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DISCLOSURE INSIGHT ACTION

CDSB Climate Disclosure Standards Board

PRA Consultation Paper 23/18: Enhancing banks' and insurers' approaches to managing the financial risks from climate change

CDP and CDSB joint consultation response – 15 January 2019

Introduction

CDP and the Climate Disclosure Standards Board (CDSB) welcome the opportunity to offer our written response to the Prudential Regulation Authority (PRA) consultation paper (the Consultation) published in October 2018. This consultation seeks views on the PRA's supervisory expectations as set out in a draft supervisory statement on banks' and insurers' approaches to managing the financial risks from climate change.

CDP is a global environmental impact non-profit working to secure a thriving economy that works for people and planet. High quality, relevant information is the fundamental basis for action and CDP helps investors, companies and cities to measure, understand and address their environmental impact. The world's economy looks to CDP as the gold standard of environmental reporting with the richest and most comprehensive dataset on corporate and city action. CDP aims to make environmental reporting mainstream and provide the detailed insights and analysis to drive the urgent action needed for a climate safe, water secure, deforestation free world. CDP recognises the important role of the Task Force on Climate-related Financial Disclosures (TCFD) in mainstreaming climate-related information and advancing the availability of financially relevant information for global markets. Therefore, CDP has aligned its information requests with the TCFD recommendations, alongside introducing a sectoral focus and adopting a forward-looking approach to climate risk disclosure.

CDSB is an international consortium of nine business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental and climate information (the CDSB Framework) with the same rigour as financial information. In turn, this helps companies to provide investors with decision-useful environmental and climate information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials. Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets.

Collectively, CDP and CDSB aim to contribute to more sustainable economic, social and environmental systems.

CDP and CDSB are also members of the UK's Green Finance Initiative (GFI) working group on Data, Disclosure and Risk. CDP and CDSB co-lead the GFI's response to this consultation so there may be similar recommendations and views expressed in that response as you see in this document.

This document provides our general comments in relation to the Consultation and the draft Supervisory Statement. Please do not hesitate to contact Leanne Bouvet (Leanne.bouvet@cdp.net) or Michael Zimonyi (michael.zimonyi@cdsb.net) for further information on anything contained in this response.

Kind regards,

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General comments on the consultation

1. CDP and CDSB welcome the PRA decision to publish a supervisory statement on managing the financial risks from climate change and support the PRA's stated desired outcome that firms take a strategic approach to managing this issue.
2. We consider this in line with the statutory objectives of the PRA and consistent with the recommendations of the Green Finance Taskforce, particularly in leveraging existing regulatory and supervisory frameworks to incorporate this risk.
3. Given the PRA reviews of current practice in the banking and insurance industries[1] (Paragraph 1.3 of the Draft Supervisory Statement) evidencing the limited number of firms adopting a strategic approach to the financial risks associated with climate change, we view this as a necessary development to guide the finance sector in considering and managing the financial risks of climate change.
4. Overall, we support the draft supervisory statement setting out the PRA's proposed expectations concerning how firms integrate climate change considerations into governance arrangements; existing risk management practice; strategy setting and risk assessment informed by (specifically) long term scenario analysis; and disclosure approach.
5. We also suggest the Bank of England is well positioned to set a leading example by applying these climate change related risk management approaches within its operations and assets.
6. There are several areas that could be improved and strengthened, as summarised below:
   6.1. **Scenario analysis:** In addition to highlighting scenario analysis as a useful tool and acknowledging its evolving nature, the PRA should include an explicit requirement to evaluate a 1.5C scenario (to assess both transition and physical risks impacts) as well as a climate stress scenario (for example the UNEPFI TCFD modelled 4°C scenario).
   6.2. **Reporting and disclosure:** While the focus of the consultation is on the proposed supervisory approach, firms would benefit from clarification on both reporting and public disclosure requirements. Specifically:
      6.2.1. What information and evidence should be reported to the PRA in its supervisory capacity (covered by the Pillar 2 requirements outlined in the PRA Rulebook); and
      6.2.2. What information a firm should be including in its public disclosures (Pillar 3 covered by the CRD, CRR and Solvency II requirements).
   Additionally, the expectations of disclosure could be more ambitious and more clearly defined.
   6.3. **Enforcement:** We note that the draft supervisory statement does not cover what enforcement action the PRA will take if its supervisory expectations are not met.
   6.4. **TCFD Recommendations**: We call on the PRA to more clearly articulate the link to TCFD and incorporate the ambition of the TCFD recommendations, either explicitly or implicitly, within the revised supervisory approach and disclosure requirements.
   6.5. **Collaboration:** Further efforts to coordinate with other relevant regulatory and supervisory bodies.

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1 cp2318 PRA Consultation Paper, Appendix: Draft Supervisory Statement 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change' p9, paragraph 1.3

Specific commentary on our 5 key recommendations

Scenario analysis:

7. We support the PRA's expectation of firms to 'conduct scenario analysis to inform their strategic planning and determine the impact of the financial risks from climate change on their overall risk profile and business strategy. However, we consider that more explicit direction, and setting of parameters, is required in Paragraphs 3.14 to 3.17 regarding scenario analysis.
8. The PRA should include an explicit requirement to evaluate a 1.5C scenario (to assess both transition and physical risks impacts) as well as a climate stress scenario (for example the UNEPFI TCFD modelled 4°C scenario).
9. We suggest the PRA clarify where they expect scenario analysis being integrated into its existing supervisory and reporting process. For example, we would expect to see this being considered as part of the stress testing processes applied to firms in the future.
10. In addition, we consider that the PRA could usefully set further expectations in relation to:
    10.1. specific time horizons for preparing disclosures;
    10.2. the quality of any third-party dataset, framework, system or methodology which can be used for preparing disclosures;
    10.3. where a third-party dataset, framework, system or methodology has been used for preparing disclosures, the type of framework, system or methodology used should be disclosed (or alternatively where the firm is using its own climate scenarios then disclosing the relevant parameters of these scenarios); and
    10.4. making clear that any assumptions for calculations, estimates or projections should be disclosed.

Reporting and disclosure:

11. While the focus of the consultation is on the proposed supervisory approach, firms would benefit from clarification on both reporting and public disclosure requirements. Specifically:
    11.1. What information and evidence should be reported to the PRA in its supervisory capacity (covered by the Pillar 2 requirements outlined in the PRA Rulebook); and
    11.2. What information a firm should be including in its public disclosures (Pillar 3 covered by the CRD, CRR and Solvency II requirements).
12. Additionally, the expectations of disclosure could be more ambitious and more clearly defined. The TCFD recommendations call for consistency and transparency of disclosure, and this is an opportunity for the PRA to incorporate the ambition of the TCFD recommendations, either explicitly or implicitly, within this revised supervisory approach and disclosure requirements.
13. Disclosure is particularly important to create a level playing field and ensure consistent, transparent and comparable information is available to investors and other stakeholders to use to ensure risk is not being under-priced, or short termism is not leading to risks not being sufficiently taken into account by financial institutions, and to avoid a competitive market which may force a 'race to the bottom'. Where enhanced risk analysis reveals risk has been mis-priced, a competitive market context can act as a disincentive for individual firms to act unilaterally. This would appear to be especially true when financial institutions are acting as intermediaries and have client relationship management pressures to navigate.
14. The PRA should enhance its Pillar 3 disclosure requirements to expect firms to make the 11 recommended TCFD disclosures to ensure this information is available to relevant stakeholders to support market discipline.

Enforcement:

15. We agree with the PRA's assessment that elements of the existing risk management and disclosure framework apply to the financial risks from climate change.
16. The draft supervisory statement helps articulate how elements of the existing risk management and disclosure framework apply to the financial risks from climate change.
17. We note that the draft supervisory statement does not cover what enforcement action the PRA will take if its supervisory expectations are not met.
18. The appropriate enforcement action will of course depend on which provisions of the PRA Rulebook are deemed to have been breached (a supervisory statement is not an absolute requirement itself but informs the interpretation of any relevant absolute requirement.
19. Nevertheless, we consider it would be useful to have some commentary in relation to enforcement action to help facilitate/incentivize compliance with the PRA's supervisory expectations.

TCFD Recommendations:

20. We call on the PRA to more clearly articulate and incorporate the ambition of the TCFD recommendations, either explicitly or implicitly, within the revised supervisory approach and disclosure requirements.
21. It is clear, given the preceding work of the Bank of England and the PRA, which led to the TCFD recommendations, underpin the expansion of its general approach to supervising firms, as noted in paragraph 1.3 explaining background and purpose.
22. As noted above in our recommendation on disclosure, the PRA should expect firms to make the 11 recommended TCFD disclosures.

Collaboration:

23. In light of the developments by other financial regulators, and the extent of the PRA's expectations in the draft supervisory statement, we think that it would be useful to publicly articulate how the PRA will work with other UK financial regulators to provide effective oversight and enforcement in relation to climate related financial risk. This could take the form of a MoU which is signed by all financial regulators on this issue (along similar lines to the existing MoUs which exist between financial regulators).

We expand upon these points in the following commentary.

Detailed comments on sections of the draft supervisory statement

Introduction

24. Given the PRA's review of current practice in the banking and insurance industries highlights that few firms are adopting a strategic approach to the financial risks associated with climate change, we view this draft supervisory statement as a necessary development to guide the finance sector in considering and managing the financial risks of climate change.
25. We support Paragraph 1.5 of the draft supervisory statement setting out the PRA's proposed expectations concerning how firms integrate climate change considerations into governance arrangements; existing risk management practice; strategy setting and risk assessment informed by (specifically) long term scenario analysis; and disclosure approach.
26. Table 1 provides a summary of materials to be read alongside the draft supervisory statement, split by Banks and Insurers. To provide further clarity to firms on the PRA's expectations, it would be useful to provide more detail on the specific provisions relevant for each heading outlined in Table 1. Additionally, this table and its specified provisions could be referred to more explicitly throughout the commentary in Section 3 of the draft supervisory statement (e.g. expectations in relation to Governance, Risk Management, Scenario Analysis and Disclosure). This table should also include the two key documents on climate risk in the financial sector published by the Bank of England and the PRA: 'The impact of climate change on the UK insurance sector' (September 2015) and 'Transition in thinking: The impact of climate change on the UK banking sector' (September 2018)[2]; along with the TCFD's Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures published (June 2017)[3].
27. We recommend a statement be included to outline the enforcement actions the PRA will take should its supervisory expectations not be met.

Financial risks from climate change

28. We support Paragraph 2.1 clarifying physical and transition risks in context for firms. This is helpful and should lead to better understanding of financial risks/opportunities relating to climate change.
29. In addition, we support the PRA specifically highlighting liability risks in Paragraph 2.2, as this is an element which has often been overshadowed in past discussions, and warrants specific consideration, particularly by insurance firms.
30. Paragraph 2.3 addressing Physical Risks could be expanded to consider these as either Acute (the effects of specific events) or Chronic (permanent shifts). It is also critical to highlight the P&L implications resulting from these, in addition to the noted asset value (Balance Sheet) implications. In addition to changing asset values, revenues and/or expenses may also be impacted - either directly or within the value/supply chain. This dimension is referenced in para 2.8 of the consultation paper, but not referenced in the draft supervisory statement itself.

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[2] 'Transition in thinking: The impact of climate change on the UK banking sector', September 2018: http://www.bankofengland.co.uk/prudential-regulation/publication/2018/transition-in-thinking-the-impact-of-climatechange-on-the-uk-banking-sector.

[3] https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf

31. Paragraph 2.5 relies on a clear understanding of exposure to risks by sector and geography. We suggest more specific guidance be included to define the critical balance sheet items on which firms require an understanding of this exposure to assess their potential financial risks. For example, understanding financial exposures to sector/geography by business line for a bank's credit exposure or an insurer's claims liabilities and investments. We suggest this is also referenced in both Risk Management and Disclosure sections.
32. We support the PRA in highlighting in Paragraph 2.5 the dependency on short-term actions. As the decisions taken today will have far reaching impacts, it is imperative that firms under its supervision begin to consider the long-term implications of the decisions they make today which will have reverberating effects on the global environment and subsequently the systemic stability of the economy over the long term.

A strategic approach to managing the financial risks from climate change

33. We welcome the strong signal the PRA is sending to firms that they will need to build expertise in this area to meet supervisory expectations.
34. The structure of this section outlines expectations in regards to Pillar 2 (risk management and supervision) and Pillar 3 (disclosure) for CRR firms and Solvency II requirements. We suggest Paragraphs 3.2 to 3.17 could make a clearer distinction that these expectations are in relation to complying with the PRA's supervisory expectations. It may be helpful to consider separately addressing CRR and SII firms so specific and relevant reference can be made to the PRA Rulebook.
35. For this strategic approach to be effective, we suggest the PRA make more explicit its expectations on what must be done and were an element of proportionality may be applied. The PRA should either outline its expectations on what it deems appropriate or require firms to apply proportionality on a "comply or explain" basis (either complying with the expectation or explaining why it is not applicable).

Governance

36. We support the PRA's expectation of firms to evidence how they monitor and manage the financial risks from climate change. It is useful to specify long-term time horizon and the considerations of stress testing, scenario and sensitivity analysis to understand the uncertainties the firm may face in the context of financial risks from climate change.
37. We support the PRA's expectation of firms to have clear roles and responsibilities for the board and its relevant sub-committees in managing the financial risks from climate change. We also support the PRA in identifying the requirement of the board to identify and allocate responsibility for identifying and managing financial risks from climate change to the relevant and most appropriate existing Senior Management Function(s) (SMF(s)), and that these responsibilities are included in the SMF Statement of Responsibilities. This is a crucial element to instil the required governance and management of these issues within the existing SMF and Senior Managers Regime. We also highlight in paragraph 50 below the potential need for collaboration with the Financial Conduct Authority (FCA) in relation to this.

Risk Management

38. We strongly support the assertion that the financial risks from climate change should be addressed through the existing risk management framework, and that firms should be able to evidence this in their written risk management policies, management information and

board risk reports (see Paragraph 3.5 of the draft supervisory statement). Paragraphs 3.5 to 3.13 identify requirements in relation to the risk management processes adopted by the firm. We suggest clarifying that this information refers to the actions the PRA expects the firms to take in its risk management, the evidence a firm should provide to the PRA of this and flow of information between a firm and the PRA in relation to complying with the PRA's supervisory expectations. Where necessary, this could be linked to the expectations in relation to Disclosure outlined in Paragraphs 3.18 to 3.21.

39. In relation to Paragraphs 3.8 and 3.9 which sets out the PRA's expectation that firms should use metrics and tools to monitor progress against overall strategy and risk appetite, we consider that (for the purposes of consistency and comparability) it would be useful to articulate metrics which the PRA expects to see. For example the metrics recommended in the TCFD supplemental guidance[4] for the financial sector such as credit exposure by industry and geography, percentage of carbon related assets to total assets. The European Commission's Technical Expert Group on Sustainable Finance (TEG) has also recently published its Report on Climate-related Disclosures[5], which provides a list of suggested metrics that the PRA may consider. CDP is a member of the TEG's subgroup on climate related disclosure and contributed to this report. Climate-related metrics is an evolving area and the PRA needs to allow flexibility in this area as best practice emerges. As set out in the preceding bullet, it would also be useful to provide greater linkage to the content in Paragraphs 3.18 to 3.21 on the subject of disclosure.

40. We support the expectation of firms to engage with clients and counterparties to bridge the data gap in relation to material risks to the firm, outlined in Paragraph 3.12. No data is no excuse, and this asserts the inherent ability within financial sector firms to seek out the required data where needed. This is critical and supports the drive for improved understanding and disclosure of these risks from non-financial real-economy actors.

41. We also support the recommendation to use publicly available data or working with external experts to collect appropriate data. This is in line with recommendations made in the UK's Green Finance Taskforce (GFT) report and accompanying Working Group Paper on Data, Disclosure and Risk[6] published in March 2018.

Scenario Analysis

42. We support the PRA's expectation of firms to 'conduct scenario analysis to inform their strategic planning and determine the impact of the financial risks from climate change on their overall risk profile and business strategy. However, we consider that more explicit direction, and setting of parameters, is required in Paragraphs 3.14 to 3.17 regarding scenario analysis.
43. Paragraph 3.15 sets out certain parameters as to the PRA's expectations of a firm's scenario analysis. We support the explicit reference to both a short-term assessment and a longer-term assessment. In relation to a longer term assessment, the PRA expects to see 'scenarios

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[4] TCFD Annex: Implementing the Recommendations of the TCFD (June 2017), https://www.fsb-tcfd.org/wp-content/uploads/2017/12/FINAL-TCFD-Annex-Amended-121517.pdf
[5] EU Technical Expert Group on Sustainable Finance, Report on Climate-related Disclosures (January 2019) https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190110-sustainable-finance-teg-report-climate-related-disclosures_en.pdf
[6] http://greenfinanceinitiative.org/wp-content/uploads/2018/04/Data-Risk-and-Disclosure-Paper.pdf

based around average global temperature increases consistent with, or in excess of 2°C; and scenarios where the market transition to a low-carbon economy occurs in an orderly manner, or not.' As currently drafted we consider that this paragraph permits excessive flexibility by firms - and could easily lead to variable practice by firms, resulting in scenario analyses of firms that are neither consistent nor comparable. We consider that incorporating some language to reduce this flexibility (for example, by ensuring that there are some areas of commonality for all firms) would be useful. In addition to highlighting scenario analysis as a useful tool and acknowledging its evolving nature, the PRA should require firms to evaluate a 1.5C scenario (to assess both transition and physical risks impacts) as well as a climate stress scenario (for example the UNEPFI TCFD modelled 4°C scenario).

44. In addition, we consider that the PRA could usefully set further expectations in relation to:
    - 44.1. specific time horizons for preparing disclosures;
    - 44.2. the quality of any third-party dataset, framework, system or methodology which can be used for preparing disclosures;
    - 44.3. where a third-party dataset, framework, system or methodology has been used for preparing disclosures, the type of framework, system or methodology used should be disclosed (or alternatively where the firm is using its own climate scenarios then disclosing the relevant parameters of these scenarios); and
    - 44.4. making clear that any assumptions for calculations, estimates or projections should be disclosed.
45. We suggest the PRA clarify where they expect scenario analysis being integrated into its existing supervisory and reporting process. For example, we would expect to see this being considered as part of the stress testing processes applied to firms in the future.
46. Paragraph 3.17 states that '[t]he PRA considers the ORSA for insurers, and the ICAAP for banks, to be useful frameworks within which to consider the financial risks from climate change. Scenario analysis is a key tool that the PRA expects firms to employ as part of that assessment.' We consider that it would be useful for a link to be made here to the content in Paragraphs 3.18 to 3.21 on the subject of disclosure - so that firms provide a consistent set of scenarios to each reporting channel (whether that be a bilateral flow of information between the firm and the PRA [as in the case of the ORSA and the ICAAP], or a public disclosure requirement).

Disclosure

47. We support the PRA highlighting the link between Pillar 3 and Solvency II disclosure requirements, however the expected disclosure approach could be more clearly defined, including defining specific expectations on disclosure of financial exposures by sector/geography.
48. We consider that (for the purposes of consistency and comparability) it would be useful for the PRA to articulate metrics which firms should disclose. For example the metrics recommended in the TCFD supplemental guidance[7] for the financial sector such as credit exposure by industry and geography, percentage of carbon related assets to total assets. The European Commission's Technical Expert Group on Sustainable Finance (TEG) has also recently published its Report on Climate-related Disclosures[8], which provides a list of

[7] TCFD Annex: Implementing the Recommendations of the TCFD (June 2017), https://www.fsb-tcfd.org/wp-content/uploads/2017/12/FINAL-TCFD-Annex-Amended-121517.pdf
[8] EU Technical Expert Group on Sustainable Finance, Report on Climate-related Disclosures (January 2019)

suggested metrics that the PRA may consider. CDP is a member of the TEG's subgroup on climate related disclosure and contributed to this report. Climate-related metrics is an evolving area and the PRA needs to allow flexibility in this area as best practice emerges.

49. Paragraph 3.18 states that '[b]anks and insurers have existing requirements to disclose information on material risks within their Pillar 3 disclosures […] and on principal risks and uncertainties in their Strategic Report.' We consider that this could be improved to also refer to the impact of climate change on financial statements. As set out in the TCFD Final Report, the recommended disclosures should result in more quantitative financial disclosures about the financial impact that climate-related risks have or could have on an organization. Specifically, asset impairments may result from assets adversely impacted by the effects of climate change and/or additional liabilities may need to be recorded to account for regulatory fines and penalties resulting from enhanced regulatory standards. Additionally, cash flows from operations, net income, and access to capital could all be impacted by the effects of climate-related risks (and opportunities). Finally, careful consideration should be given to the linkage between scenario analyses performed to assess the resilience of an organization's strategy to climate-related risks and opportunities and assumptions underlying cash flow analyses used to assess asset (e.g., goodwill, intangibles, and fixed assets) impairments.
50. Paragraph 3.19 states that '[t]he PRA expects firms to consider the extent to which the disclosure requirements […] reflect their engagement with the expectations in this [supervisory statement] and whether additional disclosures are necessary to enhance the transparency of the firm's approach to the financial risks from climate change.' We consider that it would be useful to refer to legal requirements here - framing these disclosures through the lens of the expectations in the supervisory statement masks the reality that these are existing legal requirements.
51. Paragraph 3.20 states that '[a]ll firms within the scope of this [supervisory statement] should consider the relevance of disclosing how climate-related financial risks are integrated into governance and management processes, including the process by which a firm has assessed whether these risks are considered material or principal risks.' We reiterate the point above that the framing of these disclosures again masks the reality that these are existing legal requirements. We suggest amending the wording of this statement as follows: '[a]ll firms within the scope of this [supervisory statement] should disclose how climate-related financial risks are integrated into governance and management processes, including the process by which a firm has assessed whether these risks are considered material or principal risks, based on the 11 recommended disclosures of the TCFD.'
52. Paragraph 3.21 states that '[t]he PRA expects firms to engage with wider initiatives on climate-related financial disclosures which are comparable across firms, for example the 'Recommendations of the Taskforce on Climate-related Financial Disclosure' published in June 2017.' In light of the implicit reliance on the TCFD recommendations in other parts of the draft supervisory statement, this 'light touch' reference to the TCFD recommendations is somewhat incongruous.
53. Paragraph 3.21 further states that '[v]arious other groups have done work on this area to help provide tools or case studies for organisations to consider when making climate related financial disclosures. The PRA expects firms to consider whether they would benefit from

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https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190110-sustainable-finance-teg-report-climate-related-disclosures_en.pdf

engaging with some of these initiatives or making use of some of these tools.' We consider that it would be useful to articulate some of these tools, as an example the TCFD Knowledge Hub. This also relates to the points made above that setting of further parameters is required in Paragraphs 3.14 to 3.17 on the subject of scenario analysis.

54. In this regard we draw your attention to the GFT Report which set out more detailed observations about how to implement the TCFD recommendations in the UK. In particular, the GFT Report recommends that Government and financial regulators should create and publish guidelines by Summer 2019 which clarify certain TCFD recommendations to make them more readily implementable (for example in relation to physical climate scenario analysis and the disclosure of assumptions). The guidelines should:
    - 54.1. define which preparers are covered by disclosure requirements;
    - 54.2. ensure that information is disclosed on a consistent and transparent basis. The guidelines should make clear that assumptions used for calculations, estimates or projections should also be disclosed by preparers;
    - 54.3. ensure that preparers provide scenario-based disclosures of how their business strategies and financial planning may be affected by climate-related risks and opportunities and the associated time horizons considered;
    - 54.4. ensure that preparers are aware of the requirement and are supported in the reporting of revenues from green business areas; and
    - 54.5. take account of how different jurisdictions are responding to new disclosure needs.
55. The GFT Report also recommends that the GFI should be formally tasked by the Government and financial regulators to implement an inclusive process involving key private sector stakeholders to help generate the guidelines. This could significantly reduce the burden on the Government and financial regulators associated with preparing new guidance in a short period of time.
56. You should also note that the GFI has already made a start on the recommendation in the GFT Report in relation to convening sector-specific preparer forums to support guideline adoption and implementation. On 19 November 2018, the GFI, in partnership with PRI and CDP hosted the UK's first TCFD Preparers Forum. This brought businesses and the financial sector together to learn how both preparers are implementing the TCFD framework and how data users are integrating this information into their financial products, services and investments.

Additional commentary on specific areas that could be improved

Enforcement: How the PRA intends to apply the draft supervisory statement in oversight/enforcement activities

57. We agree with the PRA's assessment that elements of the existing risk management and disclosure framework apply to the financial risks from climate change.
58. The draft supervisory statement helps articulate how elements of the existing risk management and disclosure framework apply to the financial risks from climate change.
59. We note that the draft supervisory statement does not cover what enforcement action the PRA will take in the event its supervisory expectations are not met.
60. The appropriate enforcement action will of course depend on which provisions of the PRA Rulebook are deemed to have been breached (a supervisory statement is not an absolute requirement itself but informs the interpretation of any relevant absolute requirement - see further commentary under Table 1 above in "Introduction" paragraph 26).
61. Nevertheless, we consider it would be useful to have some commentary in relation to enforcement action to help facilitate/incentivize compliance with the PRA's supervisory expectations.

Reference to TCFD Recommendations

62. At the moment, the TCFD recommendations represent the best mode by which to disclose climate risk currently available. Disclosing in line with the TCFD recommendations is therefore the best way of providing evidence of good corporate governance of climate risk and complying with legal requirements in relation to corporate governance and disclosure.
63. The exposition of climate scenario analysis according to the TCFD recommendations is presumably what lies behind much of the commentary as to the PRA's expectations of scenario analysis (in Paragraph 3.14 to 3.17 of the draft supervisory statement).
64. Given the utility and relevance of the TCFD recommendations to much of the PRA's supervisory expectations we would expect to see much more prominent referencing to the TCFD recommendations throughout the draft supervisory statement.
65. At the moment these are only referred to once in Paragraph 3.21.

Further efforts to coordinate with other relevant regulatory and supervisory bodies

66. Other UK financial regulators are taking steps to increase oversight of climate-related financial risk within their own regulatory remit (e.g. FCA Discussion Paper DP18/8 Climate Change and Green Finance).
67. The FCA and PRA have been working closely together to develop a joined-up approach to enhance the resilience of the UK financial system to climate change and will be establishing a Climate Financial Risk Forum.
68. In addition, we believe that many of the PRA's expectations in the draft supervisory statement will require coordination with other financial regulators in order to provide effective oversight.
69. This is most clearly evident in relation to the PRA's expectations in relation to disclosure. For example Paragraph 3.18 articulates the requirement to disclose principal risks and uncertainties in the strategic report. As the Financial Reporting Council is the regulator responsible for providing oversight of strategic report disclosures for compliance with legal requirements, we consider that in order for the PRA to satisfy itself as to its supervisory expectations, a degree of coordination will be required with the FRC.

70. Another example, is the expectations set out in Paragraph 3.4 that 'the board and the highest level of executive management should identify and allocate responsibility for identifying and managing financial risks from climate change to the relevant existing Senior Management Function(s) (SMF(s)) most appropriate within the firm's organisational structure and risk profile, and ensure that these responsibilities are included in the SMF(s)'s Statement of Responsibilities.' We are aware that the FCA is also involved in providing oversight of the SM&CR - and indeed this regime is currently being extended to cover FCA solo regulated firms. We suggest therefore that this is another area, where in order for the PRA to satisfy itself as to its supervisory expectations, a degree of coordination will be required with the FCA.
71. In light of the developments by other financial regulators, and the extent of the PRA's expectations in the draft supervisory statement, we think that it would be useful to publicly articulate how the PRA will work with other UK financial regulators to provide effective oversight and enforcement in relation to climate related financial risk. This could take the form of a MoU which is signed by all financial regulators on this issue (along similar lines to the existing MoUs which exist between financial regulators).

*** End ***