

CLIMATE-RELATED FINANCIAL RISKS DISCLOSURE GUIDELINES



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1.0 Introduction

Increasingly, access to information is becoming a necessity in promoting transparency. Accordingly, the Central Bank of Seychelles (CBS) is setting out disclosure requirements to ensure that regulated institutions make key information available about their capital, and risk exposures in order to adequately inform relevant market participants. Disclosures on climate-related financial risks allow market participants to make more informed assessments of regulated institutions' physical and transition risks. In turn, this will improve regulated institutions' and investors' understanding of the financial implications of climate change.

Requiring the disclosure of climate-related financial risks and opportunities are essential to foster market discipline by providing stakeholders with relevant and comparable information on a consistent basis. As climate-related risk management is an emerging field, methods will continue to evolve and improve over time. Therefore, it is crucial for regulated institutions to develop the capacity and expertise needed to identify, measure, monitor, evaluate, manage, and disclose climate-related financial risks and opportunities within their existing risk management and governance structures, including any metrics or targets set.

In that respect, and in accordance with section 4A(2)(b) of the CBS Act 2004 (as amended), the CBS is issuing this Guidelines on Climate-related Financial Risks Disclosures (hereafter referred to as the Guidelines). The Guidelines have been developed primarily guided by the [Basel Committee on Banking Supervision \(BCBS\)](#) and informed by the International Financial Reporting Standards Foundation's [International Sustainability Standards Board \(ISSB\)](#) and recommendations of the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#).

To note, the Guidelines shall be considered alongside the Guidelines on the Effective Risk Management of Climate-related Financial Risks.

2.0 Scope and Application

2.1 Application

The Guidelines apply to regulated institutions as defined herein.

2.2 Date and Scope of Application

The Guidelines is applicable as of its date of publication. The CBS acknowledges that the management of climate-related financial risks, and the methodologies and tools used to address them, are evolving and are expected to mature over time. Hence, the Guidelines will be updated, as and when required.

3.0 Purpose

The Guidelines aim to:

1. provide guidance to the regulated institutions on climate-related financial disclosures;
2. align regulated institutions' disclosure of climate-related financial risks with international standards and principles, especially the BCBS disclosure framework which is based on the ISSB standards and TCFD recommendations;

3. promote a common disclosure baseline for climate-related financial risk;
4. provide market participants with meaningful information, such as key risk metrics, reduce information asymmetry and promote comparability of regulated institutions' profiles;
5. develop meaningful and robust disclosures for climate-related financial risks through an iterative process.

4.0 Definitions

In the Guidelines:

Central Bank means the Central Bank of Seychelles established by the Central Bank of Seychelles Act, 2004 (as amended).

Climate-related financial risks mean risks posed by the exposure of the regulated institution to physical and transition risks caused by or related to climate change. This may include damage caused by extreme weather events or a decline in asset value in carbon-intensive sectors.

Management means persons having authority and responsibilities for planning, directing and controlling the activities of the regulated institution, directly or indirectly, including any directors (whether executive or otherwise of the institution).

Regulated institutions means commercial banks, credit unions and non-bank credit granting institutions.

5.0 Overview

The Guidelines sets out requirements for disclosing of sustainability-related financial information. Consistent with the requirements of the BCBS disclosure framework, regulated institutions' disclosures must include the following:

- a) Governance frameworks;
- b) Strategy for managing sustainability-related risks and opportunities;
- c) Risk management processes;
- d) Metrics and targets.

To note, the Guidelines will also form part of the Pillar 3 disclosures as prescribed by the BCBS once formally introduced by the CBS. The guiding principles for the disclosures are as below:

- a. **Materiality** – Regulated institutions need to consider the materiality requirements in IFRS S1 that relate to material information being obscured by immaterial information (the obscuring requirements). The obscuring requirements of IFRS S1 explicitly require regulated institutions to avoid disclosing information that is not financially material because of the risk or perceived risk that non-material information may cause financially material information to be obscured.

Regulated institutions that apply this relief, must publish all financially material information specified in the Guidelines (material information should not be omitted) and must ensure that information is materially correct (regulated institutions should not misstate information).

- b. Proportionality** – Proportionality should be considered more holistically and not only regarding the size of the regulated institution. Proportionality shall be linked to the business model and risk profile of the regulated institution, as well as the cost benefits and scope considerations.
- c. Governance** – Regulated institutions are required to disclose their governance procedures and plans to oversee climate-related financial risks and opportunities, including progress in the formation of a team tasked with monitoring and managing these risks. Governance responsibilities include the preparation and submission of reports to the Board of Directors and Senior Management.
- d. Strategy** – Regulated institutions must disclose how, if at all, they have integrated climate-related financial risks and opportunities into their overall business strategy.
- e. Risk Management** – Regulated institutions must disclose how, if at all, they have implemented comprehensive risk management systems that incorporate climate-related financial risks into traditional risk categories, such as credit, market, operations and liquidity risks.
- f. Financial Disclosures** – Regulated institutions need to disclose:
 - i. the anticipated effects of climate-related financial risks and opportunities on the institution's financial position, financial performance and cashflows over the short (up to 5 years), medium (5 years to 15 years) and long term (more than 15 years); and
 - ii. how the regulated institution expects its financial performance and cashflows to change over the short (up to 5 years), medium (5 years to 15 years) and long term (more than 15 years), given its strategy to manage climate-related financial risks and opportunities.

6.0 Disclosure Requirements

- 6.1** The disclosure of climate-related financial risks and opportunities by regulated institutions shall represent relevant information and shall be:
- a) Specific and complete;
 - b) Clear, balanced and understandable;
 - c) Reliable, verifiable and objective;
 - d) Provided on a timely basis;
 - e) Sufficiently detailed to enable users to assess the regulated institution's exposure and approach to addressing climate-related financial risks and opportunities.

6.2 The regulated institutions are required to disclose their climate-related financial risks and opportunities in their Annual Report, in a manner that is clear and meaningful to their stakeholders.

6.3 Regulated institutions shall at a minimum disclose the following:

a) Governance

This should, at a minimum, include descriptions of the following:

- i. the governance structure (Board, Committee, or individuals) responsible for the oversight of climate-related financial risks, including a breakdown of responsibilities as reflected in the terms of reference, mandates, role description and other related policies;
- ii. how the Board ensures the availability of appropriate skills and competencies to oversee strategies designed to respond to climate-related financial risks;
- iii. how and at what frequency the Board and its Committee(s) are informed about climate-related financial risks;
- iv. how the Board and its Committee consider material climate-related financial risks when overseeing the regulated institution's strategy, its decisions on major transactions, and its risk management processes and related policies, including whether the Board has considered trade-offs associated with those risks;
- v. how the Board oversees the setting of targets in relation to material climate-related financial risks and monitors progress towards those targets, including whether and how related performance metrics are included in remuneration policies;
- vi. Management's role in the governance processes, controls and procedures used to monitor, manage, and oversee material climate-related financial risks, including information about:
 - whether that role is delegated to a specific management-level position or management-level committee and how oversight is exercised over that position or Committee; and
 - whether management uses controls and procedures to support the oversight of material climate-related financial risks, and, if so, how these controls and procedures are integrated with other internal functions.

b) Strategy and Risk Management

This should include information on:

- i) climate-related financial risks that could reasonably be expected to materially affect the regulated institution's prospects and particularly cashflow, access to finance and cost of capital. Specifically, the regulated institution should:
 - a. explain each material climate-related financial risk identified, whether the risk is considered to be a climate-related physical risk or a climate-related transition risk;
 - b. specify the time horizons over which each material climate-related financial risk could reasonably be expected to occur (short term, medium term or long term);

- c. explain how it defines “short term”, “medium term” and “long term”, and how these definitions are linked to the planning horizons used for strategic decision-making.
- ii) the current and anticipated impact of those climate-related financial risks on the regulated institution’s business model and risk profile, including:
 - a. description of the current and anticipated effects of material climate-related financial risks on its business model and risk profile;
 - b. description of where within its business model material climate-related financial risks are concentrated (for example, geographical areas, facilities and types of assets).
- iii) the effect of material climate-related financial risks on the regulated institution’s strategy and decision-making, and its plans to respond to material climate-related financial risks, including:
 - a. specific information on how they have responded to, and plan to respond to, climate-related financial risks in their strategy and decision-making, including plans to achieve any climate-related forecasts it has set;
 - b. current and anticipated changes to their business model, including resource allocation, to address climate-related financial risks;
 - c. current and anticipated mitigation and adaptation efforts;
 - d. resourcing and plans to resource the activities disclosed; and
 - e. quantitative and qualitative information about the progress of plans disclosed in prior reporting periods.
- iv) the effect of climate-related financial risks on the regulated institution’s financial position, financial performance and cashflows for the reporting period, and their anticipated effect on the regulated institution’s financial position, financial performance, and cashflows over the short, medium and long term, taking into consideration how those climate-related financial risks have been factored into the regulated institution’s financial planning; and
- v) the resilience of the regulated institution’s strategy and business model to climate-related changes, developments, and uncertainties, taking into account the identified climate-related financial risks.
- vi) the processes and related policies that the regulated institution uses to identify, assess, prioritise, and monitor climate-related financial risks, including information on:
 - a. the input parameters used (for example, data sources and the scope of operations covered in the processes);
 - b. whether and how it uses climate-related scenario analysis to inform its identification of climate-related financial risks;
 - c. how it assesses the nature, likelihood, and magnitude of the effects of climate-related financial risks (for example, whether the regulated institution considers qualitative factors, quantitative thresholds or other criteria);
 - d. whether and how it prioritises climate-related financial risks relative to other risk types;

- e. how it monitors climate-related financial risks; and
 - f. whether it has changed the processes it uses from the previous reporting period.
- vii) the extent to which and how the processes for identifying, assessing, prioritising, and monitoring climate-related financial risks are integrated into and inform the overall risk management.
- viii) specific metrics and targets voluntarily set by the regulated institution to assess performance in relation to climate-related financial risks, including progress towards any climate-related targets it has set. As such, regulated institutions shall disclose:
- a. the objective of the metrics and targets;
 - b. the part of the institution to which the target applies (for example, whether it applies to it in its entirety or only partly, , such as specific business unit or specific geographical region);
 - c. the period over which the target applies and the base period for which the progress is measured;
 - d. any milestone and interim metrics and targets;
 - e. whether the target and the methodology for setting the target have been validated by a third party;
 - f. actions taken or planned to achieve any material metrics and targets, including the intended use of carbon offsets; and
 - g. processes in place to review these metrics and targets.

Best practice in measuring and monitoring climate-related financial risks involves incorporating both qualitative and quantitative approaches. This includes employing metrics to measure climate-related financial risks appropriate to the regulated institution's size, business model and complexity of business operations and appropriate to the availability and quality of data on relevant risks.

Quantitative metrics help regulated institutions understand the potential current and future impacts of climate-related financial risks on their customers, counterparties and other organisations to which they have exposure. Best practice extends to measuring the impacts of climate-related financial risks on outsourcing arrangements, service providers, full value chains and business continuity planning.

Regulated institutions may use data from both publicly available and proprietary sources, and potentially seek assistance from external experts. This should help in better understanding the potential impacts of climate change on the regulated institution's operations as well as those of its customers, counterparties and other organisations to which it is exposed.

Metrics should be relevant, accurate and verifiable, and comparable and consistent. It is helpful for a regulated institution to use the same metrics from year to year to

facilitate comparisons and trend analysis to support better risk management outcomes.

The CBS is cognisant that data presents a challenge, often varying by regulated institution (depending on its size, business model and complexity), including data availability, comparability and consistency. Some of these are exacerbated by the unprecedented and non-linear nature of climate change. The quality of climate data and information are intended to improve over time, but it is important to make progress with whatever data is available. In this instance, the CBS encourages regulated institutions to supplement its risk measurement with additional qualitative information and judgements.

c) Qualitative Information

This should include information on:

- i. Transition risk
 - a. Regulated institutions are expected to provide details on the methodology used to determine which exposures are subject to the impact of material transition risk, comprising:
 - 1. the underlying criteria used to determine the impact of the transition across sectors;
 - 2. the time horizon and approaches, such as scenario analysis used to assess transition risks; and
 - 3. qualitative information that reflects the extent to which the regulated institution's financing is supporting clients in climate change mitigation and adaptation.
- ii. Physical risk
 - a. Regulated institutions are expected to provide details of the methodology used to determine which exposures are subject to the impact of material physical risk, comprising:
 - 1. a description of selected material climate-related chronic and acute events, together with the motivation for selecting those particular events (for example, flooding, coastal erosion, rising sea levels) based on the regulated institution's business model;
 - 2. the underlying criteria used to determine geographical breakdown/granularity to assess the physical risk stemming from each material climate-related event;
 - 3. the sectoral considerations made in line with the regulated institution's portfolio;
 - 4. the time horizons and scenarios used to assess the material physical risks; and
 - 5. the considerations taken to assign the exposure, subject to material physical risks based on the geographical location of the activity of the counterparty.

iii. Concentration risk

a. Regulated institutions are expected to disclose:

1. the potential effects of exposures to counterparties associated with material transition or physical risks on its overall risk and financial performance;
2. the process(es) for identifying vulnerable concentrated exposures and assessing the likelihood of and effects associated with such risks (such as the qualitative factors, quantitative indicators and other criteria used);
3. whether and how they are monitoring material concentration of exposures within sectors or geolocations; and
4. the effects of material climate-related concentration risks on its strategy and decision-making, including how the regulated institution is responding to and mitigating climate-related concentration risks.

6.4 Regulated institutions shall regularly review and reinforce their disclosures, with a view to make them as insightful as possible. The disclosure shall take into consideration the evolving needs of stakeholders regarding information on climate-related financial risks and opportunities and reflects the regulated institution's evolving understanding of these risks and opportunities.

7.0 Reporting Requirements

7.1 Internal Reporting

Based on the regulated institution's internal strategy for climate-related financial risk management, reporting structures should be developed for internal reporting by the regulated institution to the Board of Directors and Senior Management on a periodic basis to provide status updates on the identification, assessment and management of climate-related financial risks. Such reports should be based on the internal climate-related financial risk management strategy developed and adopted by the regulated institution.

7.2 Reporting to the Central Bank of Seychelles

Regulated institutions shall submit their internal roadmaps within six (6) months from the effective date of the Guidelines, and progress reports bi-annually, to the CBS at microprudential@cbs.sc – this should be done together with the reports for the Guidelines on the Effective Risk Management of Climate-related Financial Risks. The reports should be approved by the Board of Directors.

To ensure alignment in the disclosure requirements, regulated institutions should make use of the disclosure template provided in Annex 1.

8.0 Annex 1 – Disclosure



Disclosure
Template.xlsx