



HONG KONG MONETARY AUTHORITY
香港金融管理局

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22 August 2024

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Good practices on climate-related risk governance

I am writing to share with the industry some good practices and key observations on authorized institutions' (AIs') governance of climate-related risks, based on the findings and observations from the supervisory exercises recently conducted by the Hong Kong Monetary Authority (HKMA).

Climate-related risks may affect AIs' exposures to multiple inherent risks assessed under the HKMA's risk-based supervisory process¹. The cross-cutting nature of climate risks may thus pose a challenge to AIs' efforts to comprehensively incorporate climate-related considerations into their risk governance framework.

Understanding this challenge, the HKMA undertook a set of supervisory activities, including thematic examinations and consultative sessions, the scope of which included a focus on a number of participating AIs' governance practices for climate-related risks against the relevant supervisory expectations². We observed that participating AIs have adopted a range of approaches to develop climate risk governance structures that are both in accordance with the HKMA's supervisory expectations and commensurate with their climate risk profile and business operations.

¹ In June 2022, to promote the management of climate-related financial risks, the Basel Committee on Banking Supervision set out 18 high-level principles covering corporate governance, internal controls, risk assessment, management and reporting, etc. The HKMA supports these principles and encourages AIs to take into account the relevant guidance when strengthening their management of climate-related financial risks and implementing the Supervisory Policy Manual (SPM) module GS-1 on "Climate Risk Management".

² As set out in the SPM module GS-1. The [HKMA's SPM module GS-1](#) was issued in December 2021. It provides guidance to AIs on the key elements of climate-related risk management encompassing governance, strategy, risk management and disclosure. The HKMA allowed a 12-month period for implementation of the GS-1 requirements and adopts a proportionate approach in applying the guidance contained in the module.

The HKMA has also identified some good practices adopted by AIs to facilitate robust oversight of the key aspects of climate-related risks and opportunities through augmented governance structures that now take into account climate considerations. These good practices and key observations can be categorised into three main areas: -

1. **Fostering and overseeing the effective development and implementation of climate strategy** – Most participating AIs or their banking groups have set climate goals and targets to guide their actions. Using various tools, participating AIs conducted strategic assessments to inform the formulation of their climate strategy. They have further devised action plans with specific and concrete milestones to support the implementation of their climate strategy. The board and/or senior management receive regular reporting on the progress towards these climate goals and targets.
2. **Exercising appropriate oversight of climate risk management** – All participating AIs have incorporated climate-related considerations into their risk management frameworks and policies. While all participating AIs have established qualitative climate risk appetite statements (RAS), some have also incorporated quantitative metrics in their climate RAS. With the objective to embed climate-related risk considerations in their credit risk assessment process, participating AIs deploy various tools such as climate/ESG risk questionnaires, internal climate/ESG risk ratings or scoring frameworks, enhanced due diligence and client engagement.
3. **Cultivating a strong organisational climate risk culture** – Participating AIs have been working to cultivate a risk culture that embeds climate-related considerations into their business activities and decision-making process. For instance, climate-related risk considerations have been embedded into some AIs' performance evaluation and remuneration frameworks, as well as their training programmes. To promote transparent communication, some AIs have published climate-related disclosures aligned with the TCFD recommendations in advance of regulatory requirements; and some AIs raise staff awareness of climate-related risks and opportunities through internal sharing sessions, newsletters, and internal campaign activities.

Details of the good practices and key observations can be found in the [Annex](#). As climate risk management is an evolving area, AIs are encouraged to refer to these good practices as they continue to enhance their climate-related risk governance frameworks and relevant measures. Recognizing the common challenges facing AIs (for example, insufficient data and difficulty in modelling as well as measuring the risks), the HKMA will also continue advancing our supervisory approach, including exploring and promoting the effective use of data and technology, with a view to helping the industry to step up their climate risk management practices.

Should your institution have any questions about this circular, please send your questions to climaterisk@hkma.gov.hk.

Yours faithfully,

Carmen Chu
Executive Director (Banking Supervision)

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