



22 April 2021

TO: ALL APRA-REGULATED ENTITIES

CONSULTATION ON DRAFT PRUDENTIAL PRACTICE GUIDE ON CLIMATE CHANGE FINANCIAL RISKS

APRA has released a [draft Prudential Practice Guide \(PPG\) on Climate Change Financial Risk](#) for consultation.

The draft PPG aims to assist entities by providing guidance on prudent practice in the management of financial risks arising from climate change, including with respect to governance, risk management, scenario analysis and disclosure.

The plan to develop this PPG was outlined in APRA's 2020 letter to industry on climate change financial risks¹. It responds to requests from regulated entities for more information about APRA's expectations, and insights on better industry practice, in managing climate change financial risks. The draft PPG is designed to assist entities to consider climate risks and opportunities within their existing risk management frameworks, and to support well-informed decision-making.

APRA has engaged with the other agencies from the Council of Financial Regulators in preparing the draft PPG, and has also aligned the draft PPG with recommendations from the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD). The draft PPG has also been informed by APRA's engagement with peer regulators in other jurisdictions.

Proportionality in implementation

As with all PPGs, this draft guidance reflects APRA's view on sound practice and should be considered by all regulated entities. Entities will retain the flexibility to configure their approaches to climate risk management in a manner best suited to their particular risk profile and business model and not all of the guidance will be relevant to all entities. APRA expects the implementation of the guidance to reflect an entity's size, business mix and complexity, noting that concentrations in a particular market, sector or geographic location may expose an entity to more material climate risks.

Scenario analysis is an area where APRA sees a wide range of capabilities and practices. APRA is currently undertaking a climate vulnerability assessment (CVA) involving Australia's largest banks, which will involve climate scenario analysis in line with the expectations outlined in the draft PPG. In due course, the lessons from the CVA exercise will be shared with the wider industry to support entities in improving their scenario analysis.

Consultation process

APRA invites feedback on this draft PPG, and the practices it sets out in the areas of governance, risk management, scenario analysis and disclosure. In reviewing the draft PPG,

¹ APRA, [Understanding and managing the financial risks of climate change](#) (Letter, 24 February 2020).

APRA encourages entities to consider how the guidance may be applied within the context of their institution's specific structure, business requirements and objectives. APRA also seeks feedback on the draft PPG's overall applicability and flexibility, given the diverse institutions it is designed to assist. APRA will review the feedback received and seek to release a final version of the PPG before the end of 2021.

Written feedback should be sent to PolicyDevelopment@apra.gov.au by 31 July 2021 and addressed to:

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Should you have any questions regarding this letter or the draft PPG, please contact Dr Graham Sinden (graham.sinden@apra.gov.au or 02 9210 3528), Ann Dobinson (ann.dobinson@apra.gov.au or 02 9210 3468) or your responsible supervisor.

Yours sincerely

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