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Climate Change Reporting obligations for UK Banks

September 2022

Introduction

In this briefing we will examine the obligations on UK banks in relation to climate change reporting. The Climate Change Act 2008 imposes a legally binding duty on the government to reduce the UK's carbon emissions by 100 per cent by 2050, and many banks have pledged to do the same. The financial services sector, and banks in particular, can play a key role in achieving climate change goals. Through their own climate change policy and as a source of finance, banks have significant influence over the allocation of capital both towards and away from specific industries. Governments are seeking to harness this influence to accelerate the transition to a low-carbon economy.

The government believes that climate change disclosure can support investor decisions towards more environmentally sustainable investments as the UK moves towards a low-carbon economy. As the disclosure regime develops and it becomes easier to compare companies' exposures to climate-related risks and opportunities, investors will be better equipped to incorporate these risks into their investment and business decisions.

In the UK there are several overlapping disclosure regimes for banks, including:

- Listing Rules
- PRA expectations as set out in SS3/19
- Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022

This briefing will examine the obligations on UK banks as a result of these regimes and how such regimes interact with each other. Banks should also be aware that there may be further obligations under other regulatory provisions, and the FCA has provided guidance in a technical note TN 801 on ESG matters.

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The importance of a global approach

In order to promote consistency with global standards, the Government has committed to using the Task Force on Climate-related Financial Disclosures (**TCFD**) recommendations as a basis for climate change disclosure in the UK. The TCFD recommendations were originally intended to create voluntary, consistent climate-related financial disclosures for businesses to provide information to investors, lenders, insurance underwriters, and other stakeholders and that organisations use the TCFD recommendations in their publicly available annual financial reports. In 2017 the UK government became one of the first countries to formally endorse the TCFD recommendations, and they now form the basis for the UK climate change disclosure regime.

What are the TCFD recommendations?

The TCFD framework is made up of 11 recommended disclosures built on four pillars which are summarised in the table below.

	Governance	Strategy	Risk Management	Metrics
Pillar summary	Disclose the organisation's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.	Disclose how the organisation identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Summary of Recommended disclosures linked to relevant pillar	a. Describe the board's oversight of climate-related risks and opportunities. b. Describe management's role in assessing and managing climate-related risks and opportunities.	a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	a. Describe the organisation's processes for identifying and assessing climate-related risks. b. Describe the organisation's processes for managing climate-related risks. c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

PRA expectations on climate change disclosure

In 2019, the Bank of England's Prudential Regulation Authority (**PRA**) issued a Supervisory Statement (**SS3/19)** that sets expectations for firms including banks regarding their consideration of climate risk across four areas—governance arrangements, risk management, stress testing and scenario analysis, and related disclosures. While banks already had requirements to disclose information on material risks within their Pillar 3 disclosures, and on principal risks and uncertainties in their Strategic Report, SS3/19 clarified that the PRA expects banks to address the financial risks from climate change through their existing risk management frameworks. SS3/19 confirmed that banks should consider disclosing how climate-related financial risks are integrated into their governance and risk management processes. The PRA also encouraged banks to engage with and disclose against the TCFD framework. Banks were expected to have embedded their approach to managing climate-related financial risks and to be able to show how the expectations set out by SS3/149 had been met by the end of 2021.

The PRA followed up SS3/19 in July 2020 with a Dear CEO letter on managing climate-related financial risks. This thematic review set out how the PRA thought banks were implementing SS3/19 so far and it noted steps for further development, including the need for more work on firms' risk management processes and the need to integrate scenario analysis more fully into their risk assessments. In the PRA's view the improvement of these risk management capabilities would facilitate more useful disclosures. The PRA again stressed that it expected to see disclosure against the TCFD framework and that it noted the FCA's consultation at the time for a comply or explain approach to such disclosure.

The PRA published a Climate Change Adaption Report in October 2021, which included a summary of progress that banks had made against its supervisory expectations in relation to how climate related financial risks are dealt with by banks. In relation to disclosure, the PRA noted that while many banks were now producing some climate disclosures in line with the TCFD framework these were primarily on a qualitative basis. While the PRA accepted that there remained challenges from data gaps in implementing its requirements, the progress that some firms had made using practical alternative solutions showed what could be achieved and it is clear that the PRA will expect more quantitative disclosure against the TCFD framework as the regime develops.

Amendments to Listing Rules for TCFD disclosure

As part of the government's Green Finance Strategy the FCA has also amended its Listing Rules (**LR**) to require certain listed issuers, which include banks, to make climate change disclosures on a comply or explain basis. Initially these rules applied only to premium listed companies (as set out in LR9.8.6R (3)), however from accounting periods beginning on or after 1 January 2022 the rules were extended to many standard listed companies (as set out in LR14.3.27R and LR 18.4.3R).

The FCA has drafted these new LRs to be consistent with the TCFD framework (see above), specifically referencing the four recommendations and the 11 supporting recommended disclosures.

While the LR disclosure obligations are technically on a comply or explain basis, the FCA generally expects banks to be able to make its climate disclosures in line with the TCFD framework and expects that the explain option to only be used where a listed entity faces transitional challenges in obtaining the data or is developing relevant scenario analysis or modelling tools. The FCA believes this is a proportionate approach given the issues that companies currently face in developing reporting capabilities, therefore flexibility is important at this stage. Further, if a bank in scope of these LRs does not disclose climate related financial disclosures in line with TCFD recommendations, it is obliged to set out in its statement any steps it is taking in order to be able to meet the disclosure recommendations in the future, together with a timeline as to when it believes it will be able to make such disclosures. Further guidance is available in the FCA's technical note here.

Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022

All banks, including unlisted banks, are now also subject to the disclosure requirements set out in Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 (the **Regulations**) which amend s414 of the Companies Act 2006. These Regulations apply to reporting for financial years starting on or after 6th April 2022 and place mandatory obligations on banks to produce a non-financial and sustainability information statement (**NFSI**). The statement must contain the climate-related financial disclosures of the bank. The requirements for the climate-related financial disclosures have been based on the TCFD framework noted above.

However, they have been slightly altered to fit with UK legislative requirements, including a slightly less prescriptive approach to the metrics that should be used in disclosure. For ease of reference, we have given an indicative mapping of the Regulations the TCFD Pillars below.

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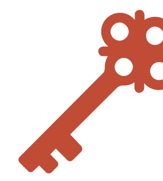
Regulations Under 414CB(2A) the bank's "climate-related financial disclosures" mean:	**Indicative TCFD Pillar Mapping**
(a) a description of the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities;	Governance
(b) a description of how the company identifies, assesses, and manages climate-related risks and opportunities; (c) a description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process;	Risk
(d) a description of: i. the principal climate-related risks and opportunities arising in connection with the company's operations, and ii. the time periods by reference to which those risks and opportunities are assessed;	Strategy
(e) a description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy;	
(f) an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios;	
(g) a description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets; and	Metrics
(h) a description of the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based.	

Application of the Regulations

The Regulations are subject to a materiality filter, which broadly acts as a comply or explain provision in relation to the disclosures made in line with the strategy and metrics and targets elements of the TCFD recommendations. If the directors of the bank reasonably believe that, having regard to the nature of the bank's business, and the manner in which it is carried on, the whole or a part of a climate-related financial disclosure required by section (e), (f), (g) or (h) is not necessary for an understanding of the bank's business, the directors may omit the whole or the relevant part of that climate-related financial disclosure.

However, if the directors omit the whole or part of a climate-related financial disclosure under the materiality filter, the NFSI statement must provide a clear and reasoned explanation of the directors' reasonable belief as to why the omitted disclosure is not necessary.

In terms of enforcement, under the Companies Act 2006 the Financial Reporting Council is responsible for the compliance of company reports and account in accordance with the act. If the FRC reviews a strategic report including the NFSI and finds that it fails to comply with the statutory requirements, it can seek a direction from the court to compel a company to revise its strategic report.



What are the key differences between the climate- risk disclosure regimes?

As the regimes are all based on the TCFD recommendations, banks should not encounter substantial differences between the regimes, and importantly while there may be minor differences in how the disclosures must be presented, the same information should be gathered by banks to allow the board to consider how best to make the necessary disclosures across the regimes.

Listing Rules vs The Regulations

The Regulations have been based on the TCFD and in practice require the same information to be gathered and disclosed, with minor differences. The main issue will be if a listed bank relies heavily on the comply or explain option in the LR. While there are similar exceptions in the Regulations, they arguably require further information gathering and analysis before directors could be comfortable making the statements required under the Regulations. To comply with the Regulations all the disclosures should be made in the annual report, unlike the LR. In addition, non-binding guidance published by BEIS notes that “disclosure in a manner consistent with all of the TCFD recommendations and recommended disclosures for the purposes of the FCA’s listing rule in its annual report is likely to involve use of similar information to the disclosures required by these regulations; therefore, it is normally likely to meet the requirements of these regulations.”

The Regulations vs PRA expectations

The PRA approach was set out prior to the LR and the Regulations and is less prescriptive than both the LR and the Regulations, but it is also based on the TCFD Recommendations, and the PRA guidance urges banks to engage with and report against the TCFD recommendations. Banks were obliged to have fully embedded the guidance by the end of 2021, and banks that have done so will clearly find it easier to meet obligations under the LR or the Regulations as a result.

How to disclose in line with TCFD Framework

While the TCFD framework is the bedrock for the UK regimes, it is not a "one size fits all" framework and banks will have to assess how best to implement their climate reporting obligations. In order to make this assessment banks should carry out an in-depth analysis of their obligations under the Regulations to ensure that they have robust systems in place to identifying and considering climate related risks and opportunities.

To help banks carry out this analysis there are a number of useful resources available, including example disclosures published by TCFD, which provide examples of climate-related financial disclosures that align with one or more of the TCFD's 11 recommended disclosures. Although the "example disclosures" are not identified as "best practices", they are provided to help companies generate ideas for their own disclosures. The Financial Reporting Council has also recently published a thematic review on the implementation of the TCFD disclosures so far in the UK. In its Dear CEO letter and in its Climate Change Adaptation Report, the PRA sets out its feedback as to how banks are so far meeting the PRA's expectations on climate change disclosure. In addition, the PRA has noted that it will continue to share feedback and observations to help best practice develop. Further, the department for Business, Energy and Industrial Strategy (**BEIS**) has issued non-binding guidance on the disclosure obligations under the Regulations.

In line with the four TCFD Pillars, set out below are certain key factors that banks should consider when preparing their climate change disclosures in line with these obligations.

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Governance pillar disclosure guidance

PRA feedback/guidance	The PRA expects firms to develop and maintain an appropriate approach to climate-related disclosure, which should be refreshed frequently, evolving in step with the development of their approach to managing climate-related financial risks. The PRA continues to expect firms to consider engaging with the TCFD framework and other initiatives in developing their climate disclosures, in line with the government's plans for mandatory climate disclosure.
LR - FCA feedback/guidance	The FCA has stated that it particularly expects that a listed company should ordinarily be able to make disclosures consistent with the TCFD governance recommendations and recommended disclosures.
BEIS guidance	Governance disclosure enable a reader to understand: • which person or committee has the responsibility for identifying and considering climate-related risks and opportunities, including how frequently those matters are considered, and who has responsibility for managing those risks and opportunities; • the extent to which information relating to the climate-related risks and opportunities is considered by the Board. If no directors have oversight of climate-related risks and opportunities and/or no person(s) within the company have responsibility for assessing or managing climate-related risks and opportunities, then this should be stated. Governance disclosures should allow the reader of the report to understand the systems and processes in place that enable risks and opportunities associated with climate change to be identified, assessed, and managed including: • information to enable a user of the accounts to understand whether risks and opportunities are identified at subsidiary level and reported up through the group; or • whether risk and opportunity identification is done at group level only. The disclosure should also include how frequently this risk identification exercise is required to be refreshed.
FRC Thematic Review with good practice examples in italics	Banks should be able to explain how the board monitors and oversees progress against goals and targets related to addressing climate issues, providing sufficient detail for users to understand how the board exercises its governance of the matter, including the channels and frequency of communication between management and the board. Banks should provide sufficient detail on how management assesses and manages climate-related issues, including communicating to the board or other governing body. *Better practice examples provided information on the responsibilities of relevant committees or individual management positions and gave a summary of the information flows showing how and when information was provided to the board, using organograms where relevant. Some companies also provided detail of agenda items considered by the board or of specific reviews undertaken.*

Strategy disclosure guidance

The bank should provide an assessment of the resilience of its business model and strategy in the light of risks arising in the event of different climate change scenario projections, selecting scenarios which are most useful to its business.

PRA feedback/guidance	The PRA is clear that firms need clarity on their strategic response to the impact of climate change on their business strategy.
LR - FCA feedback/guidance	The FCA has stated that it particularly expects that a listed company should ordinarily be able to make disclosures consistent with TCFD strategy recommendations (a) describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term and (b) to the extent that the company does not face transitional challenges.
BEIS non-binding guidance	Disclosures should enable a reader to understand: • which scenarios have been used, including, where appropriate, the source of those scenarios, and the effect that operating within that scenario would have on the resilience of the current business model and strategy; • why a particular scenario has been chosen, for instance where the use of a particular scenario has become the industry norm. Where mitigating actions are being put in place, disclosures should allow a reader to understand the extent of the mitigating measures and residual risks and effects of climate change. Disclosure should include the assumptions and estimates that underpin the scenario analysis exercise to help a reader to judge whether those assumptions and estimates are reasonable and in line with similar companies.
FRC Thematic Review with good practice examples in italics	Banks should: • consider the relative importance of physical and transition risks to different parts of the business, and include sufficient detail to understand the varying level of risk in different business sectors and geographies; • consider the relative importance of physical and transition risks to different parts of the business and include sufficient detail to enable users to understand the varying level of risk in different business sectors and geographies. *Better practice examples used informative graphics and/or tables to explain, concisely and comprehensively, the identified risks and opportunities across the defined time periods. Some companies also included the outcomes from scenario analysis which helped to articulate the expected impact of climate change on business activities.* *Better practice examples disclosed the specific locations at risk.* Banks should: • consider whether climate-related opportunities are material to the company; • ensure that the discussion of risks and opportunities is balanced, not placing undue emphasis on any opportunities disclosed; • consider if there are relevant opportunity-based metrics to be reported; • consider linking the description of climate-related opportunities to any technology-related dependencies disclosed under Strategy (b)[Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning]; • ensure that descriptions of low carbon business streams which are relatively small in the context of other operations are not emphasised in a way that is misleading. *Most companies provided some information on how they considered which risks and opportunities could have a material financial impact. The level of disclosure varied, although around two-thirds provided sufficient detail. Better practice examples provided an explanation of the factors considered in the assessment of materiality including quantification thresholds.* *Better practice examples provided details on how the scenario analysis had been undertaken, key assumptions and the impact on the business strategy.*

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Risk Management pillar guidance

Firms are expected to address the financial risks from climate change through their risk management framework. In line with TCFD guidance the risks should be categorised as either:

- ***Physical risks*** – the risks which arise from extreme weather events and shifts in climate patterns, which could affect supply and demand of commodities and damage to property as a result of physical events, which could present risks to business continuity and other operational risks to the bank.
- ***Transition risks*** – risks which arise from the change in regulatory and legal policy as the economy transitions to a lower carbon economy. For example, the introduction of carbon taxes which could lead to increased credit risk to the bank's clients and counterparties.
- ***Connected risks*** – risks which arise from a transition or physical risk – for example, the reputational risk to a bank if its clients include companies which contribute to significant impact on the climate.

Banks are expected to understand the financial risks from the above climate risks and how such risks affect its business model.

PRA feedback on risk management disclosures	In terms of disclosure the PRA has noted that to date, firms' appetite for making climate disclosures was limited by its capabilities and, as a result, some firms had not made any associated risk management disclosures. The PRA advised that capabilities needed to be materially improved to facilitate future disclosures.
LR - FCA feedback/guidance	The FCA has stated that it expects that a listed company should ordinarily be able to make disclosures consistent with the TCFD risk management recommendations.
BEIS non-binding guidance	The disclosures should explain the extent to which climate related risk is currently integrated into the bank's overall approach to risk management or whether the identification, assessment and management of climate-related risks are subject to separate processes and procedures. This information will help a reader to understand the maturity of the approach adopted in respect of climate-related risks, the level of resource that has been assigned to understanding this systemic risk and whether process changes are likely to occur in the future. Disclosure of climate-related risks and opportunities (categorised into short, medium and long-term risks) should allow a reader of the accounts to understand: • the risk or opportunity posed by climate change and the potential effect of that risk or opportunity on the business; • the mitigations, where appropriate, that a business has already put in place and the mitigating actions that it is planning to take.
FRC Thematic Review with good practice examples in italics	Banks should be able to: • clearly set out the process used to identify and assess climate related risks, including the relative importance of climate to other risks, how regulatory risks are considered, and provide a link to the company's strategic priorities; • describe the principal risks and uncertainties facing the company which relate to climate change, and any significant impacts on the business model. Better disclosures provide users with information, which is specific to the company's circumstances, and are clear on the magnitude of the risk; • ensure the relationship between climate-related risk disclosures and other risk disclosures in the annual report is clear. Where readers would reasonably expect climate to be a principal risk, but the company does not consider climate to be a principal risk, or part of a principal risk, companies should articulate the rationale for their conclusion. *Better practice examples were clear on the magnitude of the risk and showed the relative importance of climate to other risks, some using a matrix presentation.* Companies should provide a clear explanation of the processes for managing climate related risks and opportunities, including how they are prioritised and managed, including any relevant materiality considerations. *Better practice examples provided more disclosure over the processes and integration, utilising organograms where appropriate.*

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Metrics and targets disclosure guidance

The government and regulators believe in the importance of being able to measure climate-related risks and assess progress in meeting climate goals as such metrics are key to allowing investors to compare progress made by companies.

<table>
<tr><td>PRA feedback/guidance</td><td>Over time, the PRA anticipates that there will be international convergence upon particular metrics, methodologies and targets and it will continue to collaborate with firms, other regulators and governments to forward that goal. The PRA also refer firms to the CFRF guide on disclosures which includes some suggested metrics to consider.</td></tr>
<tr><td>LR - FCA feedback/guidance</td><td>The FCA has incorporated the TCFD guidance on metrics, targets, and transition plans into its LR guidance. The FCA also encourages listed companies to consider SASB metrics for their sector.</td></tr>
<tr><td>BEIS non-binding guidance</td><td>Any targets set to help assess a bank's progress in managing climate related risks and opportunities should be properly explained, including the relevance of the targets to the future operations of the business. The targets should where possible be linked to risks identified and disclosed by the bank.

The disclosure should include a timeframe over which the bank intends to meet those targets and how it monitors and assesses progress in meeting those targets.

The bank should explain which climate-related key performance indicators (KPIs) it uses to assess progress against the targets to manage climate risks and opportunities, how these are calculated, and, if different from the targets set, how the KPIs relate to targets.

Where a bank changes a climate-related KPI used to manage its climate-related risks and opportunities, the reason for the change should normally be disclosed together with explanations of why the new KPI is more effective than the previous measurements</td></tr>
<tr><td>FRC Thematic Review with good practice examples in italics</td><td>Banks should:

• consider the risks and opportunities to which they are exposed and the information that is most relevant to their measurement and monitoring when determining which metrics to report;
• consider the linkage to business strategy and targets, acknowledging that this may change over time;
• clearly identify relevant climate-related metrics reported elsewhere in their reporting, using cross-referencing where appropriate;
• review and comply with updated TCFD guidance on metrics, targets and transition plans as required for future reporting periods.

Better practice examples demonstrated that the companies had considered supplementary guidance for their sector and included metrics they consider relevant, clearly identifying which metrics were not provided.

Better practice examples provided clear explanations of movements in key metrics highlighting both ongoing and one-off events impacting performance.

We expect companies to:

• provide an explanation of the methodology used to calculate emissions metrics, including whether it is in accordance with the GHG Protocol methodology, the reporting boundaries and highlighting any changes in the basis of reporting. As there is significant scope for judgements in determining boundaries and which emissions are included, companies should explain these decisions clearly. This information is expected to be more material where these metrics underpin a major policy or strategy;
• provide explanations for changes in reported emissions where there have been changes in methodologies or restatements;
• provide clear signposting to additional methodology detail reported separately from the annual report with weblinks to facilitate access.

We expect companies to:

• undertake an assessment to determine the materiality of Scope 3 emissions to users of the financial statements and report emissions where required, clearly identifying which categories are included;
• consider the impact on the company's TCFD compliance statement where Scope 3 emissions are relevant but not reported, including the reason for the non-disclosure and the expected timeframe to report.</td></tr>
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Practicalities of climate change disclosures

Where should the information be disclosed?

In line with the Regulations, all information that is provided to meet the disclosure requirements of the regulations must be included within the Annual Report and Accounts. While the required information does not all need to be included within the NFSI, if the information is included elsewhere in the Annual Report and Accounts, the NFSI must include a specific cross reference to where it can be found.

The LR expect the TCFD disclosures to be in the annual report and the PRA has also noted that the annual report is an appropriate place for TCFD disclosures.

At what level should the report be prepared?

Reports should be prepared at the group level (or at the company level if not included within consolidated group reporting). Subsidiaries whose activities are included within a consolidated group report of a UK parent that complies with the climate-related financial disclosures requirements are not required to report separately.

Is there a particular format for these disclosures?

There is no particular format for these disclosures under the Regulations, the LR or the PRA guidance. While this gives banks some opportunity to shape its disclosure in accordance with its business priorities, arguably it increases the variety of report which may make it harder for investors to compare disclosure reports.

What level of detail should be disclosed?

BEIS guidance is that disclosures made under the Regulations should enable the reader to understand the information presented without needing to refer to other sources of information produced by the bank and that it should not omit information which, if disclosed, would influence the decisions of investors. It is expected that investors will use this information to make buying and selling decisions but will also use the disclosures in stewardship activities. The disclosures should contribute towards the understanding of the business. While there is scope for proportionality in implementing the disclosures set out in the Regulations if the bank does not include a specific disclosure, a clear and reasoned explanation for the absence of such disclosure must be included.

In line with the LR a bank's annual report and accounts must include a statement setting out:

- whether the issuer has made disclosures consistent with the TCFD's recommendations in the annual financial report;
- where they have included some, or all, of the disclosures in a document other than the annual financial report, an explanation of why, and refence to where the relevant disclosures can be found; and
- where TCFD recommended disclosures have not been made, an explanation of why and a description of any steps they are taking or plan to take to be able to make consistent disclosures in the future, together with the relevant timeframes.

Conclusions and forthcoming developments

Climate change disclosure is a rapidly evolving landscape, and while voluntary disclosure of climate-related financial information by companies, including banks, has increased in recent years the UK government has chosen to take regulatory action to support the transition to net zero in accordance with its obligations under the Climate Change Act 2008.

The recent adoption of the Regulations and statements by the FCA and PRA indicate that there is a clear direction of travel to mandatory disclosure of climate related risks, including by financial institutions such as banks. The FCA has recently extended TCFD disclosure requirements to large asset managers and asset owners, as we discuss in our previous briefing.

The PRA used its Business Plan 2022/23 to confirm that its approach to climate-related financial risk has switched from assessing implementation, to actively supervising against the threats. Banks should be prepared to demonstrate effective management of climate change financial risks during any supervisory reviews. Where the PRA believes that the processes are insufficient, they will expect the bank to develop clear action plans together with timelines in order to address any deficiencies. Where appropriate, the PRA may also consider using its broader regulatory toolkit including applying a risk management and governance scalar (an "add on" to regulatory capital requirements) if it concludes there are weaknesses in a bank's risk management and governance capabilities, and the appointment of a skilled person under s166 FSMA.

The UK government is continuing its focus on creating a greener finance industry as it revises its 2019 Green Finance policy, and BEIS issued a call for evidence in May 2022 and expects to publish an updated policy towards the end of 2022. In May 2022, the UK Transition Plan Taskforce published a call for evidence on its proposed framework for private sector transition plans, including calling for input on how transition plans and associated metrics should be disclosed. The taskforce expects to publish a consultation paper on its framework later in 2022 with the framework expected to be finalised in 2023.

With the initial NFSIs under the Regulations due to be published in 2023, it is clear that banks will need to dedicate significant resources to ensuring that they can meet the growing climate-related disclosure obligations.

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