Ref. No: 23/1/3551

Date: February 18, 2025

Hijri: 19 Sha'ban 1446

Climate Risk Management Regulations

No. (2) of 2025

These regulations are hereby issued to establish guidelines for effective climate risk management in banks operating in the Kingdom. These guidelines are based on the Basel Committee's Principles for the Effective Management and Supervision of Climate- related financial risks and should form an integral part of banks' corporate governance, business models and risk management strategies.

The Central Bank of Jordan (CBJ) has conducted an assessment of banks' exposure to climate-related financial risks as such risks may affect the banking sector. This assessment showed that the most impactful potential risks related to climate change are chronic physical risks caused by water scarcity and rising temperatures, followed by acute physical risks from floods and earthquakes, and transition risks to a low- carbon economy and their impact on economic sectors with high carbon emissions.

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Article (1) Attribution

These regulations (Climate Risk Management regulations) are issued in accordance with the provisions of Article (65/b) of the Central Bank of Jordan Law No. (23) Of 1971, and its amendments, and Article (99/b) of the Banking Law No. (28) Of 2000, and its amendments, and shall be effective as of the date of their issuance.

Article (2): Definitions

Climate- related financial risks: The potential financial losses arising from climate change and its associated effects, which can occur through two main channels: physical risks and transition risks.

Transition risks: Financial risks arising from the transition to a low- carbon economy and their impact on high- carbon emissions economic sectors, including policy changes, technological advances and market shifts.

Physical risks: Potential economic and financial losses resulting from the direct impact of climate-related events, such as unusual weather events and their impact on assets, operations and supply chains.

Board of Directors: as defined in Corporate Governance Instructions No. (2/2023) dated 14/2/2023.

Senior Executive Management: as defined in Corporate Governance Instructions No. (2/2023) dated 14/2/2023.

Article (3): Scope of application

These regulations shall apply to all banks operating in the Kingdom in proportion to the size of the bank, the nature and level of complexity of its operations and its risk structure.

Governance

Article (4): Supervision and Responsibilities of the Board of Directors

a. The Board must have appropriate knowledge of the climate- related financial risks that may affect the Bank and ensure that these risks are appropriately considered as part of the Bank's business strategy and risk management strategy.

b. The Board shall adopt policies and procedures within the Bank's risk management strategy to identify, assess and manage climate- related financial risks, and shall review and update these policies and procedures annually or as needed in response to emerging climate-related financial risks and regulatory requirements.

c. The board of directors of a bank classified as a Domestic Systemically Important Bank (D-SIB) must ensure the establishment of a unit, division or a task force dedicated to managing the climate risks to which the bank may be exposed to within the Risk Management Department. The responsibilities of this unit, division or task force and its integration within the bank's governance framework must be clearly defined. Other banks are encouraged by the Central Bank to comply with this requirement or distribute climate risks management functions within the Risk Management Department as the bank deems appropriate.

Article (5): Responsibilities of the Senior Executive Management

a. Implementing the Board of Directors' strategies and policies related to climate risk management, including developing and maintaining a robust climate risk management framework.

b. Clearly defining the roles and responsibilities associated with identifying and managing climate-related financial risks within the bank's organizational structure. Senior executive management should ensure that those involved have sufficient resources and expertise to effectively carry out their responsibilities for managing climate- related financial risks.

Article 6: Capacity Building Related to Climate Risks

a. The Bank shall build capacities and provide appropriate training to the members of the Board of Directors and its committees (especially the Risk Management Committee) on climate-related topics if needed, through holding internal workshops or external cooperation with specialized organizations.

b. The bank should build capacities and provide appropriate training for members of the senior executive management to ensure that they have the appropriate skills and expertise to manage climate- related financial risks. Training and awareness programs should be organized for employees at all levels on a regular basis.

Strategies

Article (7): Business Strategy and Risk Management Strategy

a. The Bank shall explicitly consider material climate- related financial risks in its overall business strategy and risk management strategy, including understanding and assessing how these risks affect the resilience of the Bank's business model over the short, medium and longer terms, considering how these risks affect the Bank's ability to achieve its objectives, and understanding and assessing the Bank's exposure to structural changes in the economy, financial system and competitive environment in which the Bank operates due to climate-related risk factors.

b. The Bank's internal strategies and risk tolerance must be consistent with any climate-related strategies and commitments made by the Bank.

Article (8): Internal Control and Monitoring Systems

a. The Bank shall integrate climate- related financial risks into its internal control and monitoring systems through the three lines of defense to ensure sound, comprehensive and effective identification, measurement and mitigation of material climate- related financial risks.

b. Internal control systems should include a clear definition and delineation of responsibilities for climate risks and reporting lines across the three lines of defense, as follows:

1. At the first line of defense: Climate risks assessments should be conducted during credit application processing by requiring environmental impact studies and/ or environmental approvals for projects that require so. This is to be done also in the credit review process, in ongoing monitoring and communication with clients, as well as in new product or business approval processes. Those working in the first line of defense should have sufficient awareness and understanding to identify potential climate- related financial risks.

2. The second line of defense (The Risk Management Department) should be responsible for assessing and monitoring climate- related risks independently of the first line of defense. This includes testing the initial assessment conducted by the first line of defense, while the compliance function must ensure compliance with applicable rules and regulations.

3. The third line of defense (Internal Audit Department) should provide an independent review and objective assurance of the quality and effectiveness of the overall internal control and oversight systems, the first and second lines of defense, and the risk governance framework in light of changes in business methodologies and business model resulting from climate- related risks, as well as measurement of the quality of relevant data.

Article (9): Risk Management Process

a. The Bank shall identify, measure, monitor and manage all climate- related financial risks that may materially affect its financial position, capital and liquidity, guided by the Basel Committee's Principles for the Effective Management and Supervision of Climate- Related Financial Risks and the results of the stress tests that the Bank conducts in this regard in accordance with the applicable stress testing instructions and the circulars issued thereunder.

b. The bank shall understand the impact of climate- related risk factors on its credit, market and liquidity risks, and shall ensure that its risk management systems and processes consider material climate- related financial risks.

c. The bank should understand the impact of climate- related risk factors on its operational and other risks[1] and ensure that its risk management systems and processes take into account material climate- related risks.

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[1] e.g.: strategic, reputational and compliance risk.

d. The bank should consider the climate risks to which it is exposed to and the extent to which it needs to be capitalized in the Internal Capital Adequacy Assessment Process (ICAAP).

e. The bank should ensure that its risk tolerance and risk management frameworks take into account all material climate- related financial risks to which the bank may be exposed.

Article (10): Monitoring and Internal Reporting

a. The Bank should ensure that its internal reporting systems are capable of monitoring material climate- related financial risks and providing timely information to ensure effective decision- making by the Board of Directors and the Bank's Senior Executive Management.

b. The Bank may consider investing in data infrastructure and upgrading its existing systems, if necessary, to make them capable of identifying, collecting and providing the essential data needed to assess climate- related financial risks, commensurate with the Bank's size, nature and complexity of its operations and risk structure.

c. The bank should consider effectively engaging clients to collect additional climate risks data to develop a better understanding of clients' transition strategies and their climate risks structures. In the absence of reliable or comparable climate data, the bank may consider using reasonable assumptions and alternatives in its internal reporting as an intermediate step.

Article (11): Within six months from the date of issuance of these regulations, banks shall provide the Central Bank with the following:

A. The establishment of a unit, division or task force specialized in climate risks management in the Risk Management Department including the names and qualifications of its employees, for banks classified as systemically important banks at the local level, while other banks shall provide the Central Bank with the procedures/ structure that will be adopted for this purpose.

b. The amendment of the bank's risk management strategy to integrate climate- related financial risks management into this strategy and the amendments made in this regard.

Article (12): In 2025 and afterwards) and in light of the development of climate risk management at the international, regional and local levels, the Central Bank of Jordan will consider issuing more detailed regulations in specific areas of climate- related financial risk management (such as preparing standardized models for climate risk disclosures and reporting). CBJ will also consider, based on the experience of implementing these regulations, providing additional guidance on some of the requirements set by these regulations, to ensure that these regulations remain effective and relevant.