



**Central Bank of Kenya**

# **Guidance on Climate-Related Risk Management**

October 2021



## PART I PRELIMINARY

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- 1.1 Title** – Guidance on Climate-related Risk Management.
- 1.2 Authorization** – This Guidance on Climate-related Risk Management is issued under section 33(4) of the Banking Act, which empowers the Central Bank of Kenya to guide institutions in order to maintain a stable and efficient banking and financial system.
- 1.3 Application** – This Guidance applies to institutions licensed under the Banking Act, Cap 488.
- 1.4 Definitions**
- 1.4.1 Anthropogenic** means resulting from or produced by human activities<sup>(18)</sup>.
  - 1.4.2 Climate change** means a change in the climate system which is caused by significant changes in the concentration of greenhouse gases as a consequence of human activities and which is in addition to natural climate change that has been observed during a considerable period.
  - 1.4.3 Climate-related risks** include physical and transition risks.
  - 1.4.4 Global warming** is the estimated increase in *global mean surface temperature (GMST)* averaged over a 30-year period, or the 30-year period centered on a particular year or decade, expressed relative to *pre-industrial* levels.
  - 1.4.5 Greenhouse gases** are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of infrared radiation emitted by the Earth's surface, the atmosphere and clouds<sup>(18)</sup>.
  - 1.4.6 Internal risk taxonomy** is a categorisation of different risk types and factors within which climate-related risks are expected to be clearly defined.
  - 1.4.7 Net Zero** refers to the balance between the amount of greenhouse gas produced and the amount removed from the atmosphere<sup>(18)</sup>.
  - 1.4.8 Physical risks** arise from costs and losses due to the increasing severity and/or frequency of weather events.
  - 1.4.9 Stranded assets** are investments that are not able to meet a viable economic return and which are likely to see their economic life curtailed due to a combination of technology, regulatory and/or market changes.
  - 1.4.10 Transition risks** arise from policies aiming to reach 'net zero' carbon emissions.

## PART II STATEMENT OF POLICY

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### 2.1 Background

#### 2.1.1. Global Position

It is widely recognized that continued emission of greenhouse gases will cause further warming of the Earth and that warming above 2° Celsius (2°C), relative to the pre-industrial period, could lead to catastrophic economic and social consequences<sup>(1)</sup>. Based on the evidence of the growing recognition of the risks posed by climate change, in December 2015, nearly 200 governments agreed to strengthen the global response to the threat of climate change by “holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels,” referred to as the Paris

Agreement<sup>(2)</sup>. The agreement aims to increase the ability of countries to deal with the impacts of climate change, and to make finance flows consistent with a low greenhouse gas emissions and climate-resilient pathway. This would potentially trigger a radical shift in economic activities and resource allocation, and would hence have far reaching implications for all economies and financial markets around the world.

The global concerted efforts to mitigate impact of climate change will come to sharp focus during the 26<sup>th</sup> UN Climate Change Conference of the Parties (COP26). The UK will host the COP26 summit in Glasgow on 31 October – 12 November 2021. The COP26 summit will bring parties together to accelerate action towards the goals of the Paris Agreement and the UN Framework Convention on Climate Change. COP26 comes at the height of global efforts to recover from coronavirus pandemic. The summit presents an opportunity to recover cleaner, rebuild greener and restore our planet for future generations.

### **2.1.2. African Perspective**

If the world fails to step up climate action, continuing on the current climate change trajectory could force 100 million people into extreme poverty by 2030.<sup>[3]</sup> Africa is the most-exposed region to the adverse effects of climate change despite contributing the least to global warming. The region is already disproportionately feeling the impacts related to a changing climate. Devastating cyclones affected 3 million people in Mozambique, Malawi, and Zimbabwe in the spring of 2018.<sup>[4]</sup> GDP exposure in African nations vulnerable to extreme climate patterns is projected to grow from USD895 billion in 2018 to about USD1.4 trillion in 2023—nearly half of the continent’s GDP.<sup>[5]</sup> Africa therefore has all the reason to join hands in a concerted effort with the developed countries to mitigate the impact of climate change.

### **2.1.3. Climate Change in Kenya**

Extreme climatic events have posed a significant risk to regions in Kenya, and they have contributed to making it one of the most disaster-prone countries in the world (MOSSP, n.d.)<sup>(6)</sup>. Of particular concern are floods and droughts, with major droughts occurring about every 10 years, and moderate droughts or floods every three to four years (AEA Group, 2008a)<sup>(7)</sup>. An example is the torrential rains and severe flooding from March to May 2018 that devastated communities that were already struggling to recover from a prolonged drought<sup>(6)</sup>.

Historically, these extreme climatic events have caused significant loss of life and adversely affected the national economy. Droughts have affected the most people and had the greatest economic impact (Earth Institute, n.d.)<sup>(8)</sup>; it is estimated that droughts cost about 8.0 percent of GDP every five years (AEA Group, 2008b, p. 1)<sup>(9)</sup>. While usually more localized, floods have led to the greatest loss of human lives (Earth Institute n.d.)<sup>(8)</sup>. Other climate-related hazards in Kenya include forest fires and landslides, the latter of which mostly affect the highland regions (UNDP, n.d.a)<sup>(10)</sup>.

The Paris Agreement entered into force for Kenya on 27<sup>th</sup> January 2017, and as set out in Article 2(6) of the Constitution of Kenya (2010), the Paris Agreement now forms part of the laws of Kenya<sup>(11)</sup>. The Climate Change Act, 2016 is the main legislation guiding Kenya’s climate change response through mainstreaming climate change in Kenya<sup>(12)</sup>.

#### 2.1.4. Climate change as a source of financial risk and opportunities

Climate change is therefore one of the major risks threatening the well-being of mankind. It has increased the frequency and magnitude of extreme weather events causing loss of lives, diminished livelihoods, reduced crop and livestock production, and damaged infrastructure, among other adverse impacts. Consequently, it is increasingly recognised as a source of financial risks for financial institutions and corporates. Globally, the central banking and regulatory community is demonstrating growing awareness of the issue and commitment to tackling the challenge. Examples include:

- In December 2015, the Task Force on Climate related Financial Disclosures (TCFD) was established by the Financial Stability Board (FSB)<sup>(13)</sup>. The TCFD developed a set of voluntary, consistent disclosure recommendations for use by companies in providing information to investors, lenders and insurance underwriters about their climate-related financial risks.
- In December 2017, eight central banks and supervisors established the Central Banks and Supervisors Network for Greening the Financial System (NGFS) with the aim of contributing to the development of environment and climate risk management in the financial sector, and mobilising mainstream finance to support the transition toward a sustainable economy.
- In February 2020, the Basel Committee on Banking Supervision (BCBS) established the Task Force on Climate-related Financial Risks to undertake work on climate-related financial risks<sup>(15)</sup>.

Efforts to mitigate and adapt to climate change also produce business opportunities. Examples of opportunities include resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and services, access to new markets, and building resilience along the supply chain<sup>(16)</sup>.

#### 2.1.5. Climate-related financial risk drivers

Climate risks generally refer to the risks posed by climate change, such as damage caused by extreme weather events. They are broadly classified into physical risk, transition risk and liability risk<sup>(14)</sup>.

- **Physical risk** refers to the impacts of climate and weather-related events and long-term progressive shifts of climate.
- **Transition risk** refers to the financial risk related to the process of adjustment towards a lower-carbon economy which can be prompted by, for example, changes in climate policy, technological changes or a change in market sentiment.
- **Liability risk** is associated with emerging legal cases related to climate change, including those seeking compensation from financial institutions which are held responsible for loss and damages resulting from the effects of climate change, or which finance companies with activities having negative environmental impacts.

#### 2.1.6. Unique characteristics of climate change and the implications

Climate change has the following distinctive characteristics, which is the reason why it requires special attention and different management from other conventional financial risks.

- **Far-reaching impacts in breadth and magnitude:** Climate change will affect all agents in the economy, across all sectors and geographies. The impacts could be much larger, more widespread and more diverse than those of other structural changes. The complex interactions between climate and other systems (e.g. social, economic, regulatory and technological) present significant challenges to the identification and measurement of the risks.
- **Foreseeable nature but uncertain timing and outcome:** Although there is a high degree of certainty that some combination of physical and transition risk will materialise in the future, the exact timing, outcome and future pathways remain uncertain and the impacts are unevenly distributed both between and within countries.
- **Irreversibility:** There is a high degree of confidence that, above a certain threshold for the concentration of greenhouse gas emissions in the atmosphere, climate change will have irreversible consequences on our planet.
- **Dependency on short-term actions:** The magnitude and nature of future impacts will be determined by the actions taken today. Collective actions by governments, central banks and supervisors, financial market participants, firms and households are crucial.

The materialisation of physical and transition risks, which depends on multiple factors that interact with each other in complex ways and are subject to deep uncertainty. Therefore, despite the limitation of the use of climate-economic models in representing these interactions, forward-looking methodologies play an important role in exploring the potential vulnerabilities<sup>(15)</sup>.

Furthermore, as tackling climate change requires collective efforts by all parties, there would be increasing expectation on the financial sector, whose core function is to allocate capital resources, to channel finance to support the transition. This is reflected in one of the goals of the Paris Agreement on mobilisation of climate finance.

### 2.1.7. Action on climate-related financial risks in Kenya banking sector

Climate-related financial risks can significantly increase banking sector credit risk as a result of severe floods, drought, landslides and wild fires that destroy borrowers' assets or impair supply chains. Similarly, with a high reliance on physical collateral in lending in emerging markets, measures and policies put in place to mitigate climate change can increase credit risk from collateral assets that become stranded. Extreme weather events can also increase operational risk for banks due to disrupted business continuity from the negatively impacted bank's infrastructure, systems, processes and staff.

CBK and the Kenyan banking sector players have commenced some steps that evidence their recognition of the potential impact of climate risk. These include: -

- In 2013, the Central Bank of Kenya (CBK) introduced the Internal Capital Adequacy Assessment Process (ICAAP) for the banking sector. Through ICAAP, banks are required to maintain sufficient capital that is commensurate to all material risks they are exposed to. Banks are therefore expected to include climate risk among the risks they are exposed to and if assessed material, capital should be set aside.
- In 2015, the Kenya Bankers Association (KBA) issued the KBA Sustainable Finance (SFI) Guiding Principles<sup>(17)</sup> that guided banks to create long-term value for their clients, firm, economy and

the environment. In order to entrench the SFI principles, KBA introduced an e-learning platform for banking sector staff and an SFI Catalyst Awards to challenge banks to embrace sustainable banking practices.

- In 2019, CBK issued the Kenya Banking Sector Charter whose objective is to promote a sector that works for and with the Kenyans. The Charter has four pillars – customer centricity, risk-based credit pricing, transparency and ethical banking. Ethical banking pillar requires banks to entrench a culture of doing the right thing as they offer their products and services. This includes embracing sustainable finance principles as their intermediation processes.
- Though climate change management has traditionally been approached from a corporate social responsibility perspective, some corporates in Kenya, including banks, have made reasonable effort towards entrenching sustainability in their businesses. These corporates have issued sustainability reports disclosing among others their progress in climate risk management. For some of the foreign banks based in Kenya, their parent companies have also made progress in entrenching climate risk management.

With the pervasive nature of climate-related financial risk, CBK sees it opportune to draw the attention of the banking sector players to the need to pay close attention to climate-related risks as part of their comprehensive risk management frameworks. As the sector mitigates the risks, new business opportunities will emerge for them to seize. These include satisfying the shifting consumer and producer preferences.

## 2.2 Purpose

The purpose of this guidance is to require banks to:

- a) embed the consideration of the financial risks from climate change in their governance arrangements.
- b) incorporate the financial risks from climate change into their existing financial risk management practice.
- c) develop an approach to disclosure on the financial risks from climate change.

## 2.3 Scope

This Guidance is aimed at guiding financial institutions to manage their climate-related risks by integrating climate related risk management into their business decisions and activities. The guidance provides institutions with a roadmap to integrate climate-related risks in their decision-making frameworks.

This Guidance sets out some basic requirements that institutions should consider adopting to effectively entrench climate-related financial risks in their risk management frameworks.

This Guidance has been benchmarked to global best practices and pronouncements on climate risk management. These include the Financial Stability Board Task Force on Climate-related Financial Risk Disclosures, Basel Committee on Banking Supervision, Network for Greening the Financial System, as well as guidance and guidelines on climate-related risk management by Bank of England's Prudential Regulatory Authority, Hong Kong Monetary Authority, and Monetary Authority of Singapore.

## 2.4 Responsibility

The board of directors and senior management of an institution should formulate and implement climate-related financial risk management strategies, policies, procedures, guidelines and set minimum standards for an institution.

## PART III SPECIFIC REQUIREMENTS

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### 3. Governance

An effective climate governance structure is critical to ensure that an institution properly assesses climate-related risks and opportunities, takes appropriate strategic decisions on how to manage those risks and opportunities, and sets and reports on relevant goals and targets. Institutions should have robust governance arrangements in place that enable them to effectively identify, manage, monitor and report the risks they are, or might be, exposed to both on an individual and consolidated basis.

#### 3.1 Responsibilities of the board and senior management

**3.1.1** The board has the primary responsibility to oversee effective management of climate-related risks of an institution. To fulfil this responsibility, the board should consider climate-related risks when developing the institution's overall business strategy, business objectives and risk management framework and to exercise effective oversight on their implementation.

**3.1.2** The board and senior management should:

- Assess and quantify the institution's exposure to climate-related risks arising from its various lines of business.
- oversee development of a climate risk strategy.
- Define and formally allocate roles and responsibilities, as appropriate, within the organisational structure for implementation of the institution's climate-related risk management framework and in line with its risk profile.

**3.1.3** Senior management is responsible for:

- implementation of the institution's climate risk strategy through regular updates and management information. The climate risk strategy should be incorporated into the institution's risk management framework
- implementing strategies in a manner that limits climate related risks associated with each business strategy.

**3.1.4** Management should be fully involved in the activities of their institution and possess sufficient knowledge of all major business lines to ensure that appropriate policies, processes, controls and risk monitoring systems are in place and that accountability and lines of authority are clearly delineated.

### 3.2 Oversight

**3.2.1** The board should exercise oversight over the institution's exposure and responses to climate-related issues, including adequately embedding climate-related risks into the institution's risk management framework.

- 3.2.2** To ensure effective development and implementation of climate strategy, the board should play an active role in overseeing the development and implementation of the institution's climate strategy, including:
- ensuring that the institution's strategic goals are in line with its vision.
  - setting the institutions' climate-related financial risk appetite and obtaining assurance that the risks are effectively managed and controlled.
  - approving the climate strategy recommended by senior management, having regard to relevant local, regional and global developments (including economy-wide, national-wide and internationally agreed goals).
  - ensuring that there are appropriate resources, processes, systems and controls to support the implementation of the strategy.
  - cultivating a risk culture from the top that embeds climate-related considerations into the business activities and decision-making process.
- 3.2.3** To facilitate effective oversight, the board should regularly be provided with relevant management information, as well as updates on major policy initiatives and developments concerning climate-related issues.
- 3.2.4** Institutions should be cautious to the potential adverse impacts that may arise from their inaction, delayed responses in supporting transition, or misalignment with economy-wide / national-wide/internationally agreed climate goals. In this regard, setting clear climate goals in line with local and global developments would be an effective measure in addressing the strategic risks associated with climate change and should therefore be actively explored.
- 3.2.5** The board is responsible for setting the institution's overall risk appetite and approving the risk appetite statement (RAS) recommended by senior management. It should review and consider whether and how climate risks should be integrated into the existing risk appetite framework. The RAS should identify the strategic goals; risk-taking capacity; and results of any materiality assessment, climate risk stress testing and scenario analysis.
- 3.2.6** Institutions should develop appropriate key risk indicators and set appropriate limits for effectively managing climate-related risks in line with their regular monitoring and escalation arrangements.
- 3.2.7** If assessed to be appropriate, climate risks should be reflected explicitly in the RAS in a proportionate manner. While the consideration of climate risks in the RAS may be qualitative initially, institutions should consider adopting quantitative metrics to facilitate tracking and reporting.
- 3.2.8** The RAS should be reviewed at least annually, considering the evolving physical and transition impacts arising from climate-related issues, as well as the circumstances of the institution such as data availability and capability in the assessment.



## 3.3 Strategy

### 3.3.1 Overview

- 3.3.1.1 Given the unique characteristics of climate change, its physical and transition impact will have strategic risk implications on institutions, affecting the business environment in which they operate, the corresponding actions they take, and the deployment of resources in establishing their competitive advantage.
- 3.3.1.2 In formulating their business strategies, institutions are expected to understand the impact of climate-related risks on the business environment in which they operate, in the short, medium and long term, to facilitate informed strategic and business decisions.
- 3.3.1.3 Proper formulation, planning and implementation of climate risk strategy will support an institution's effectiveness and resilience in navigating such risks and opportunities.

### 3.3.2 Formulation

- 3.3.2.1 Institutions should embed climate considerations throughout their strategy formulation process, from strategic assessment to action plan development.
- 3.3.2.2 A proper strategic assessment process is key to the formulation of strategy in addressing climate-related issues. In evaluating the institution's strategic position, considerations should be given to relevant internal and external factors. Institutions should monitor the material factors (both internal and external), which will impact the business activities in which they are active, as well as those relating to their individual business lines.
- 3.3.2.3 Institutions are expected to identify risks arising from climate change at the level of key economic sectors and the business lines in which they are active.
- 3.3.2.4 Institutions are expected to determine which climate-related risks impact their business strategy in the short, medium and long term, for example by using appropriate metrics and yardsticks.
- 3.3.2.5 The institution's business strategy and its implementation should reflect climate-related risks, for example by setting and monitoring key performance indicators (KPIs) that are cascaded down to operational business areas.
- 3.3.2.6 With increasing awareness of climate-related issues across the community and the development of economy-wide /nation-wide/internationally agreed climate goals, a comprehensive strategic assessment could benefit from involving relevant stakeholders to gather their views and insights. The stakeholders that an institution should engage typically include regulators, the government, investors, depositors, clients, counterparties, industry associations, standard setting bodies, suppliers, employees and the general public, subject to the specific situations facing the institution. Engagement efforts should aim at enabling the institution to better understand the key concerns and expectations of the stakeholders, and conversely inform them about how the institution is positioning itself in the light of climate-related risks and opportunities.
- 3.3.2.7 Climate-related risk considerations over different time horizons (short, medium and long term) should be incorporated into the strategy formulation process.

### 3.3.3 Implementation

- 3.3.3.1 Institutions should ensure the effective implementation of their strategy for addressing climate-related issues by properly aligning internal resources and processes, and managing relevant changes.

- 3.3.3.2** Organisational structure and business process should be reviewed, and enhanced as appropriate, to support effective communication and co-ordination among different business and operation units.
- 3.3.3.3** Each relevant business and functional unit taking part in climate strategy implementation should have their roles and responsibilities clearly defined. Certain roles and functions in the climate strategy, such as those relating to the management of climate-related risks, should contain built-in mechanisms for checks and balances.
- 3.3.3.4** Institutions' strategic goals should be properly reflected in their business policies. For instance, an institution may embed climate risk considerations into its client's risk profiling by evaluating the environmental impacts and transition plan of a client against the institution's climate strategy.
- 3.3.3.5** Institutions should ensure that sufficient resources, financial or non-financial, are allocated to climate strategy implementation. Potential enhancements include, for example, capacity building of staff, seeking expert advice, recruiting talents and strengthening relevant data systems and framework.

## 3.4 Risk Management

### 3.4.1 Overview

- 3.4.1.1** Institutions should incorporate climate-related risk considerations into their risk management framework, and establish effective risk management processes to identify, measure, monitor, report, control and mitigate climate-related risks.
- 3.4.1.2** An appropriate framework for managing climate-related risks should be based on a comprehensive assessment on how and to what extent climate change would affect an institution's portfolios and operations. In view of the unique characteristics of climate change, the financial, reputational and strategic risk implications should be properly considered.
- 3.4.1.3** Based on the materiality and potential impacts identified, existing risk management framework and relevant policies should be enhanced to embed climate-related risk considerations. Institutions are expected to have documented policies and procedures which enable climate-related risks to be managed in a proactive manner. Given the evolving nature of climate-related risks, relevant risk management framework, policies and procedures, as well as the effectiveness of related internal controls, should be reviewed regularly to keep pace with the changing environment.

### 3.4.2 Risk identification and measurement

- 3.4.2.1** Institutions are expected to have sufficient understanding of how climate risks (physical and transition risks) could be transmitted into the traditional risks faced by them and assess the potential impacts on their business. Where appropriate, institutions should also formulate plans to build capabilities to address any information and data gaps.
- 3.4.2.2** The first step of risk identification involves a comprehensive assessment of how the risks posed by climate change, whether quantifiable or non-quantifiable, may affect the institution through the traditional risk categories. Below are some instances:
- **Credit risk:** climate risk drivers may reduce collateral value, borrowers' repayment ability or institutions' recovery of the loan outstanding in the event of default.
  - **Market risk:** a large, sudden and negative price adjustments may be triggered when climate risk which has not yet incorporated into prices or valuation, is materialized.

- **Liquidity risk:** access to funding sources could be reduced as market conditions change, where climate risk drivers may cause counterparties of institutions to withdraw deposits and draw down credit lines.
- **Operational and legal risk:** there may be increasing business disruption to institution's operation and its outsourced arrangements owing to extreme weather events, and increasing legal and regulatory compliance costs associated with climate-sensitive investments and business activities.
- **Reputational risk:** Institutions may face increasing reputational issue with changing market and consumer sentiment towards more environmental-friendly products, services and business practices, such as expectations/ concerns from the public or interest groups for an institution to take up more social responsibilities in combating climate change. Negative perception of not taking due considerations of environmental aspects in business activities could also adversely affect institutions' abilities to maintain or establish business relationships.
- **Strategic risk:** Institutions may lose its competitiveness and market standing for failing to respond appropriately to the changing market environment along with increasing scrutiny and preference towards climate or environmental-friendly solutions and responsible banking practices.

**3.4.2.3** Institutions could begin with identifying material climate-related risks at portfolio, counterparty (including clients), and where appropriate, transactional level, by assessing the relevant financial implications over both short and longer-term horizons. Such assessments could be carried out during client on-boarding, credit initiation and underwriting, credit evaluation, credit review and investment decision process.

- At portfolio level, institutions could identify the high-risk asset portfolios based on sectoral/geographical exposures. This could be done by first performing high-level identification of high-risk sectors/ geographical locations (e.g. by referring to the Financial Stability Board Task Force on Climate-related Financial Disclosures documents, national economic and meteorological statistics/documents, and internationally-recognised standards and certification schemes), followed by more detailed analysis of client or transactional data. For physical risks, such analysis could focus on the physical location of a client's business operations and assets, potential physical disruption to the client's supply chain, as well as the potential implication on collateral valuations. For transition risks, risk criteria such as energy usage and sensitivity to climate policy may be applied to assess vulnerability of exposures to transition risk.
- Counterparty-level assessment could also be conducted to assess concentration risk, at least for those high-risk sectors / portfolios as determined by the institution during the portfolio level review. Institutions may prioritize such assessment considering the materiality, geographic locations and sectors of their exposures.
- At the operation level, institutions should assess whether their facilities, operations and major outsourced arrangements may be prone to physical risks brought by extreme weather events, and assess the resilience as part of the business contingency planning process.

### **3.4.3 Monitoring and Reporting**

- 3.4.3.1** Institutions should implement processes to monitor and report exposures to climate-related risks to ensure that such exposures are consistent with their risk appetite. Given the evolving nature of climate-related risks, institutions should monitor evolution of climate-related risks and ensure that the risk monitoring process should keep pace with the latest developments on climate change (e.g. in respect of environmental policies).
- 3.4.3.2** The institution's risk reports are expected to convey the impact of climate-related and environmental risks on its business model, strategy and risk profile.
- 3.4.3.3** A range of quantitative and qualitative tools and metrics should be considered to facilitate monitoring, and to provide early warning signals for necessary actions. Timely and regular reporting should be made to the board to facilitate oversight. For effective data governance, institutions should consider adapting their IT systems to comprehensively collect and aggregate the necessary data to facilitate effective assessment of risk exposures.

### **3.4.4 Control and Mitigation**

- 3.4.4.1** Institutions should carry out measures to control and mitigate exposures to climate-related risks, having regard to their business strategy and risk appetite.
- 3.4.4.2** Institutions should consider control measures for sectors which do not align with institutions' climate strategy or risk appetite, such as imposing limitations, setting lending thresholds.
- 3.4.4.3** Institutions should consider adequate measures to safeguard business continuity in case of extreme weather events causing disruptions to their own facilities, operations and major outsourced arrangements.

### **3.4.5 Disclosure of climate-related information**

Institutions should develop an appropriate approach to disclosing climate-related information to enhance transparency.

### **3.4.6 Overview**

- 3.4.6.1** Climate-related disclosure is an important avenue for different stakeholders of an institution to understand relevant risks and opportunities faced by it and its approach to addressing such issues.
- 3.4.6.2** There has been growing demand for information to address concerns on climate-related issues. Among the various disclosure frameworks concerning climate and sustainability, the TCFD published a set of recommendations in 2017<sup>(13)</sup> to help businesses disclose risks and opportunities arising from climate change. The TCFD recommendations have gone through extensive consultation, and gained broad support among preparers and users internationally.
- 3.4.6.3** As such, TCFD recommendations are considered a desirable framework for institutions to benchmark their proposed disclosure frameworks, at least at the initial stage. Referencing to a common framework could also facilitate consistency and comparability among institutions.

**3.4.6.4** The TCFD recommendations has four pillars for disclosure of climate-related risk. These are:

- **Governance** - Disclose the organization’s governance around climate-related risks and opportunities.
- **Strategy** - Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning where such information is material.
- **Risk Management** - Disclose how the organization identifies, assesses, and manages climate-related risks.
- **Metrics and Targets** - Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

**3.4.6.5** The common models of disclosing climate-related information include:

- Including as part of the Annual Report – This is done at the initial stages of embracing climate-related risk framework.
- Through Sustainability Report, where the bank has such a report.
- Development of a TCFD Report.
- Separate Climate-related risk report.

Institutions should decide on the appropriate channel of disclosure that is appropriate and accessible to its stakeholders.

## **PART IV REPORTING**

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### **4.0 Reports to Management**

Based on the financial institution’s internal strategy for climate-related risk management, reporting structures should be developed for internal reporting by banks to the Board and Senior Management on a periodic basis to provide status updates on the identification, assessment and management of climate-related risks. For internal reporting purposes, institutions should report aggregated risk data reflecting their exposures to climate-related and environmental risks with a view to enabling the board make informed decisions. These reports will be based on the internal climate-related risk management strategy developed and adopted by the institutions.

#### **4.1 Reports to CBK**

Banks should develop and submit to CBK a time bound plan approved by the institution’s Board on how they plan to implement the guidance herein, that is approved by the Board by June 30, 2022. The plan is to be signed by both the Chairman and Chief Executive Officer of the institution.

Subsequently, each institution shall submit a quarterly report to CBK on the progress of its implementation of the Plan within 10 days after the end of every calendar quarter from the quarter ending September 30, 2022.

## PART V ROADMAP FOR IMPLEMENTATION

Efforts to manage climate-related risks and seize emerging opportunities are evolving gradually. The complex nature of climate change means that adoption of the specific climate-related risk and opportunities requirements at once is not feasible. The requirements outlined in this guidance may be changed as practices evolve from the numerous ongoing global efforts in this arena. It is therefore proposed that the climate-related risk requirements are gradually adopted. The roadmap is as outlined in **Table 1** below.

Table 1: Roadmap for Implementation of Guidance on Climate-related Risk Management	
Activity	Period/Dates
• Sensitization of banks Chief Executive Officers/Managing Directors	October 2021
• Banks Staff sensitization on climate change risk management	January 2022–March 2022
• Submission of board approved implementation Plan	June 2022
• Quarterly updates on implementation of board approved plans	September 2022
• Disclosures of climate-related information to enhance transparency benchmarked to TCFD Framework	January 2023 – June 2023

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