



BANK SUPERVISION DIVISION

Guideline No.01-2023/BSD:Climate Risk Management

April 2023

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1. PART I: PRELIMINARY

- 1.1 **Title** –Climate Risk Management Guideline
- 1.2 **Authorization** – This Guideline on Climate Risk Management is issued under **section 6(1) (c) of the Reserve Bank of Zimbabwe Act [Chapter 22:15]**, which empowers the Reserve Bank of Zimbabwe to foster the liquidity, solvency, stability and proper functioning of Zimbabwe’s financial system.
- 1.3 **Application** – The Guideline shall apply to all **regulated institutions** licensed and supervised by the Reserve Bank in terms of the Banking Act [Chapter 24:20] and the Building Societies Act [Chapter 24:02], and Microfinance Act [Chapter 24:30]. Reference to **regulated institutions** in the Guideline shall be taken to mean all the above institutions.

1.4 **Definitions**¹

Anthropogenic emissions: - Arise from, *inter-alia*, the burning of fossil fuels, deforestation, land use and land-use changes, livestock production, fertilisation, waste management and industrial processes.

Climate change: - means a change in the climate system which is caused by significant changes in the concentration of greenhouse gases arising from human activities and which is in addition to natural climate change that has been observed during a considerable period.

Climate Risk: - This refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation.

Climate-related financial risks: The potential risks that may arise from climate change or from efforts to mitigate climate change, their related impacts, and their economic and financial consequences.

The terms "climate risk" and "climate-related risks" are used interchangeably in this Guideline.

Environmental Risk: Environmental risk refers to financial risks posed by the exposure of financial institutions and/or the financial sector to activities that

¹ Basel Committee on Bank Supervision (2021); Network for Greening the Financial System: Guide for Supervisors: Integrating Climate-Related and Environmental Risks into Prudential Supervision (2020).

may potentially cause or be affected by environmental degradation (such as air pollution, water pollution and scarcity of fresh water, land contamination and desertification, biodiversity loss, and deforestation) and the loss of ecosystem services. Environmental degradation could cascade to risks for financial institutions.

Climate risk Adaptation: Anticipating the adverse effects of climate change and taking appropriate action to prevent or minimise the damage they can cause, or taking advantage of opportunities that may arise. Examples of adaptation measures include large-scale infrastructure changes, such as building defences to protect against sea-level rise, as well behavioural shifts, such as individuals reducing their food waste. In essence, adaptation can be understood as the process of adjusting to the current and future effects of climate change.

Climate Risk Mitigation: Making the impacts of climate change less severe by preventing or reducing the emission of greenhouse gases (GHG) into the atmosphere. Mitigation is achieved either by reducing the sources of these gases — e.g., by increasing the share of renewable energies, or establishing a cleaner mobility system — or by enhancing the storage of these gases — e.g., by increasing the size of forests. In summary, mitigation is human intervention that reduces the sources of GHG emissions and/or enhances the sinks.

Greenhouse gases: - These include water vapour (H₂O), carbon dioxide (CO₂), nitrous oxide (N₂O), methane (CH₄) and ozone (O₃), which are the primary greenhouse gases in the Earth's atmosphere.

Macroeconomic transmission channels: - are the mechanisms by which climate risk drivers affect macroeconomic factors, such as labour productivity and economic growth, and how these, in turn, may have an impact on regulated institutions through an effect on the economy. Macroeconomic transmission channels also capture the effects on macroeconomic market variables such as risk-free interest rates, inflation, commodities, and foreign exchange rates.

Microeconomic transmission channel: -Mechanism through which climate risk drivers affect a regulated institution's individual counterparties, potentially resulting in climate-related financial risk to regulated institutions and to the financial system. This includes direct effects on regulated institutions, arising

from impacts on their operations and their ability to fund themselves. Microeconomic transmission channels also capture the indirect effects on specific financial assets held by banks (e.g. bonds, certificates of deposits and equities).

Physical Risk²: - Economic costs and financial losses resulting from the increasing severity and frequency of:

- a) extreme climate change-related weather events (or extreme weather events) such as heatwaves, landslides, floods, wildfires and storms (i.e. acute physical risks);
- b) longer-term gradual shifts of the climate such as changes in precipitation, extreme weather variability, ocean acidification, and rising sea levels and average temperatures (i.e. chronic physical risks); and indirect effects of climate change such as loss of ecosystem services (e.g. desertification, water shortage, degradation of soil quality or marine ecology).

Transition risk: - refers to an institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. This could be triggered, for example, by a relatively abrupt adoption of climate and environmental policies, technological progress or changes in market sentiment and preferences.

Physical and transition risk drivers impact economic activities, which in turn impact the financial system. This impact can occur directly, through for example lower corporate profitability or the devaluation of assets, or indirectly, through macro-financial changes.

² Physical risk is categorised as "**acute**" when it arises from extreme events, such as droughts, floods, and storms, and "**chronic**" when it arises from progressive shifts, such as increasing temperatures, sea-level rises, water stress, biodiversity loss, land use change, habitat destruction and resource scarcity. This can directly result in, for example, damage to property or reduced productivity, or indirectly lead to subsequent events, such as the disruption of supply chains.

2. PART II: RATIONALE AND PURPOSE OF GUIDELINE

- 2.1 The Reserve Bank of Zimbabwe has identified the need to strengthen the resilience of the banking system to climate-related risks and support the national strategy on transitioning to a low carbon economy.
- 2.2 The Climate Risk Management Guideline provides guidance to regulated institutions on adoption of climate risk management principles that are in line with international best practice.
- 2.3 The Guideline seeks to enhance the banking sector's resilience through promoting the development and implementation of sound climate risk management practices and methodologies, taking cognisance of physical and transition risks associated with climate risk.
- 2.4 Climate risk management is an integral component of the Environmental, Social and Governance (ESG) initiatives which have a significant bearing on corporate investment decision-making processes. The environmental aspect of ESG examines how a business or organization operates as a steward of the natural environment, focusing on all aspects of sustainability, including waste and pollution, resource depletion, greenhouse gas emissions, deforestation, and climate change. The Social aspect on the other hand, relates to human rights, health, safety, diversity, equity, inclusion, and community engagement, whilst the Governance element includes the role of the Board of Directors and independence thereof, conflicts of interest, anti-money laundering and stakeholder engagement.
- 2.5 In addition to risk mitigation, the banking sector also has a role to play in the transition towards an environmentally sustainable economy, by channelling capital through their sustainable financing and investment activities. Engaging in sustainable financing activities also mitigates reputational risk for regulated institutions.
- 2.6 In line with the principle of proportionality, practical application of climate risk management should be commensurate with the scope and complexity of a regulated institution's business activities as well as its risk profile and exposure to climate risk.
- 2.7 This Guidance has been benchmarked to global best practices and pronouncements on climate risk management.

3. PART III: BACKGROUND

- 3.1 Climate change has been widely recognized as a major global phenomenon that threatens to alter the natural environment, disrupt the well-being of society, and deter socio-economic development, making climate change mitigation and adaptation interventions imperative to reduce any further deterioration in the climate system.
- 3.2 In 2015, parties to the United Nations Framework Convention on Climate Change (UNFCCC) adopted the Paris Agreement which aims to transform developmental trajectories and set the world on a course towards sustainable development. The Paris Agreement recognizes that to significantly reduce the risks and impact of climate change, all stakeholders need to reduce their greenhouse gas emission levels with the aim of holding global average temperature increase to well below 2°C above pre-industrial levels³. This is particularly important in light of the role greenhouse gas emissions play towards global warming which in turn contributes to climate change.
- 3.3 Regulated institutions are exposed to physical and transition risks through macro- and microeconomic transmission channels. First, they may suffer from the economic costs and financial losses resulting from the increasing severity and frequency of physical climate risk drivers. Second, efforts to reduce greenhouse gas emissions, including adoption of climate-related and environmental policies, technological developments and changes in consumer preferences, as well as market sentiment, generate transition risk.
- 3.4 These afore-noted risks affect the resilience of a regulated institution's business model over the medium to longer term, particularly those institutions with business models that are reliant on sectors and markets which are particularly vulnerable to climate-related and environmental risks. In addition, physical and transition risks can trigger further losses, stemming directly or indirectly from legal claims (liability risk) and reputational loss as a result of the public, the institution's counterparties and/or investors associating the institution with adverse environmental impacts ("reputational risk").

³ Paris Agreement (2015) United Nations Framework Convention on Climate Change; https://unfccc.int/sites/default/files/english_paris_agreement.pdf

- 3.5 Physical and transition risks are invariably drivers of existing risks, notably credit, operational, market and liquidity risks, as well as non-Pillar I risks under the Basel Capital Accord, such as securitisation, concentration, and strategic risks.
- 3.6 A key unique characteristic of climate related financial risks is that they are systemic, that is they will affect all consumers of financial services in all sectors and across all geographies. Their impact will likely be correlated, non-linear, irreversible, and subject to tipping points. They will therefore occur on a much greater scale than the other risks that a regulated institution is used to modelling and managing.
- 3.7 Considering the foregoing, a regulated institution will need to adjust most components of its risk management systems to incorporate climate and environmental risks – including all levels of policies and procedures, as well as methodologies and infrastructure.
- 3.8 Effective management of climate risk requires strong understanding of climate-related and environmental risk drivers which are highlighted in Appendix 1.

4. PART IV: REQUIREMENTS

A. GOVERNANCE

- 4.1 A regulated institution should understand the risk that climate change poses for its portfolio and the business of its clients, as well as understand the transmission channels between climate-related risks and financial risks, and incorporate in its risk management policies and processes.
- 4.2 *Appendix 1* and *Appendix 2* illustrate examples of climate related and environmental risk drivers and key transmission channels.

Board

- 4.3 The board has ultimate responsibility for the regulated institution's business strategy and financial soundness, key personnel decisions, internal organisation and governance structure and practices, in relation to climate risk management and compliance obligations. The board may delegate some of its functions, but not its responsibilities, to a board committee where appropriate.
- 4.4 The Board should ensure that the regulated institution's risk appetite and risk management frameworks consider all material climate-related financial risks to

which the institution is exposed and establish a reliable approach to identifying, measuring, monitoring and managing those risks.

- 4.5 The Board should ensure that the regulated institution has developed appropriate structures for timely reporting to Senior management and the Board on a periodic basis, updates on the identification, assessment and management of material climate-related risks, informed by the institution's strategy for climate-related risk management, to facilitate effective decision making. Reporting to the Board should be done at least quarterly.

Management

- 4.6 Under the direction and oversight of the Board, Management should carry out and manage the regulated institution's activities in a manner consistent with the climate risk management strategy, risk appetite, and climate-related policies approved by the board. Consistent with the direction given by the Board, Management should implement business strategies, risk management systems, risk culture, processes, and controls for managing climate related risks.
- 4.7 Management should take cognisance of the regulated institution's exposure to structural changes in the economy, financial system, and competitive landscape as a result of climate-related risk drivers. Senior management should be involved in all relevant stages of the risk management process based on the approach established by the Board, which should be clearly communicated to other employees.
- 4.8 Management should clearly define and explicitly assign roles and responsibilities associated with identifying and managing climate-related financial risks throughout its organisational structure and ensure relevant functions and business units have adequate resources and expertise to effectively fulfil responsibilities regarding climate-related financial risk management. Where necessary, mechanisms to build capacity and upskill personnel on climate-related topics, through requisite training programs, should be put in place. Where dedicated climate units are set up, their responsibilities and interaction with existing governance structures should be clearly defined.

- 4.9 Management should provide the board with the climate related information it requires to carry out its responsibilities. This includes:
- a) changes in business strategy, climate risk strategy/risk appetite;
 - b) the regulated institution's performance and financial condition;
 - c) breaches of risk limits or compliance rules;
 - d) internal control failures; and
 - e) legal or regulatory concerns.

Business Environment

- 4.10 The Board and Senior Management are expected to understand the impact of climate-related and environmental risks on the business environment in which they operate, in the short, medium and long term, in order to be able to make informed strategic and business decisions.
- 4.11 Management should ensure that material factors impacting their business environment, including a broad range of external factors and trends that shape the business conditions in which the regulated institution operates or is likely to operate based on its main or material geographic and business exposures, are well documented. These include macroeconomic variables, the competitive landscape, policy and regulation, technology, societal/demographic developments, and geopolitical trends.
- 4.12 When scanning the business environment, management is expected to identify risks arising from climate change and environmental degradation at the level of key sectors, geographic areas and related to products and services it is active in or is considering becoming active in. Climate-related and environmental risks, for instance, may influence economic growth, employment or real estate prices. Weather events may cause droughts or floods affecting regional agricultural production or housing demand.

Strategy Formulation

- 4.13 A proper strategic assessment process is key to the formulation of strategy in addressing climate-related issues hence the need to understand the impact of climate-related risks on the business environment. Consideration should be given to relevant internal and external factors which may impact the business

activities in which the regulated institution is active, as well as those relating to its individual business lines.

- 4.14 Regulated institutions are also expected to identify risks arising from climate change at the level of key economic sectors and the business lines in which they are active.

Strategy Implementation

- 4.15 The business strategy of a regulated institution and its implementation should reflect climate-related risks and should entail setting and monitoring of key performance indicators (KPIs) that are cascaded down to operational business areas.
- 4.16 Engagement efforts with key stakeholders in respect of climate risk management should aim at enabling the regulated institution to have more insights into the key concerns and expectations of the stakeholders in a process that should inform strategic positioning in the light of climate-related risks and opportunities.
- 4.17 Proper alignment of business strategy and internal resources and capabilities is paramount in ensuring effective implementation of the strategy for addressing climate-related issues. In this regard, organisational structures and business processes should be reviewed, and enhanced as appropriate, to support effective communication and co-ordination among different business and operation units.

Internal control framework

- 4.18 A regulated institution should incorporate climate-related financial risks into its internal control frameworks across the three lines of defence to ensure sound, comprehensive and effective identification, measurement and mitigation of material climate-related financial risks. The internal control framework should include a clear definition and assignment of climate-related responsibilities and reporting lines across the three lines of defence.
- 4.19 In the frontline, climate-related risk assessments should be undertaken during client onboarding, credit application and credit review processes. Frontline staff should have sufficient awareness and understanding to identify potential

climate-related financial risks. The second line of defence, the risk function, should be responsible for undertaking independent climate-related risk assessments and monitoring, including challenging the initial assessment conducted by the frontline, while the compliance function should ensure adherence to applicable rules and regulations.

- 4.20 The third line of defence, the internal audit function, should carry out regular reviews of the overall internal control framework and systems in the light of changes in methodology, business and risk profile, as well as in the quality of underlying data.

B. RISK MANAGEMENT PROCESS

- 4.21 Regulated institutions are required to regularly conduct a comprehensive assessment of climate-related financial risks and set clear definitions and thresholds for materiality, bearing in mind that a regulated institution's risk management framework should enable it to recognise all material risks with an integrated firm-wide perspective on risk. The assessments should include risk concentrations, related to inter-alia, industry, economic sectors and geographic regions.
- 4.22 As with other material risks, a regulated institution should develop appropriate key risk indicators for effective management of material climate-related financial risks that align with their regular monitoring and escalation arrangements.

Capital and Liquidity Management

- 4.23 A regulated institution should identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into its internal capital and liquidity adequacy assessment processes. It should also develop processes to evaluate the solvency impact of climate-related financial risks that may manifest within its capital planning horizon.
- 4.24 A regulated institution is also required to identify climate risk related material exposures and demonstrate it is holding adequate capital against them, as part of their Internal Capital Adequacy Assessment Process (ICAAP).
- 4.25 A regulated institution should, where necessary, hold additional capital resources to enable it to absorb losses that might arise from the crystallization of climate-

related risks, including losses from the reduced creditworthiness of borrowers, higher insurance claims, and sharp reductions in asset values.

- 4.26 In addition, a regulated institution should build/reinforce risk analysis capabilities through development of key risk indicators and metrics to quantify exposures and assess the links between climate-related financial risks and traditional financial risk types such as credit and liquidity risks.
- 4.27 Consideration should be given to whether climate-related financial risks could cause net cash outflows or depletion of liquidity buffers, assuming both business-as-usual and stressed conditions (taking into account severe yet plausible scenarios). Climate-related financial risks assessed as material over relevant time horizons that may impair a regulated institution's liquidity positions in the internal liquidity adequacy assessment process (ILAAP) should also be considered.

Credit Risk Management

- 4.28 Rising frequency and severity of extreme weather events can impair the value of assets held by regulated institutions' customers, or impact supply chains affecting customers' operations and profitability, and potentially, their viability. In addition, the transition to a low-carbon economy can impact the profitability of customers in carbon-intensive businesses, while punitive actions taken against customers that pollute the environment may also materially affect their financial condition.
- 4.29 Regulated institutions are, therefore, required to evaluate the impact of climate-related risk drivers on their credit risk profiles and ensure credit risk management systems and processes consider material climate-related financial risks. Clearly articulated credit policies and processes to address material climate-related credit risks must be put in place, including frameworks to identify, measure, evaluate, monitor, report and control or mitigate the impacts of material climate-related risk drivers on their credit risk profiles (including counterparty credit risk) on a timely basis.
- 4.30 Material climate-related financial risks should be incorporated into the entire credit life cycle, including client due diligence as part of the onboarding process and ongoing monitoring of clients' risk profiles. Due regard must be given to identification, measurement, evaluation, monitoring, reporting and management

of the concentrations within and between risk types associated with climate-related financial risks.

- 4.31 As part of risk mitigation, a regulated institution should consider options to control or minimise material climate-related credit risks. The options may include:
- i. adjusting credit underwriting criteria;
 - ii. deploying targeted client engagement; or
 - iii. imposing loan limitations or restrictions such as shorter-tenor lending, lower loan-to-value limits or discounted asset valuations.
- 4.32 Mechanisms to monitor and manage geographic and sectoral concentrations that are prone to climate-related and environmental risks should be put in place.
- 4.33 Regulated institutions must be aware of their clients' impact on and vulnerability to climate-related and environment aspects and of their approach to managing this impact and risks.
- 4.34 Based on its risk assessment, the regulated institution should engage customers that pose higher climate risk and require them to improve on their climate risk profile and transition towards sustainable business practices over time, while maintaining the regulated institution's risk management standards.
- 4.35 The regulated institution may also work with its customers to establish specific climate risk related performance targets (e.g. carbon emission reduction and improvement in energy efficiency).

Market Risk

- 4.36 A regulated institution may be exposed to a decline in valuation and increased volatility in its investments (particularly in carbon-intensive sectors and companies that have contributed to significant environmental degradation) as a result of shifts in investor preferences.
- 4.37 A regulated institution should, therefore, understand the impact of climate-related risk drivers on their market risk positions. In this regard, a regulated institution is required to identify and understand how climate-related risk drivers could impact the value of the financial instruments in its portfolio, evaluate the potential risk of losses on and increased volatility of their portfolio, and establish effective processes to control or mitigate the associated impact.

- 4.38 Given the specific characteristics of market risk, analysis of a sudden shock scenario should serve as a useful tool for better understanding and assessing the relevance of climate-related financial risks to a regulated institution's trading book. Such scenario analysis could, for example, include variation in liquidity across assets exposed to climate-related risk and assume variation in the speed at which exposures could reasonably be closed out.
- 4.39 In evaluating mark-to-market exposure to climate-related risks, consideration should be given to how the pricing and availability of hedges could change given different climate and transition pathways.

Liquidity Risk

- 4.40 Natural disasters can cause widespread damage on physical property resulting in significant costs arising from construction and repair, leading to a surge in funds withdrawal and demand for emergency loans, which may exacerbate liquidity stresses in a regulated institution. A regulated institution may also experience difficulties in liquidating assets impacted by weather events. In this regard, a regulated institution should consider the impact of climate-related risk drivers on its liquidity risk profile and ensure that liquidity risk management systems and processes incorporate material climate-related financial risks.
- 4.41 A regulated institution should assess the impact of climate-related financial risks on net cash outflows (e.g. increased drawdowns of credit lines, accelerated deposit withdrawals) or the value of assets compromising its liquidity buffers. Where material and appropriate, the impact should be incorporated into the calibration of liquidity buffers, as well as liquidity risk management frameworks.

Operational and Other Risks

- 4.42 Consideration should be given to the impact of climate-related risk drivers on operational and other risks and to ensuring that risk management systems and processes are appropriately aligned. This includes climate-related risk drivers that might lead to increasing strategic, reputational, and regulatory compliance risk, as well as liability costs associated with climate-sensitive investments and businesses.

- 4.43 Severe extreme weather events can disrupt business continuity by negatively impacting the regulated institution's infrastructure, systems, processes and staff. In addition, a regulated institution may face liability claims from parties who suffer environmental-related losses and seek to recover those losses from the institution deemed responsible.
- 4.44 Reputational risk can arise from regulated institutions financing customers that carry on business activities which have a negative impact on the environment. Negative perception of such financing activities can adversely affect a regulated institution's ability to maintain or establish business relationships.
- 4.45 Regulated institutions should, therefore, assess the impact of climate-related risk drivers on their operations in general and their ability to continue providing critical operations. In addition, the impact of physical risk drivers on business continuity should be analysed.

Stress Testing

- 4.46 Regulated institutions should make use of stress testing to assess the resilience of their business models and strategies to a range of plausible climate-related pathways and determine the impact of climate-related risk drivers on their overall risk profile. The analyses should consider both physical and transition risks as drivers of credit, market, operational and liquidity risks over a range of relevant time horizons.
- 4.47 It is critical for regulated institutions to develop requisite capabilities in scenario analysis and stress testing. They should identify and simulate scenarios, which are plausible and relevant, while factoring in the interlinkages between climate related risk and other risks. For stress testing purposes, regulated institutions should incorporate these risks both qualitatively and quantitatively into the scenarios and project their financial condition under a base scenario and stress scenario.
- 4.48 The climate scenario analysis should be proportionate to the regulated institution's size, business model and complexity. Larger and more complex regulated institutions are expected to have more advanced analytical capability.

- 4.49 The objectives of climate scenario analysis and stress testing should reflect the regulated institution's overall climate risk management objectives as set out by its Board and Senior Management. The objectives may include:
- i. exploring the impact of climate change and the transition to a low-carbon economy on the regulated institution's strategy and the resilience of its business model;
 - ii. identifying relevant climate-related risk factors;
 - iii. measuring vulnerability to climate-related risks and estimating exposures and potential losses;
 - iv. diagnosing data and methodological limitations in climate risk management; and
 - v. informing the adequacy of the institution's risk management framework, including risk mitigation options.
- 4.50 In view of the dynamism that characterises climate related risks, scenario analysis practices are expected to evolve rapidly, especially as climate science advances. Climate scenario models, frameworks and results should, therefore, be subject to challenge and regular review by a range of internal and/or external experts and independent functions.

5. RISK MONITORING AND REPORTING

- 5.1 Regulated institutions should ensure that their internal reporting systems are capable of monitoring material climate-related financial risks and producing timely information to ensure effective board and senior management decision-making.
- 5.2 Regulated institutions should have systems in place to collect and aggregate climate-related financial risk data across the organisation as part of their overall data governance.
- 5.3 Risk data aggregation should incorporate climate-related financial risks to facilitate the identification and reporting of risk exposures, concentrations and emerging risks.
- 5.4 An appropriate mix of qualitative and quantitative analytic tools and metrics should be employed to monitor relevant risk indicators and climate-related and environmental financial risk exposures against the overall strategy and risk

appetite and to support decision making. The risk appetite framework should incorporate relevant risk exposure limits and thresholds for the risks.

- 5.5 Regulated institutions should also put in place adequate processes to ensure that the aggregated data is accurate and reliable. In this regard, a regulated institution should, where necessary, invest in data infrastructure and / or enhance existing systems to enable identification, collection and maintenance of data necessary to assess material climate-related financial risks.
- 5.6 Regulated institutions should consider actively engaging clients and counterparties and collecting additional data in order to develop a better understanding of their transition strategies and risk profiles. Where reliable or comparable climate-related data are not available, regulated institutions may consider using reasonable proxies and assumptions as alternatives in their internal reporting as an intermediate step.
- 5.7 The reporting should be timely and updated regularly, taking into account the evolving nature of climate-related financial risks.

6. DISCLOSURE

- 6.1 In addition to existing disclosure requirements on material risks within Pillar III disclosures under the Basel Capital Accord, a regulated institution is required to develop appropriate climate-related disclosures that are aligned with its approach to managing the associated risks.
- 6.2 At a minimum, every regulated institution should disclose in published financial statements, its approach to managing climate related risks in a manner that is clear and meaningful to its stakeholders.
- 6.3 The disclosures should, at a minimum incorporate the following:
 - a) Governance, including the Board's oversight and management's role in assessing and managing climate-related risks and opportunities;
 - b) Strategy, in relation to the actual and potential impact of climate-related risks and opportunities on the regulated institution's businesses, strategy and financial planning, where such information is material;
 - c) Risk management, regarding identification, assessment, and management of climate-related risks; and

d) Metrics and targets, to assess and manage relevant climate-related risks and opportunities where such information is material.

7. EFFECTIVE DATE

7.1 The effective date of the Guideline shall be 30 April 2023. Questions relating to the Guideline should be addressed to the Director, Bank Supervision Division, Reserve Bank of Zimbabwe.

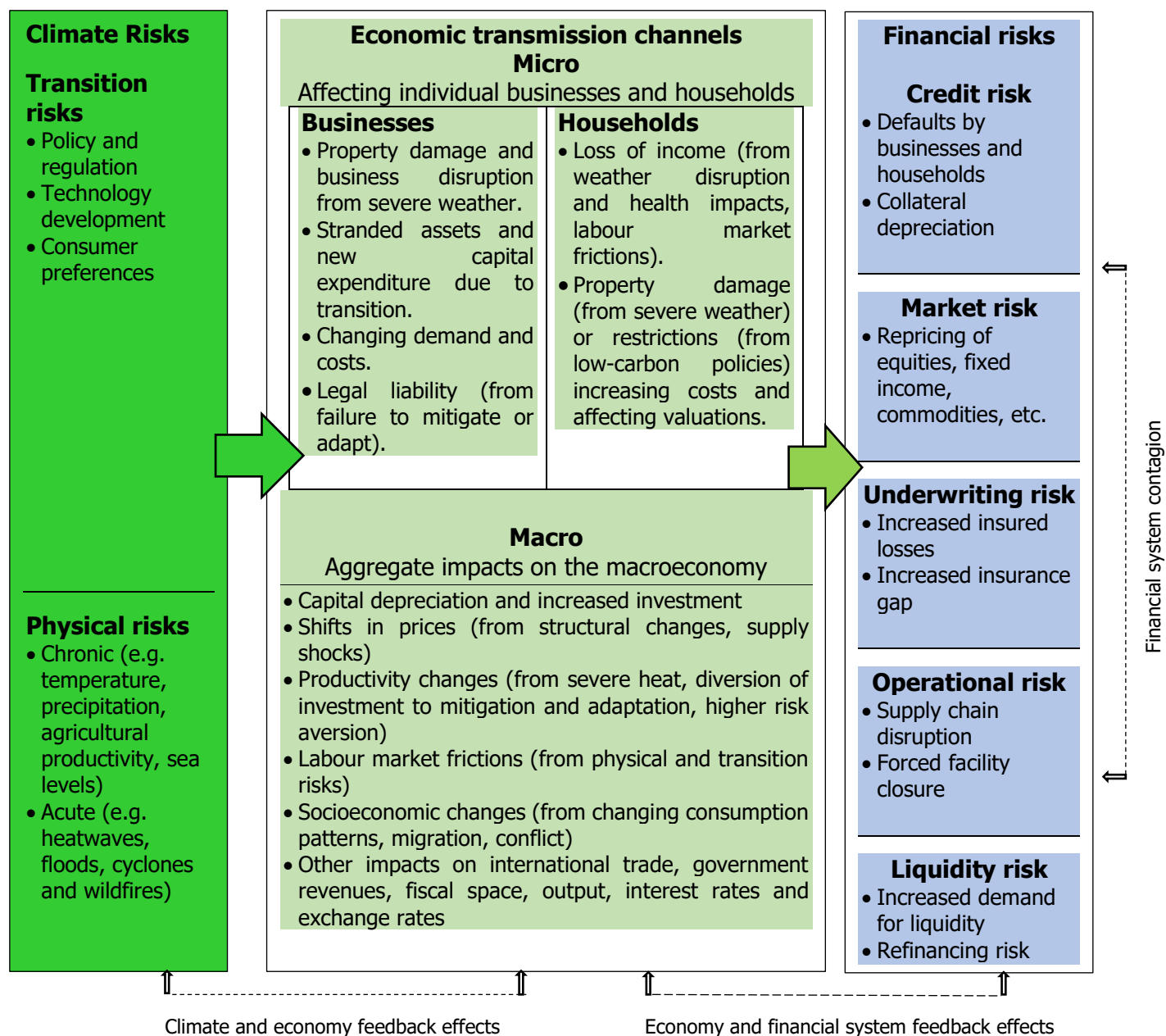
8. APPENDICES

Appendix 1: Examples of Climate-Related and Environmental Risk Drivers

Risks affected	Physical		Transition	
	Climate-related	Environmental	Climate-related	Environmental
	<ul style="list-style-type: none"> • Extreme weather events • Chronic weather patterns 	<ul style="list-style-type: none"> • Water stress • Resource scarcity • Biodiversity loss • Pollution • Other 	<ul style="list-style-type: none"> • Policy and regulation • Technology • Market sentiment 	<ul style="list-style-type: none"> • Policy and regulation • Technology • Market sentiment
Credit	The probabilities of default (PD) and loss given default (LGD) of exposures within sectors or geographies vulnerable to physical risk may be impacted, for example, through lower collateral valuations in real estate portfolios as a result of increased flood risk.		Energy efficiency standards may trigger substantial adaptation costs and lower corporate profitability, which may lead to a higher PD as well as lower collateral values.	
Market	Severe physical events may lead to shifts in market expectations and could result in sudden repricing, higher volatility and losses in asset values on some markets.		Transition risk drivers may generate an abrupt repricing of securities and derivatives, for example for products associated with industries affected by asset stranding.	
Operational	The bank's operations may be disrupted due to physical damage to its property, branches and data centres as a result of extreme weather events.		Changing consumer sentiment regarding climate issues can lead to reputation and liability risks for the bank as a result of scandals caused by the financing of environmentally controversial activities.	
Other risk types (liquidity , business model)	Liquidity risk may be affected in the event of clients withdrawing money from their accounts in order to finance damage repairs.		Transition risk drivers may affect the viability of some business lines and lead to strategic risk for specific business models if the necessary adaptation or diversification is not implemented. An abrupt repricing of securities, for instance due to asset stranding, may reduce the value of banks' high- quality liquid assets, thereby affecting liquidity buffers.	

Source: European Central Bank - 2020

Appendix 2: Key Climate Change Transmission Channels



Source: Network for Greening the Financial System, 2021

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