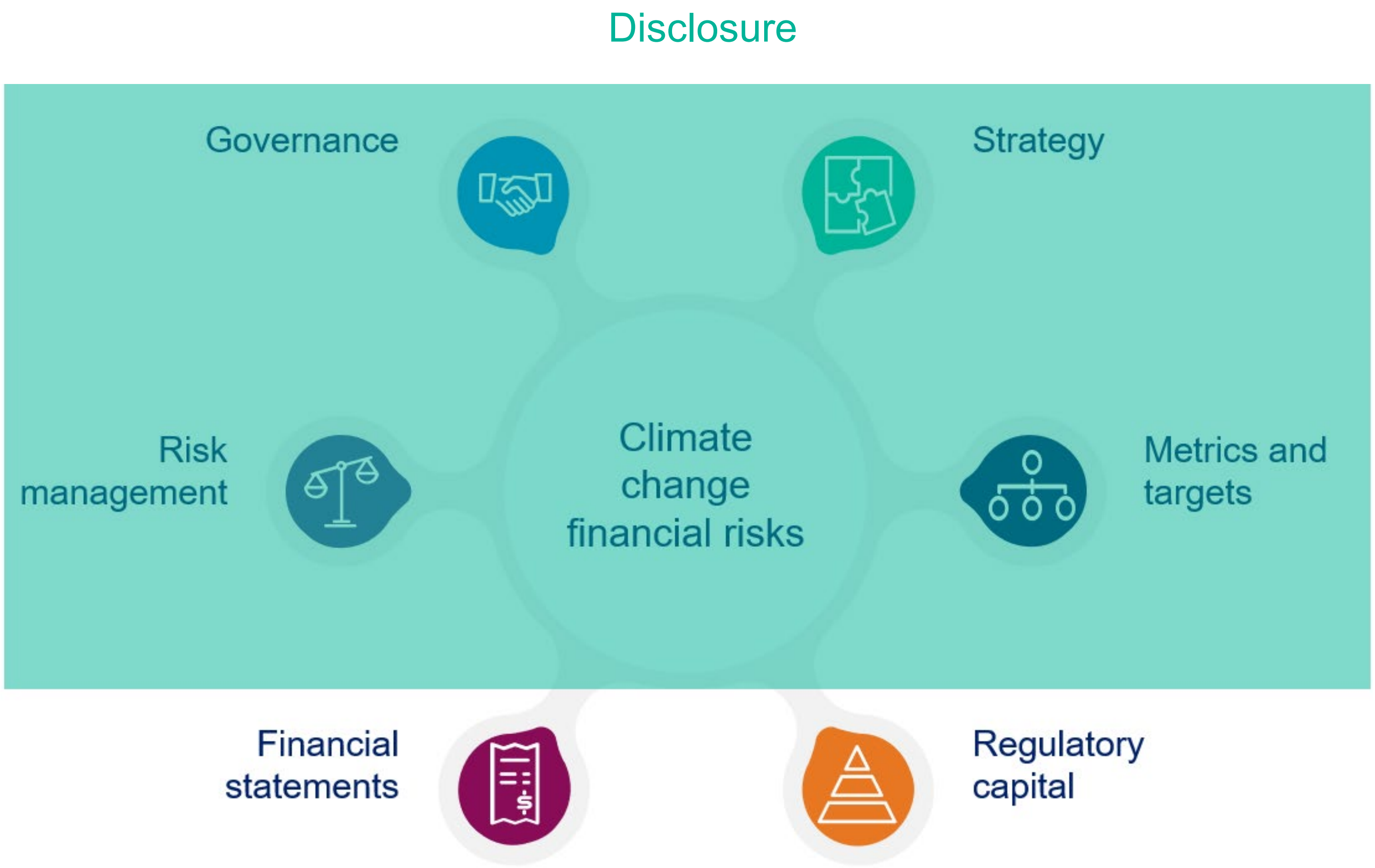
Overview of climate-related financial risk disclosures

ACCOUNTING RISK SERVICES

Oct 2024

Why it matters

- Climate-related financial risks (climate risks) could amplify the prudential risks for a financial institution.
- Climate risks are transmitted through the traditional risk channels (e.g. credit risk, market risk, insurance risk).
- There is a connection with the accounting framework as the accounting values can be impacted through climate risks. This would also flow through prudential measures (e.g. regulatory capital) for ADIs and insurers.
- APRA is looking to embed climate risks in its routine supervision activities to maintain an institution's ability to meet its financial promises.



What is in focus

Purpose: To articulate Accounting risk services' planned actions (and outcomes) to support APRA's Corporate Climate Plan

Policy

Objective: Ensure that the policy framework remains fit for purpose

Action(s):

- *Banking:* Identify policy gaps against BCPs. [Completed – Policy team]
- *Insurance:* Identify gaps against ICPs and IAIS guidance

Outcome:

✓ As a fast follower, ensures APRA's alignment with international developments and best practice by making targeted improvements to standards and guidance[1]

NB: Other sustainability related risks could be integrated as they emerge (e.g. Nature, and connectivity) since the sustainability landscape is still evolving.

Data

Objective: Identify core data that is needed using internationally accepted disclosure standards (ISSB and pillar 3 reports). Focus is on collecting data for APRA and other agencies.[3]

Action(s):

- Conduct a thematic review of largest banks, insurers, and superannuation funds to identify gaps and needs. Review will identify data gaps against needs.[2]

Outcome:

✓ Specify what needs to be collected while balancing regulatory burden and being proportionate.

Supervision

Objective: Ensure that the supervision framework remains fit for purpose

Action(s):

- Consider what refinements are needed to the supervision framework going forward.

Outcome:

✓ Ensures APRA remains broadly aligned with international best practice.

[1] Also consider peer regulatory agencies approach (e.g., OSFI, MAS)

[2] Review would need to be sequenced at an appropriate time to considering 1) what regulated entities will need to produce going forward under other standards, and legislative requirements. 2) Recognition will need to be given to the lead/development time for implementing such a change.

[3] This work is distinct to APRA's involvement in the Treasury Climate-related risks Data project. The intention is to avoid duplication and overlap.

Next steps

Finalise

Gap analysis of CPG 229 with IAIG guidance

Progress

Thematic review of select financial institutions

Monitor

Developments in international and domestic jurisdictions (including nature and other sustainability topics)

Complete

All other planned actions in the roadmap