhancements to the GNs

Climate-related Governance and Risk practices for Banks

- Stress testing should be **sufficiently severe but plausible**. There is no additional guidance on the frameworks to be used, but they should be selected based on appropriateness and proportionality
- Ideally, time horizons for climate-related risks should be **longer than 3 years** (3 years being the minimum)
- Banks should assess the links between climate-related risks and traditional financial risk types such as credit and liquidity risks. **These assessments should consider physical and transition risks as drivers of credit, market, operational and liquidity risks over a range of relevant time horizons**
- Banks are expected to align the objectives of these assessments with the bank's risk appetite and risk management framework. This may relate to **informing capital and liquidity planning or to their role as an integral element of sound risk management practices**
- Stress testing and scenario analyses should be **designed in such a way that the output can be used for decision-making at the appropriate management and strategic level**
- Reporting requirements for ICAAP to include:
  - Risk management and risk mitigation strategies to **mitigate and manage** these risks
  - Details on the **challenges identified** in the process of assessing climate-related risks and how these could be addressed in future.

Climate-related Disclosures for Banks

- **Additional considerations have been included** on how scenarios should consider South African-specific context and transition pathways.

ICAAP: Scenario analysis and Stress testing

Deloitte's perspective

The emphasis that the PA has placed on incorporating climate-related risk into the ICAAP points to the importance of giving climate risks a strong consideration in your next ICAAP cycle.

This presents an opportunity to **demonstrate the institution's commitment to integrating climate risk into the overall risk management framework**.

We believe the PA is keen for institutions to **integrate climate-related risks into the ICAAP not only for capitalisation purposes but rather to encourage them to think long-term and assess the viability and sustainability of their business model over at least a three-year horizon**.

Skills and expertise to perform scenario analysis and climate risk modelling is a key challenge.

The unique and complex characteristics of climate risks – lack of historical precedent, interconnectedness, high degree of uncertainty and potentially longer time horizon – make risk management in general, and scenario analysis in particular, challenging.

We believe in learning by doing – consider the ICAAP as the channel for accelerating risk materiality assessments and mapping. Climate risk inclusion in the ICAAP could mobilise discussions around resultant risk management implications and be the catalyst for wider industry engagement.

Data challenges remain pervasive and a key concern across most organisations.

The PA recognises this challenge. Nevertheless, there is an **expectation for banks to not stall climate risk analysis until all the data emerges and settles; even a mix of qualitative and quantitative analyses around climate risk in the ICAAP would be considered acceptable progress.**

SARB CRST is exploratory in nature and SARB expects to reveal the most significant, system-wide outcomes of the banking industry's resilience to climate change, together with aggregated results (if available). The outcome will be used for future supervisory guidance. Although the PA has provided no indication that the CRST results will be used to assess capital buffers, institutions should themselves think of the implied near-term capital requirements.

Going through the stress testing exercise, and by expanding on the thinking around climate risk in the ICAAP, institutions may be better positioned to shape the regulatory thinking on this. Institutions can then guide the PA on their material and residual risks, thus leading to a better engagement for all. They will also be better positioned to respond in the future, should additional capital requirements be a natural consequence of their climate risk profile.

Metrics and Targets

The revised GNs provide more detailed requirements for the disclosure of metrics and targets related to climate-related risk and opportunities, making expectations clearer and more comprehensive for banks. The GNs provide more specific guidance on how disclosure should be made, particularly regarding GHG emissions, remuneration considerations and the need for updates to be supported by appropriate rationale.

PA key observations of CURRENT PRACTICE among banks

- Banks felt that the data challenges were pervasive and needed standardised metrics for reporting and expressed the need for assurance
- Some banks indicated plans to develop in-house data capabilities (short, medium and long term) but required effective governance systems to be in place to oversee the developments and ensure proper integration of third-party data sources
- Litigation threat came from the threat of disclosing too much/ too little information or providing incorrect data
- All banks have set targets to reach net zero emissions by 2050 on Scope 1, 2 and 3 GHG emissions
- Financed emissions are a work-in-progress. Banks had reservations about using proxy data or third-party data sources
- Most presented concentration limits/thresholds for balance sheet exposures to climate sensitive sectors

Enhancements to the GNs

Climate-related Governance and Risk practices for Banks

- The scope of the quantitative metrics have been expanded upon to align with the ISSB requirement. Banks should include additional metrics based on levels of complexity and maturity
- The Risk Management Function is to develop appropriate climate risk-related **quantitative and qualitative** methods and metrics. These metrics are to be used to monitor progress relative to its strategy and risk appetite.

Climate-related Disclosures for Banks

- Further clarification around the need to disclose climate-related metrics, supported by information available to the bank that is gained **"without undue cost and effort"**
- GHG emissions must be expressed as metric **tonnes of carbon dioxide equivalent**
- The GN now clarifies that Scope 1,2 and 3 (such as financed and underwritten emissions) should be disclosed at a **consolidated group level**
- The GN states that disclosure on climate-related considerations must be included in **remuneration policies**, including the percentage of executive management remuneration linked to climate-related considerations
- Banks should disclose the **carbon credits** they plan to use in achieving a net GHG emissions target (if relevant)
- ISSB cross-industry metrics have been considered under a key section within the GN referred to as **Additional Considerations**:
  - Targets should reference the **SA Green Finance Taxonomy** (as appropriate)
  - Banks with international exposures and activities should work towards disclosing:
    - **Climate-related transition risks.** Amount and % of assets or business activities vulnerable to climate-related transition risks through exposure to transition sensitive sectors. Financed emissions of exposures to transition sensitive sectors
    - **Climate-related physical risks.** Amount and % of assets or business activities exposed to physical risks in geographical regions or locations
    - **Capital deployment.** Amount of capital expenditure, financing and/or investments deployed towards climate-related risks and opportunities.

Metrics and Targets

Deloitte's perspective

The PA will expect to see **metrics and targets defined and aligned to strategy and risk management**.

Banks need to be able to demonstrate that climate-related factors are incorporated into their business strategies, planning, governance structures and risk management processes. This needs to be supported by relevant metrics and targets that provide an effective measure of vulnerabilities and opportunities arising from climate-related factors. These should also be supported by detailed narratives as well as setting specific transition targets and defining consequences for failure to meet targets.

Integrating climate-related targets into remuneration polies underscores the importance of accountability.

It drives behaviour, performance and ensures that climate goals are prioritised at all levels of the organisation.

An organisation must be able to **set targets over the short, medium and long term for managing climate-related risks and opportunities and be able to measure and disclose performance/ progress against these targets**.

The PA will also be looking for information that is comparable between sectors and industries.

Engaging with stakeholders is crucial to ensure that climate-related metrics are both ambitious and achievable.

To support this, ISSB cross-industry metrics have been considered and selected metrics have been included.

From a strategic perspective, it is essential that **metrics and targets related to climate risks are integrated into the broader strategy**. This alignment will help ensure that the organisation's climate-related goals support and enhance its overall long-term objectives.

By embedding climate consideration into strategic planning, banks can drive innovation and competition while addressing sustainability challenges.

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