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CLIMATE RISK  
MANAGEMENT  
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ANALYSIS



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# CLIMATE RISK MANAGEMENT AND SCENARIO ANALYSIS

## EXPOSURE DRAFT

Recognising the characteristics of climate-related risks, Bank Negara Malaysia (BNM) has issued an Exposure Draft which sets out the principles and specific requirements on the management of climate-related risks by financial institutions, with the aim to enhance the resilience of the financial sector against climate-related risks. Any feedback to the Exposure Draft can be submitted to BNM by 31 March 2022.

# 1 June 2022

EARLIEST EFFECTIVE DATE  
(NOT IN FORCE YET)



# 14

KEY PRINCIPLES

# 3

DEFENCE LINES

WITH HORIZONS FROM 1 YEAR TO  
AT LEAST 30 YEARS



## "Climate-Related Risks"

FINANCIAL RISKS FROM CLIMATE CHANGE, INCLUDING PHYSICAL, TRANSITION AND LIABILITY RISKS



### Entity Compliance

LOCAL AND OVERSEAS OPERATIONS

### Consolidated Compliance

ALL FINANCIAL AND NON-FINANCIAL SUBSIDIARIES



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# SUMMARY OF KEY PRINCIPLES

## GOVERNANCE

### PRINCIPLE 1

Identifying roles and responsibilities for managing climate-related risks throughout the organisation structure.

### PRINCIPLE 2

Developing a sound understanding of climate-related risks to inform the business and risk management strategies.

### PRINCIPLE 3

Allocating roles, responsibilities and accountabilities in managing climate-related risks across the 3 lines of defence, i.e., business units, risk and compliance units, and internal audit units.

## STRATEGY

### PRINCIPLE 4

Incorporating potential impact of climate-related risks into business strategies and identifying appropriate climate-related targets.

## RISK APPETITE

### PRINCIPLE 5

Embedding climate-related risks into the risk appetite framework and when assessing internal capital adequacy.

## RISK MANAGEMENT

### PRINCIPLE 6

Integrating climate-related risk considerations into the existing risk management cycle functions, i.e., risk identification, risk measurement, risk monitoring and risk controls.

### PRINCIPLE 7

Continuously developing data capabilities, tools and methodology to aggregate and report climate-related risks.

## RISK IDENTIFICATION

### PRINCIPLE 8

Mapping transmission from climate-related risks, computing climate-related metrics, conducting scenario analysis, assessing climate-related risks, enhancing existing due diligence process, engaging material counterparties and aggregating climate-related financial risk data.

## RISK MONITORING

### PRINCIPLE 9

Using quantitative and qualitative metrics, integrating corresponding risk metrics into the existing monitoring, reporting and escalation framework, including forward looking metrics, reflecting appropriate dimension and granularity, including internal vulnerabilities, setting timely reporting frequency, providing early-warning thresholds, and monitoring remedial actions and non-compliance.

### Principle 10

Developing sector-specific policies with appropriate risk appetites, specific limits or exclusion criteria, additional conditions and mitigation and adaptation measures. Managing risks of economic dislocation arising from disorderly transition.

## SPECIFIC RISK TYPES

### PRINCIPLE 11

Understanding transmission and impact of climate-related risks on existing risk types, i.e., credit risk, market risk, liquidity risk, operational risk, underwriting/reinsuring risk.

## SCENARIO ANALYSIS

### PRINCIPLES 12 AND 13

Stress testing with a range of climate-related scenarios which are plausible, relevant, distinctive, consistent, and tailored. Reviewing strategies and models, accounting for economic dislocation, and using insights from scenario analysis to enhance resilience and mitigate climate-related disruptions.

## DISCLOSURE

### PRINCIPLE 14

Establishing board-approved policy on climate-related disclosures, and publishing annual climate-related disclosures together with annual financial reports beginning on or after 1 January 2024.

**Note:** Gap analysis and implementation plan to be submitted to BNM within 6 months from effective date of policy document.

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