DEVELOPING A STRATEGY TO MANAGE
CLIMATE-RELATED FINANCIAL RISKS
WHAT WE WILL COVER TODAY

01 INTRODUCTION AND BACKGROUND

02 RISK FRAMEWORK

03 SCENARIO ANALYSIS

04 RISK PROGRAMME / CROSS-CUTTING RISK MANAGEMENT

05 MATERIALITY RISK ASSESSMENTS

06 REPORTING AND DISCLOSURES

07 QUESTIONS AND ANSWERS

WITH YOU TODAY

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Submit your comments and questions to the Panel using the Q&A box on the bottom of your screen.
Throughout history, it has been the inaction of those who could have acted; the indifference of those who should have known better; the silence of the voice of justice when it mattered most; that has made it possible for evil to triumph.

Haile Selassie
02 EXAMPLE OF BASIC RISK MANAGEMENT ROADMAP 2021

1. Where to start? Overall Risk Framework
2. Business Model, Strategy and Values
3. Risk Taxonomy
4. Risk processes and tools
5. Scenario Analysis
6. Risk Management Programme
7. Cross-cutting risk management
8. Materiality Risk Assessment
9. Reporting and Disclosures
10. Embedding / Test

Embed in the CAAP/ORSA/ILAAP/ILAA; initiate test operating effectiveness

OPTION 3
Climate risk is a key challenge

- Adopt similar approach as any other risk
- Approach to be proportionate, progressive and mature over time
# 02 BUSINESS MODEL, RISK TAXONOMY AND PROCESSES AND TOOLS

## BUSINESS MODEL, STRATEGY AND VALUES

Do our business model, long term strategy and values need adjusting?

## TAXONOMY

Climate risks (or ESG) to be added to the taxonomy (e.g. L1/L2 risk?)

### EVENTS

- Record
- Investigate

### RISK PROCESS AND TOOLS

- Assess
- Mitigate
- Adapt existing tools.

### SCENARIO ANALYSIS

- Impact of physical and transitions risks
- Management actions to mitigate material impacts.
03 SCENARIO ANALYSIS - RISK ASSESSMENT

**HOW EXPOSED CAN WE BE EXPOSED TO CLIMATE RISKS?**

- Identify exposures - how are we susceptible to climate risks?
- ‘What if?’ exercise

**COMPONENTS**

- Business model, strategy and values
- Risk taxonomy
- Risk tools
- Other frameworks
- Risk appetite, tolerance and capacity
03 SCENARIO ANALYSIS - PRACTICAL CONSIDERATIONS

1. WHAT CAN PREVENT FIRM FROM MEETING OBJECTIVES?
   - Physical risks
     - Flooding; drought.
   - Transition risks
     - Regulatory; operational; credit; market; reputational.
   - Litigation risks
   - Macroeconomic.

2. HOW MUCH STRESS CAN WE WITHSTAND BEFORE FAILING?
   Reverse stress

3. TIME HORIZON
   Short-Term: Existing business plan horizon
   Long-term: Range of at least 3 scenarios

4. DATA
   Expert judgement; historical losses; hazard maps; results of risk assessment/KYC; BoE

5. IMPACT
   e.g. on KPIs

6. MANAGEMENT ACTIONS
   What can we do now?

7. DATA
   Document assumptions and challenge

8. GOVERNANCE
   Within wider RMF/ICAAP/ORSA

9. LIMITATIONS
   Lack of: integration of risks and macroeconomic transmission channels; data
04 RISK MANAGEMENT PROGRAMME

CLIMATE RISK GOVERNANCE
- Who owns the risk assessment?
- What tools are needed?
- Who owns scenario analysis and stress testing?
- Who is responsible for training and awareness?
- What is the role of the first line?
- What is the best approach?

RISK APPETITE
- Climate change vs ESG
- How to set up limit and what is outside of the risk appetite?
- Metrics KRIs/KPIs
- Short, medium or long term limits?

RISK MANAGEMENT
- Exposure to physical and transitional risks
- Key risk factors
- Own property/assets, the business model and concentrations of risk at portfolio and transactional level, Counterparty risks
- How does it fit into ESG risk?

CHALLENGES AND OPPORTUNITIES
<table>
<thead>
<tr>
<th>CREDIT RISK</th>
<th>OPERATIONAL RISK</th>
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<tbody>
<tr>
<td>▶ Concentrations of risk client portfolio and transactions</td>
<td>▶ Office location, business continuity, operational resilience</td>
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<td>▶ Country risk, sectoral risk (Probability of Default (PD))</td>
<td>▶ Green washing</td>
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<tr>
<td>▶ Loss Given Default (LGD)</td>
<td>▶ Individual clients/Material transactions</td>
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<td>▶ Assets, Liabilities</td>
<td>▶ Aggregate portfolio level/risk concentrations</td>
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<td>▶ Commercial, reputational considerations</td>
<td>▶ Capital implications through existing operational risk modelling.</td>
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<td>▶ Extent of the CDD/EDD measures.</td>
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## 05 Materiality Risk Assessments

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<th>Risk Factor</th>
<th>Type of Risk</th>
<th>Sub-Risk Factor</th>
<th>Key Risk Factor</th>
<th>Risk Rating</th>
<th>Total Number</th>
<th>% of Population</th>
<th>Total Number Control</th>
<th>% Control</th>
<th>Inherent Risk Rating</th>
<th>Inherent Risk Score</th>
<th>Average Inherent Risk</th>
<th>Total Number of Customers</th>
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<td></td>
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<td>Counterparties, Vendors, Supply Chains</td>
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<td><strong>Sectorial Risk</strong></td>
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06 REPORTING AND DISCLOSURES
TCFD Framework
06 REPORTING AND DISCLOSURES
Scope of Application

- BANKS
- ASSET MANAGERS AND OWNERS
- INSURERS
- LIFE INSURERS AND OCCUPATIONAL PENSION SCHEMES
- NON-FS PREMIUM LISTED COMPANIES
- NON-FS OTHER LISTED AND NON LISTED COMPANIES
06 REPORTING AND DISCLOSURES
Implementation Timeline for Climate-related Disclosures

2021
- Premium listed companies
- Banks, building societies, insurance companies (deadline for supervisory expectations)

2022
- Occupational pension schemes (>£5bn)
- Largest UK-authorised asset managers, life insurers and FCA-regulated pension providers
- UK-registered companies

2023
- Other UK-authorised asset managers, life insurers and FCA-regulated pension providers
- Wider scope of listed companies

2024-25
- Other occupational pension schemes (subject to review)
- Potential further refinements to measure across categories, including in response to evolving best practice

Source: HM Treasury A Roadmap towards mandatory climate-related disclosures
06 REPORTING AND DISCLOSURES

Key Challenges

- Alignment of Reporting Standards
- Scenario Analysis
- Data Availability
- Metrics and Targets
07 HOW CAN BDO HELP

- Advise on the format and content of strategy documents
- Facilitate strategy workshops

- Advise on the application of reporting and disclosure requirements to institutions

- Development of project plans and timelines
- Review of governance structures

- Support in conducting risk assessments, including scenario analysis and stress testing

TRAINING

INDEPENDENT ASSURANCE & MONITORING
Submit your comments and questions to the Panel using the Q&A box on the bottom of your screen.
THANK YOU