WERKSMANS
ATTORNEYS

LEGAL UPDATE

Prudential Authority Issues Guidance on Climate-Related Governance/Risk Practices and Disclosures for Banks

28 May 2024 *3 min read*

By Slade van Rooyen, Candidate Attorney, reviewed by Natalie Scott, Director and Head of Sustainability

On 10 May 2024, the Prudential Authority ("**PA**") issued the "Guidance on climate-related governance and risk practices for banks" ("**G2/2024**") and "Guidance on climate-related disclosures for banks" ("**G3/2024**"), in terms of section 6(5) of the Banks Act 94 of 1990. The guidance notes provide guidance to banks, branches of foreign institutions and controlling companies (collectively, "**banks**") regarding the integration of climate risks into banks' governance and risk management frameworks, and climate-related disclosures, respectively.

G2/2024 places the responsibility for the continuous oversight and management of climate-related risks ("**CRRs**") on a bank's board of directors. The board and senior management of the bank are tasked with identifying CRRs that are material to the bank's business model, and which may impact on the capital resources and liquidity position of the bank. CRRs must be incorporated and integrated into the bank's established risk framework, and banks must demonstrate that these risks have been considered under the relevant traditional risk categories. A bank must consider CRRs in its Internal Capacity Adequacy Assessment Process ("**ICAAP**"), and may use scenario analysis and stress testing as a supplementary risk and capital tool for identifying, monitoring and assessing risk as part of the ICAAP, so as to develop a "*forward-looking view*" of CRRs. Furthermore, the internal policies of banks must be adapted, and training programmes implemented, to ensure that the impact of CRRs on the bank's risk profile is properly understood. G2/2024 sets out the responsibilities of the bank's compliance and internal audit functions in respect of CRRs, and deals with the importance of transition plans as a tool for managing CRRs and achieving commitments to climate targets.

G3/2024 stresses the imperative for financial institutions to –

"build the necessary capacity and capabilities to identify, assess, manage, and disclose climate-related risks and opportunities within their existing risk management and governance frameworks, including any metrics or targets developed by the bank".

G3/2024 sets out the overarching requirements for disclosures of CRRs and opportunities, including that disclosures should, *inter alia*, focus on relevant and material information, and be complete, objective, accurate, clear, balanced, understandable, consistent and timely. Banks must, accordingly, ensure that their CRR disclosure reports meet the aforementioned criteria, and disclose how CRRs and opportunities impact on the business model, strategy and decision-making of the bank. Furthermore, banks are required to –

- *"describe the climate resilience of the bank's strategy and business model taking into account climate-related scenario analysis";*
- *"describe the extent to which, and how, processes for identifying, assessing, prioritising, managing, mitigating and monitoring climate-related risks are integrated into and inform the bank's overall risk management";*
- *"disclose metrics and targets that enable stakeholders to evaluate the bank's exposure, measurement and management of climate-related risks"; and*

- *"disclose Scope 1, 2, and 3 greenhouse gas (GHG) emissions in accordance with the Greenhouse Gas Protocol, unless legally required to use a different method by another jurisdictional authority or exchange where the bank is listed".*

The PA has encouraged financial institutions to be "proactive" with regard to CRR management and disclosures, particularly in light of the potential for climate-related disclosures to become mandatory in future.

@werksmans