Draft Disclosure framework on Climate-related Financial Risks, 2024

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All Scheduled Commercial Banks (excluding Local Area Banks, Payments Banks and Regional Rural Banks)
All Tier-IV Primary (Urban) Co-operative Banks (UCBs)
All All-India Financial Institutions (viz. EXIM Bank, NABARD, NaBFID, NHB and SIDBI)
All Top and Upper Layer Non-Banking Financial Companies (NBFCs)

Madam/ Dear Sir,

Climate-related risks are one of the emerging risks and are expected to significantly impact the regulated entities (REs) as well as have implications on financial stability.

2. Given the increasing threat of climate change and the associated physical damage, changes in market perception and the transition towards more environment-friendly products and services, the impact of climate change on REs is inevitable. The REs also play an important role in financing the transition towards an environmentally sustainable economy. It is therefore imperative for the REs to implement a robust climate-related financial risk management policies and processes to effectively counter the impact of climate-related financial risks.

3. There is a need for a better, consistent and comparable disclosure framework for REs, as inadequate information about climate-related financial risks can lead to mispricing of assets and misallocation of capital by them. Accordingly, it has been decided to put in place a standard Disclosure framework for REs on Climate-related Financial Risks.

Yours faithfully,

(Sunil T. S. Nair)
Chief General Manager

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1. Introduction

One of the most significant risks that REs face today relates to climate change. The Discussion Paper on Climate Risk and Sustainable Finance issued on July 27, 2022[1] had delineated in detail the sources of climate risk as also potential impact arising therefrom on the REs. It had also detailed therein the need for all REs to have appropriate governance, strategy and risk management structure to manage climate change risk. Climate-related disclosures by REs is an important source of information for different stakeholders (e.g., customers, depositors, investors and regulators) to understand relevant risks faced and approach adopted to address such issues. The REs are already required to disclose information on material risks as a part of their Pillar 3 disclosures. Given the growing importance of climate-related financial risks, there is a need for REs to disclose a more structured information about their climate-related financial risks.

2. Short Title

These guidelines shall be called the Disclosure Framework on Climate-related Financial Risks, 2024.

3. Purpose/ rationale

The REs should disclose information about their climate-related financial risks and opportunities for the users of financial statements. It will foster an early assessment of climate-related financial risks and opportunities and also facilitate market discipline.

4. Applicability

The guidelines shall be applicable to the following entities, collectively referred to as REs:

(a) All Scheduled Commercial Banks (excluding Local Area Banks, Payments Banks and Regional Rural Banks)

(b) All Tier-IV Primary (Urban) Co-operative Banks (UCBs)

(c) All All-India Financial Institutions (viz. EXIM Bank, NABARD, NaBFID, NHB and SIDBI)

(d) All Top and Upper Layer Non-Banking Financial Companies (NBFCs)

The REs shall disclose the information detailed in these guidelines on a standalone basis and not consolidated basis. Foreign banks shall make disclosures specific to their operations in India. Adoption of these guidelines is voluntary in case of REs other than those detailed in (a), (b), (c) and (d) above.

[1] Reserve Bank of India - Publications (rbi.org.in)

5. Powers Exercised

The Reserve Bank, being satisfied that it is necessary and expedient in the public interest so to do, has issued these guidelines in exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949 read with Section 56 of the Banking Regulation Act, 1949; Chapter IIIB of the Reserve Bank of India Act, 1934; and Sections 30A, 32 and 33 of the National Housing Bank Act, 1987.

6. Definitions

In these guidelines, unless the context states otherwise, the terms herein shall bear the meaning assigned to them below:

(a) "Climate-related financial risks[2]" means the potential risks that may arise from climate change or from efforts to mitigate climate change, their related impacts and economic and financial consequences.

(b) "Climate resilience[3]" means the capacity of an RE to adjust to climate-related changes, developments or uncertainties. It involves the capacity to manage climate-related risks and benefits from climate-related opportunities, including the ability to respond and adapt to climate-related physical and transition risks. It includes both strategic and operational resilience of RE to climate-related changes, developments or uncertainties.

(c) "CO_2 equivalent[4]" means the universal unit of measurement to indicate the global warming potential of each greenhouse gas, expressed in terms of the global warming potential of one unit of carbon dioxide. This unit is used to evaluate releasing of (or avoiding releasing of) different greenhouse gases against a common basis.

(d) "Financed emissions[5]" are the portion of gross greenhouse gas emissions of an investee or counterparty attributed to the loans and investments made by an RE to the investee or counterparty.

(e) "Greenhouse gases (GHGs)[6]" are those gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of thermal infrared radiation emitted by the earth's surface, by the atmosphere itself, and by clouds. This property causes the greenhouse effect. Carbon dioxide (CO_2), methane (CH_4), and nitrous oxide (N_2O) are the primary greenhouse gases in the earth's atmosphere.

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[2] BCBS (2021), *Climate-related financial risks – measurement methodologies*, April.
[3] IFRS (2023), *Climate-related Disclosures*, June.
[4] IFRS (2023), *Climate-related Disclosures*, June.
[5] IFRS (2023), *Climate-related Disclosures*, June.
[6] BCBS (2021), *Climate-related financial risks – measurement methodologies*, April.

(f) "Material risk takers" shall have the same meaning as assigned in the Guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff dated November 4, 2019.

(g) "Physical risk[7]" means the economic costs and financial losses resulting from the increasing severity and frequency of:

- extreme climate change-related weather events such as floods, heatwaves, landslides, storms and wildfires known as acute physical risks;
- longer-term gradual shift of the climate such as changes in precipitation, extreme weather variability, ocean acidification, and rising sea levels and average temperatures known as chronic physical risks; and
- indirect effects of climate change such as loss of ecosystem services (e.g., water shortage, degradation of soil quality, or marine ecology).

(h) "Scenario analysis[8]" is a tool used to enhance critical strategic thinking. A key feature of the scenario analysis is to explore alternatives that may significantly alter the basis for "business-as-usual" assumptions. Accordingly, they need to challenge conventional wisdom about the future.

(i) "Scope 1[9] greenhouse gas emissions" are direct greenhouse gas emissions that occur from sources that are owned or controlled by the RE.

(j) "Scope 2[10] greenhouse gas emissions" are indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by the RE. Purchased and acquired electricity is electricity that is purchased or otherwise brought into the RE's boundary. These emissions physically occur at the facility where electricity is generated.

(k) "Scope 3[11] greenhouse gas emissions" are indirect greenhouse gas emissions (not included in Scope 2 greenhouse gas emissions) that occur in the value chain of an entity, including both upstream and downstream emissions[12].

(l) "Transition risk[13]" means the risks related to the process of adjustment towards a low-carbon economy, viz. (i) Changes in climate-related policies and regulations, (ii) Emergence of newer technologies (iii) Shift in customers' preferences and behavior.

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[7] BCBS (2021), *Climate-related financial risks – measurement methodologies,* April.
[8] BCBS (2021), *Climate-related financial risks – measurement methodologies,* April.
[9] IFRS (2023), *Climate-related Disclosures*, June.
[10] IFRS (2023), *Climate-related Disclosures*, June.
[11] IFRS (2023), *Climate-related Disclosures*, June.
[12] Includes financed emissions which commonly refer to the greenhouse gas (GHG) emissions associated, in the case of REs, with loans and investments.
[13] Adopted from BCBS (2021), *Climate-related financial risks – measurement methodologies,* April.

Words and expressions used but not defined in these guidelines but defined in the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949, the National Housing Bank Act, 1987, and the Companies Act, 2013, shall have the meanings respectively assigned to them in those Acts, as amended from time to time.

7. Thematic Pillars of Disclosure

The disclosures by the REs shall cover the following four thematic areas (Pillars):

7.1 Governance – It should detail the governance processes, controls and procedures used by the RE to identify, assess, manage, mitigate, monitor and oversee climate-related financial risks and opportunities. The REs shall *inter alia* disclose:

(a) The Board's oversight of climate-related risks and opportunities;

(b) Senior Management's role in assessing and managing climate-related risks and opportunities.

7.2 Strategy – It should detail the RE's strategy for managing climate-related financial risks and opportunities. The REs shall *inter alia* disclose:

(a) the identified climate-related risks and opportunities over short, medium and long term;

(b) the impact of climate-related risks and opportunities on the RE's businesses, strategy and financial planning;

(c) the resilience of the RE's strategy taking into consideration the different climate scenarios.

7.3 Risk Management – It should detail the RE's processes to identify, assess, prioritize and monitor climate-related financial risks and opportunities, including whether and how those processes are integrated into and inform the RE's overall risk management process. The REs shall *inter alia* disclose:

(a) the processes and related policies to identify, assess, prioritise and monitor climate-related financial risks;

(b) the processes used for managing climate-related risks;

(c) the extent to which, and how, the processes for identifying, assessing, prioritising and monitoring climate-related financial risks and opportunities are integrated into and inform the overall risk management.

7.4 Metrics and Targets – The disclosures on metrics and targets should detail the RE's performance in relation to its climate-related financial risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by statute or regulation. The REs shall *inter alia* disclose:

(a) the metrics used to assess the climate-related financial risks and opportunities in line with its strategy and risk management process;

(b) Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions and the related risks;

(c) the targets used to manage climate-related risks and opportunities and performance against targets.

The REs shall disclose at the minimum, key disclosures under the aforementioned four "*Thematic Pillars of Disclosure"* as detailed in Annex 1.

8. Commencement

The glide path for detailed disclosures by the REs on the areas of "Governance", "Strategy", "Risk Management" and "Metrics and Targets" are as under:

	Governance, Strategy, and Risk Management	**Metrics and Targets**
SCBs, AIFIs, Top and Upper layer NBFCs	FY 2025-26 onwards	FY 2027-28 onwards
Tier IV UCBs	FY 2026-27 onwards	FY 2028-29 onwards
Disclosure requirements for the other REs shall be announced in due course		

The REs shall also disclose assumptions/ proxies and external assurance taken, if any, for the disclosed metrics.

9. Validation /scrutiny of the disclosures

9.1 The disclosures shall be subject to appropriate internal control assessments and shall be reviewed by the Board of Directors or a Committee of the Board.

9.2 The disclosures must be included and disclosed as a part of the RE's financial results/ statements on its website.

Annex 1

Thematic Pillars of Disclosure[14]

Thematic Pillar	Details of the Disclosures
Governance	REs shall disclose the following information: **Baseline disclosure** – Governance structure (which could be Board, Committee or equivalent body(ies) or individual positions) responsible for the oversight of climate-related issues; – Responsibilities for climate-related issues in the terms of reference, mandates, role descriptions and other related policies applicable to the body(ies) or individual position(s); – Whether appropriate competencies and skills are available or will be developed by the body(ies) or individual positions to oversee the strategies for responding to climate-related issues; – The processes and frequency by which the body(ies) or the individual position(s) is informed about climate-related issues; – The role of management in the governance processes, controls and procedures and whether it is delegated to a specific management-level position or a Committee and how is the oversight exercised over that position or Committee. **Enhanced disclosure** – Whether the body(ies) or the individual position(s) consider climate-related issues while (a) reviewing and guiding strategy, major plans of action, risk management policies, annual budgets and business plans (b) setting the organisation's performance objectives, monitoring implementation and performance, and (c) overseeing their strategy, major capital expenditures, acquisitions, and divestitures, risk management processes and related policies; – How the body(ies) or the individual position(s) oversees the setting of targets and monitors the progress to achieve those targets related to climate-related issues. If so are the performance metrics factored in the remuneration policies; – Whether key aspects and issues of climate-related issues are discussed and reviewed by the body(ies) or the individual positions during the financial year; – Whether senior management uses controls and procedures for oversight and, if so how, are they integrated with other internal functions for climate-related issues; - Whether the RE is required to make/ has voluntarily adopted any climate-related financial disclosures as per any national standards[15] (as applicable)

[14] SCBs, AIFIs and NBFCs to whom these guidelines are applicable should report both baseline and enhanced disclosures. UCBs to whom these guidelines are applicable, should report baseline disclosures at the minimum, while the enhanced disclosures are voluntary.

[15] Such as National Guidelines on Responsible Business Conduct, as notified by the Ministry of Corporate Affairs, Government

Thematic Pillar	Details of the Disclosures
	or international disclosure standards[16].
Strategy	REs shall disclose the following information: **Baseline disclosure** – Climate-related issues that could reasonably be expected to affect the RE's prospects (in terms of strategy, business model, decision-making, revenue, costs, assets, etc.)[17]; – Description of what they consider is 'short term', 'medium term' and 'long term' horizon and how are these definitions linked to the planning horizon for strategic decision-making; – Description of specific climate related issues that would arise over various time horizons (short/ medium/ long term) and the material impact it could have on the RE; – Description of the current and anticipated effects of climate-related financial risks and opportunities on the business model of the RE. **Enhanced disclosure** – The effects (and the anticipated effects) of climate-related issues on the financial position and financial performance for the financial year, over short, medium and long term, taking into consideration how those climate-related issues have been factored into financial planning; – The climate resilience of RE's strategy including the business model to climate-related changes, developments and uncertainties; – The significant areas of uncertainty considered in the assessment of climate resilience and the RE's capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term. This shall include (a) the availability of and flexibility in the existing financial resources to respond to the effects identified in the climate scenario analysis for addressing climate-related financial risks as also to take advantage of climate-related opportunities, and (b) the effect of the current and planned investments in climate-related mitigation, adaptation and opportunities for climate resilience; – The current and anticipated changes to the business model, including resource allocation to address climate-related financial risks and opportunities; – The current and anticipated direct (like adopting energy efficient methods) and indirect (such as, by working with counterparties) mitigation and adaptation efforts; – The information on the available resources and the plan to raise/ develop resources to identify, assess, monitor and manage the climate-related issues;

of India, Business Responsibility and Sustainability Reporting (BRSR) as notified by the Securities and Exchange Board of India and amended from time to time.

16 Such as GRI Standards 2021, IFRS S2 Climate-related Disclosures by International Sustainability Standards Board.

17 These impacts may be described in qualitative, quantitative, or a combination of both qualitative and quantitative terms. REs are encouraged to include quantitative information, where data and methodologies allow.

Thematic Pillar	Details of the Disclosures
	– The quantitative and qualitative information about the progress of plans to raise/ develop resources, disclosed in previous financial years, along with an analysis in case of non-achievement; – The plans of RE to achieve any climate-related targets, including any greenhouse gas emission reduction targets; – Does the RE has any climate-related transition plan, and if yes, information about the key assumptions used in developing and factors which would influence the transition plan; – Whether climate-related financial risks are identified, quantified and those assessed as material over relevant time horizons are incorporated into the Internal Capital and Liquidity Adequacy Assessment Processes, including their climate scenario analysis programmes, where appropriate; – How and when the climate scenario analysis was carried out, along with the information on (i) climate scenarios used for the analysis and source of the scenarios, (ii) whether it included a diverse range of climate scenarios, (iii) whether it was associated with climate-related transition risks or physical risks, (iv) whether it included a scenario aligned to the Nationally Determined Contribution, (v) the reasons for choosing the climate scenarios (i.e., why they are relevant to assessing the RE's resilience to climate-related changes, developments or uncertainties), (vi) the time horizons used in the analysis, (vii) the scope of climate scenario analysis; (vii) the assumptions used like the climate-related policies at the national/ state levels, macroeconomic trends, national/ state-level variables.
Risk Management	REs shall disclose the following information: **Baseline disclosure** – How the nature, likelihood and magnitude of effects of climate-related financial risks are assessed (for example, whether the RE considers qualitative factors/ quantitative thresholds/ a combination of both); – Whether credit risk management systems and processes considered material climate-related financial risks and how the impact of climate-related risk drivers on the credit risk profiles are assessed; – Methodologies employed to understand the impact of climate-related risk drivers on the market risk positions (how the potential risk of losses on and increased volatility of the portfolio are evaluated); – Methodologies employed to understand the impact of climate-related risk drivers on the liquidity risk profiles (including impacts of climate-related financial risks on net cash outflows like increased drawdowns of credit lines, accelerated deposit withdrawals or the value of assets comprising their liquidity buffers); – Methodologies employed to understand the impact of climate-related risk drivers on the operational risk;

Thematic Pillar	Details of the Disclosures
	– Whether and how the impact of climate-related risk drivers on other risks[18] are considered; – Whether and how climate-related financial risks are incorporated into the internal control framework across the three lines of defence to ensure sound, comprehensive and effective identification, measurement and mitigation of material climate-related financial risks; – How the climate-related financial risks are monitored; – Whether the climate-related financial risks are prioritized over other types of risks and, if yes, describe the process adopted for the same. **Enhanced disclosure** – The inputs and parameters used to identify, assess, prioritise and monitor climate-related financial risks (for example, information about data sources, economic sectors covered, counterparties covered, etc.); – How the processes for identifying, assessing, prioritizing and monitoring climate-related financial risks and opportunities are integrated into the overall risk management process; – Has the RE changed the processes for management of climate-related financial risks it used compared to the previous financial year and, if yes, provide the details; – Whether the climate scenario analysis is used for identification of climate-related financial risks; – The processes used to identify, assess, prioritize and monitor climate-related opportunities, including information if and how climate scenario analysis/ climate stress testing is used for identification of climate-related opportunities.
Metrics and Targets	REs shall disclose the following information: **Baseline disclosure** – The targets set and required to be met by statute or regulation for mitigating/ adapting to climate-related financial risks. The information on metrics used by the governance body or management to measure progress towards these targets; – The objective of the target (for example, mitigation/ adaptation/ conforming to the science-based initiatives[19]); – The metric used to (a) set the target, (b) period for which the target is related and the base period from which progress is measured, (c) the milestones and interim targets set, if any, if the target is an absolute greenhouse gas emission target or a greenhouse gas emission intensity target (emission intensity per unit revenue) (d) whether the target and the methodology for setting the target have been validated by a third party, (e)

[18] Examples include strategic, reputational, regulatory, and litigation or liability risk.

[19] REs may refer to resources published by the Science Based Targets Initiative (SBTi), Glasgow Financial Alliance for Net Zero (GFANZ), Net Zero Banking Alliance (NZBA) established under the Principles for Responsible Banking initiative of the United Nations Environment Programme Finance Initiative (UNEP FI), etc. and to the scenarios published by the Intergovernmental Panel on Climate Change (IPCC), International Energy Agency (IEA), Network for Greening of Financial System (NGFS), etc.

Thematic Pillar	Details of the Disclosures
	the processes adopted for reviewing the target, (f) the metrics used to monitor progress towards reaching the target and (g) if the metrics have third party validation, any revisions to the target and an explanation for those revisions). Also disclose if the targets are aligned with India's Nationally Determined Contribution; – Information about the performance against each climate-related target and an analysis of trends or changes in the RE's performance; – RE shall disclose which greenhouse gases are covered by the target, and whether Scope 1, Scope 2 or Scope 3 greenhouse gas emissions[20] are covered by the target. **Enhanced disclosure** – Absolute gross greenhouse gas emissions generated during the financial year, expressed as metric tonnes of CO_2 equivalent (Scope 1 and 2 greenhouse gas emissions). Scope 3 greenhouse gas emissions may be disclosed in so far as data and methodologies permit; – Disclose the categories included within the measure of Scope 3 greenhouse gas emissions, in accordance with the Scope 3 categories[21] described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011); – Absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas emissions for each industry[22] by asset class[23]. If the RE does not have the skills/ capabilities/ data availability/ resources to provide that information, RE may disclose by stating the reasons for not providing the information; – Disclose the approach, inputs and assumptions used to measure the greenhouse gas emissions alongwith the reasons; – Disclose if any changes are made to the measurement approach, inputs and assumptions during the financial year alongwith the reasons therefor; – Disclose its gross exposure[24] to each industry by asset class; – Disclose the percentage of the gross exposure included in the financed emissions calculation. If the percentage of the gross exposure included in the financed emissions calculation is less than 100 per cent, disclose information that explains the exclusions, including the type of industry/ assets excluded. For fund-based exposures, exclude from gross

[20] Measure the greenhouse gas emissions in accordance with the standards prescribed by the Greenhouse Gas Protocol.

[21] Scope 3 greenhouse gas emissions are categorised into 15 categories (as per the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (2011):
(1) purchased goods and services;(2) capital goods; (3) fuel- and energy-related activities not included in Scope 1 greenhouse gas emissions or Scope 2 greenhouse gas emissions; (4) upstream transportation and distribution; (5) waste generated in operations; (6) business travel; (7) employee commuting; (8) upstream leased assets; (9) downstream transportation and distribution; (10) processing of sold products; (11) use of sold products; (12) end-of-life treatment of sold products; (13) downstream leased assets; (14) franchises; and (15) investments.

[22] RE shall use National Industrial Classification – 2008 (as updated from time to time) for classifying the counterparties

[23] RE shall disclose loans, project finance, investments and undrawn loan commitments.

[24] Gross exposure shall include the fund-based exposures and the undrawn exposures

Thematic Pillar	Details of the Disclosures
	exposure impacts of risk mitigants, if applicable. Disclose the percentage of undrawn loan commitments included in the financed emissions calculation; – Disclose the methodology used to calculate financed emissions, including method of allocation to attribute its share of emissions in relation to the size of its gross exposure; – Disclose the climate-related physical and transition risks - amount and percentage of assets vulnerable to both the risks; – Disclose the climate-related opportunities - amount and percentage of assets aligned with climate-related opportunities; – Disclose the capital deployment - amount of financing or investment deployed towards climate-related risks and opportunities; – Disclose whether and how climate-related considerations are factored into remuneration of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers. Also disclose the percentage of remuneration recognised in the current financial year that is linked to climate-related considerations.