

30 July 2021

**General Manager, Policy Development
Policy and Advice Division**
Australian Prudential Regulation Authority (APRA)
GPO Box 9836
SYDNEY NSW 2001

By email: PolicyDevelopment@apra.gov.au

Dear Sir/Madam,

Consultation on draft Prudential Practice Guide on Climate Change Financial Risks

Thank you for the opportunity to provide feedback in respect to the draft Prudential Practice Guide CPG 229 Climate Change Financial Risks (CPG 229).

InConsult provides an extensive range of risk advisory, business resilience and internal audit services to over 35 APRA-regulated institutions. In 2019, InConsult established a dedicated climate risk management advisory team to support our clients to better understand their climate risks, potential impacts and develop strategies to adapt and respond to the challenges. Our commitment to taking positive steps in minimising our impact on the environment and helping clients manage climate risks is evidenced in our culture statement, policies, and practices.

The draft Prudential Practice Guide CPG 229 Climate Change Financial Risks (CPG 229) is a positive step to providing guidance to APRA-regulated institutions. Overall, InConsult is supportive of APRA's guidance and approach to provide the industry with greater clarity in respect to the regulatory expectations in the areas of governance, risk management, scenario analysis and disclosure.

In terms of positive feedback:

- The guideline does outline some better practice expectations but allows institutions some flexibility.
- The guideline draws on an established framework such as the recommendations from the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We commend APRA for supporting the TCFD and its recommendations, to take action to build a more resilient financial system through climate-related disclosure.
- The guideline recommends climate risk management be aligned to prudential standards relating to risk management and governance. This integration is essential and appropriate.
- The guidelines help to clarify the legal duties of companies and their directors in respect to material climate change risks.

Following, we make several comments relating to the practice guide for your consideration:

Capital Management

We recommend stronger and explicit links to APRA's prudential standards relating to Capital Adequacy and Recovery Planning. For some entities, climate risks will be an early warning indicator and trigger to invoke the recovery plan.

On a minor note, in figure 1, we suggest including 'capital management' decisions also be well informed.



Assumptions

Setting metrics and targets to address climate change effectively requires the institution to make many assumptions. The guideline can be strengthened in this regard. These assumptions are very important for financial/cash flow projections that underpin recognition and measurement, the preparation of the financial statements and ensuring that climate change information in narrative reports is 'clear, balanced and meaningful' as recommended by the TCFD. At minimum, we recommend the guideline include board responsibilities for ensuring the assumptions are reasonable and appropriate.

Line 3

The guideline outlines the responsibilities of the board and management, including line 1 and line 2. To be inclusive, we recommend the guideline outline and reinforce expectations in respect to the responsibilities of line 3 (internal audit) in the periodic review of the climate change financial risks as well as the role of the Audit and Risk Committee.

It may also be necessary for internal audit activities be broadened to customers and third parties who expose the entity to climate risks.

Culture

The guidance should include explicit reference to culture. i.e., the board should cultivate a risk culture that embeds climate-related considerations into strategic and tactical decision making.

Climate goals

The guidance should 'encourage' institutions to actively explore setting clear climate goals in line with global and local better practice guidelines, laws, and regulations.

Remuneration policies

The guidance should encourage institutions to align senior management remuneration policies and practices with the institution's climate strategy and goals.

Well done APRA. InConsult appreciates the opportunity to provide feedback. Please contact me on [REDACTED] or via email at [REDACTED] if you would like to discuss the above further.

[REDACTED]

Director,

cc: [REDACTED] Senior Consultant & Climate Risk Lead