



APRA releases guidance on managing the financial risks of climate change

The Australian Prudential Regulation Authority (APRA) has released for consultation its draft guidance to banks, insurers and superannuation trustees on managing the financial risks of climate change.

The draft *Prudential Practice Guide CPG 229 Climate Change Financial Risks* (CPG 229) is designed to assist APRA-regulated entities in managing climate-related risks and opportunities as part of their existing risk management and governance frameworks.

APRA has developed CPG 229 in response to requests from industry for greater clarity of regulatory expectations and examples of better industry practice. The guidance covers APRA's view of sound practice in areas such as governance, risk management, scenario analysis and disclosure. The PPG does not, however, create new requirements or obligations, and is designed to be flexible in allowing each institution to adopt an approach that is appropriate for its size, customer base and business strategy.

Chair Wayne Byres said it was important that APRA-regulated entities were prepared to respond to financial risks, whatever form they may take.

“Since the Australian Government became a party to the Paris Agreement, APRA has been raising awareness of climate-related risks to the financial sector. Given the unique and long-term nature of the risks, however, processes to measure, monitor and manage climate-related financial risks are still developing.

“The prudential practice guide doesn’t direct or prevent APRA-regulated entities making any particular business or investment decision. Rather, it is aimed at ensuring decisions are well-informed and appropriately consider both the risks and opportunities that the transition to a low carbon economy creates,” Mr Byres said.

CPG 229 is aligned with the recommendations from the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD), and was developed in consultation with both domestic and international peer regulators.

APRA is seeking stakeholder feedback on the draft CPG 229 by 31 July 2021. Subject to feedback, the final PPG is expected to be released before the end of 2021.

The draft CPG 229 and supporting resource links are available on the APRA website at: [Consultation on draft Prudential Practice Guide on Climate Change Financial Risks](#)