

## Climate Risk Management

### A new guideline from HKMA



The Hong Kong Monetary Authority (“HKMA”) has released a consultation letter to all Authorised Institutions (“AIs”) on the draft Supervisory Policy Manual on climate risk management (the “GS-1”) in July 2021. The GS-1 aims to provide guidance to AIs on the key elements of climate-related risk management as well as to set out the HKMA’s approach to, and expectations in, reviewing AIs’ climate-related risk management.



*AIs will need to begin considering climate risk drivers in conjunction with their risk management framework, stress testing, effective management of inherent risks and the financial impact associated with climate risks.*

*And, we are here to help – Deloitte believes preparation in addressing climate-related risks will strengthen your broader business proposition in addition to aligning with HKMA’s expectations and supervisory approach, which are based on the relevant work of BCBS, NGFS and TCFD and are Deloitte’s key areas of expertise.*

HKMA expects all local banks to apply the GS-1 on a solo-entity and consolidated basis, while international banks are expected to adopt a framework appropriate for their operations in Hong Kong. As there is no “one-size-fits-all” approach for AIs given their varying size, structure and stages of business development, HKMA will adopt a proportionate approach in its assessment based on four aspects: **governance, strategy, risk management and disclosure** in building climate resilience.

### Strategy

- Conduct **strategic assessment** based on internal and external factors
- Encourage stakeholder engagement
- Design action plan over a **time horizon over 10 years**

#### Strategy Implementation:

- Ensure effectiveness by aligning **resources** and **processes**
- Review **organisational structure** and **policy** in supporting climate strategy

### Disclosure

- Disclose climate-related information **aligned with TCFD recommendations**
- Prepare the first climate-related disclosures **no later than mid-2023**
- Make disclosure at least on an **annual basis** under a “**comply-or-explain**” approach



### Governance

- Define responsibilities of the **board and senior management**
- Exercise **oversight** of AI’s strategy development and implementation in addressing climate-related issues
- Set **climate goals, actions and risk appetite statement**

### Risk Management

- Conduct **risk identification and measurement** to transmit climate risks into traditional risks and assess the potential impacts on AIs, portfolio and counterparty levels
- Adopt climate-focused **scenario analysis** and **stress testing** with consideration of transitioning to low-carbon economy and 2°C or lower scenarios
- **Monitor** and **report** climate-related risks exposures and the risk monitoring process



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<https://www2.deloitte.com/content/dam/Deloitte/cn/Documents/about-deloitte/cn-dtt-turningpoint-report-en-210823.pdf>

## How Deloitte can support you

- **TCFD Readiness Assessment** – we can support you in rapidly assessing your TCFD disclosure readiness using proprietary Deloitte diagnostic approaches and tools
- **TCFD Framework Implementation and Disclosures** – we can assist you in meeting TCFD framework and compiling a report in accordance with the TCFD framework for public disclosure
- **Risk Appetite, Governance and Risk Reporting** – we can assist you in incorporating ESG risks, especially climate risks, and sustainability considerations to your existing risk management framework
- **Scenario Analysis and Stress Testing** – by identifying, developing and implementing climate scenarios in the existing risk management framework, we can ascertain the robustness and resilience of your institution
- **Risk Modelling and Asset-Liability Valuation including Stranded Assets** – we can perform benchmarking with reference to Pillar 1 and Pillar 2A methodology on existing ESG models

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