

Guide to Climate-Related Financial Risk Management

On 29 June 2020, the Climate Financial Risk Forum (CFRF), co-chaired by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) in the UK, published the '**Guide to Climate-Related Financial Risk Management**'. The guide highlights the importance and urgency for financial institutions to facilitate an accelerated and shared approach to understanding and mitigating climate-related risks, and appropriately responding to consumers' changing preferences. The guide suggests how firms can plan for the impact of climate policies over different time horizons and assess their exposure to climate-related financial risks so that they can adapt their businesses in response.

The full guide contains four industry-produced chapters – covering (1) Risk Management, (2) Scenario Analysis (3) Disclosures, and (4) Innovation – as well as a summary co-produced by the Financial Conduct Authority (FCA), and the Prudential Regulation Authority (PRA).

1. Guided Summary

The summary remarks the growing importance of climate change on the financial services sector and consumer decision-making from the rising physical risks and transition risks. It also gives a brief introduction of CFRF, and the core ideas of each chapters.

Link to summary: <https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-summary.pdf>

2. Chapter of Disclosures

The chapter discusses key focuses for approaching good practice climate-related financial disclosures, disclosures on governance and strategy, specific disclosures for banks, insurers and asset managers, as well as a recommended timeline for phased implementation based on the Fundamental Principles for Effective Disclosure listed by Task Force on Climate-related financial disclosures (TCFD).

Link to PDF file: <https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-disclosures-chapter.pdf>

3. Chapter of Innovation

The chapter explains the growing opportunities for pools of private capital to align with climate solutions and the issues, exploring how it could help to tackle in transitioning to a net-zero carbon economy. The chapter provides suggestions on what financial institutions should do to mobilize capital for climate solutions through capacity building, supporting early stage innovation, etc.

Link to PDF file: <https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-innovation-chapter.pdf>

4. Chapter of Scenario Analysis

The chapter provides practical guidance through case studies, aiming at banks, asset managers and insurers on how to use scenario analysis to assess climate-related financial risks to inform firms' strategy and business decisions. The chapter also listed out potential challenges and barriers in performing scenario analysis, suggesting ways of overcoming certain challenges and developing the practice into a cycle.

Link to PDF file: <https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-scenario-analysis-chapter.pdf>

5. Chapter of Risk Management

This chapter analyzed good practices for risk governance, risk management frameworks, and risk appetite. It discusses how firms can decide whether to treat climate risk and the measures to be taken with various data and tools as suggested in the chapter.

Link to PDF file: <https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-risk-management-chapter.pdf>

Link to Risk Management Annex:

<https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-data-tools-providers.pdf>