



CENTRAL BANK OF SEYCHELLES

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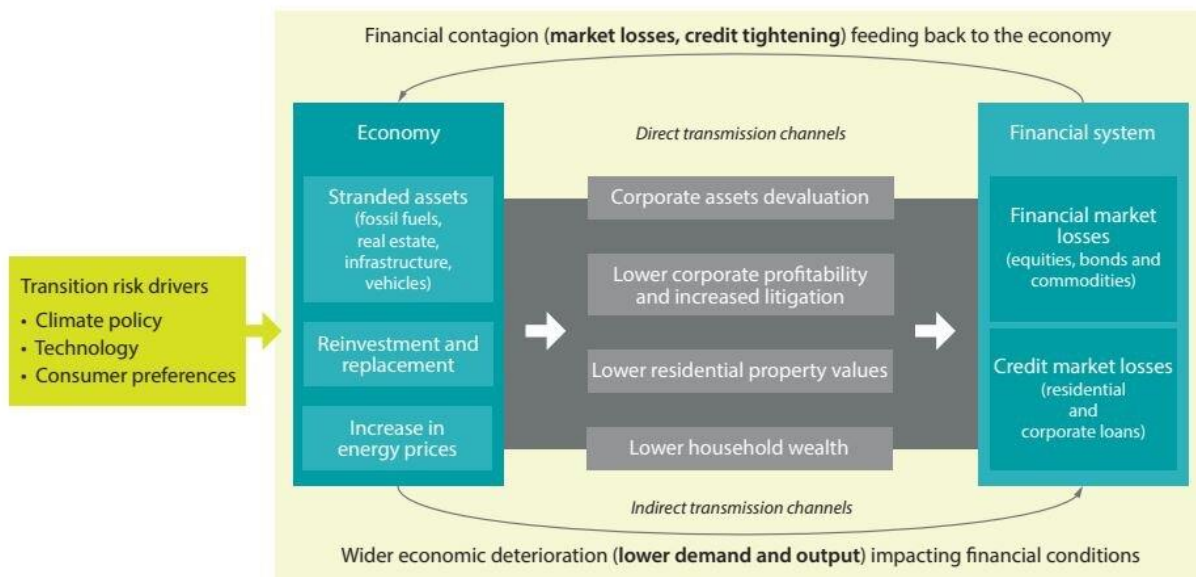
To All Commercial Banks, Development Bank of Seychelles (DBS) and the Seychelles Credit Union (SCU)

Data Collection on Climate-Related Risk Exposures

As a Small Island Developing State (SIDS) and Large Ocean State (LOS), Seychelles is vulnerable to climate change impacts. Being a net sink of carbon, this gives priority concern for climate change adaptation over mitigation. The effects of climate change are felt across all sectors, including the society, economy and financial system. The impacts of climate change can manifest in three (3) different risk dimensions:

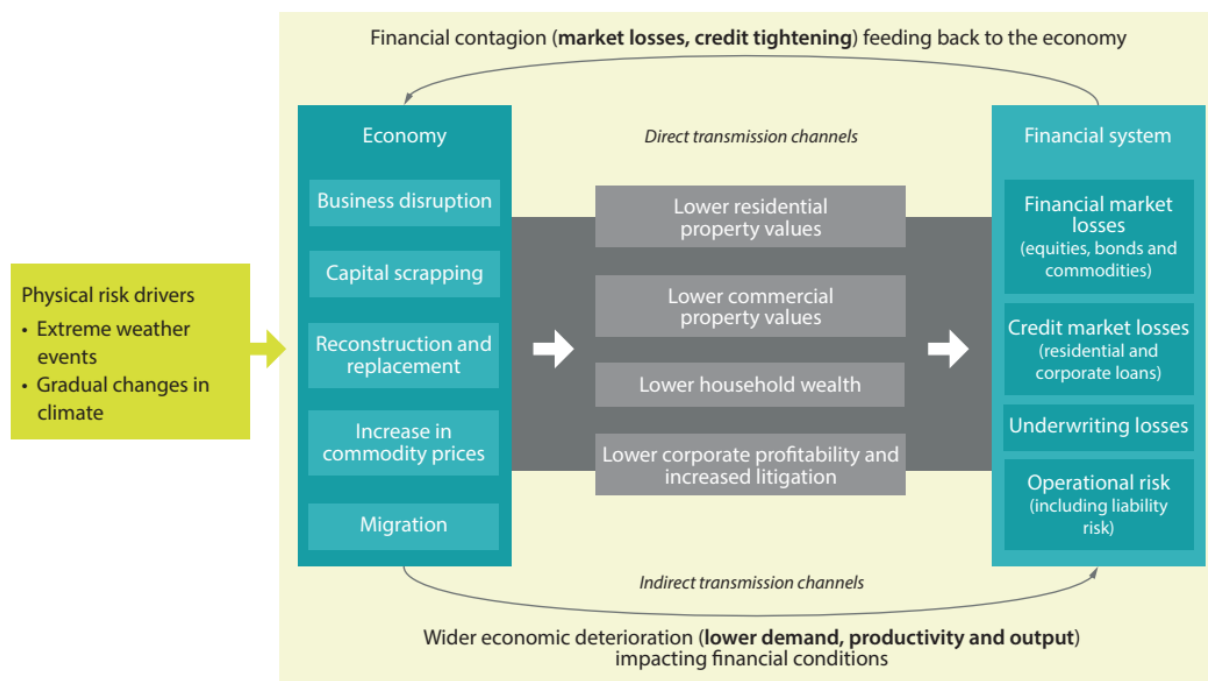
1. Physical risk;
2. Transition risk; and
3. Liability risk.

Physical and transition risks are transmitted to the financial system through various economic transmission channels, which impact businesses and households, and subsequently the broader economy. The Central Bank of Seychelles (CBS) views climate-related risks as a risk driver that affects most of the commonly known risks managed by financial institutions, namely credit, market, liquidity, capital, operational and strategic risks. The following diagrams illustrate the transmission of climate-related risks to the financial system.



Source: Network for Greening the Financial System (May 2020) 'Guide for Supervisors Integrating Climate-Related and Environmental Risks into Prudential Supervision'

Climate-related risks are dynamic, constantly evolving over time and interacting with one another. Without implementing required adaptation and transition measures, physical risks can quickly escalate and manifest into financial losses for the financial system. Ultimately, this will have adverse implications on the balance sheets of the financial institutions with broader resounding effects on financial stability.



Source: Network for Greening the Financial System (May 2020) 'Guide for Supervisors Integrating Climate-Related and Environmental Risks into Prudential Supervision'

In 2020, CBS officially onboarded climate change as a strategic objective under its portfolio given its potential impact on the financial system. As part of the broader efforts being undertaken and the resultant deliverables, the CBS officially became a member of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), in late 2020. As per its Charter, the NGFS serves as a platform ‘to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and to mobilize mainstream finance to support the transition toward a sustainable economy’. Likewise, the CBS has initiated engagements with other financial regulators through the Alliance for Financial Inclusion to further enhance regional and international collaboration, policy development and technical expertise.

Accordingly, deliverables that the CBS anticipates to develop alongside the financial sector entails, to name a few:

1. Roadmap for Sustainable Finance for Seychelles;
2. Environment, Social and Governance (ESG) Framework;
3. Green Banking Regulations;
4. Green Taxonomies; and
5. Climate Scenarios and Stress Testing.

As highlighted during the Bankers Meeting of October 6, 2021, work is underway for the development of a research paper to define what green finance means for the Seychelles context. As part of this exercise, the CBS is initiating a mapping exercise to assess the level of credit-related climate risk exposures within the financial system. Correspondingly, all commercial banks, DBS and SCU are requested to complete the enclosed Climate-Related Risk Exposure Data Collection Return, and submit same at fsdreturns@cbs.sc not later than **November 12, 2021**.

For any further clarifications regarding the exercise, kindly contact the Financial Regulation Section at financialregulation@cbs.sc or on +248 4282135.

CBS counts on your usual co-operation and trusts in your adherence to this circular.

Yours sincerely,

 Caroline Abel
Oct 12 2021 11:04 AM

C. Abel (Ms) 

Governor

Encl.

Annex 1: Climate-Related Risk Exposure Data Collection Return



Data Collection -
Climate Related Risk