January 15, 2019

Comments on the Consultation Paper *Enhancing banks' and insurers' approaches to managing the financial risks from climate change*

Japanese Bankers Association

We, the Japanese Bankers Association (JBA), would like to express our gratitude for this opportunity to comment on the consultation paper *Enhancing banks' and insurers' approaches to managing the financial risks from climate change* published on October 15, 2018 by the Prudential Regulation Authority (PRA).

Given the potential impact of the PRA's proposals on the UK operations of our member banks that have branches or subsidiaries in the UK, we hope that the following comments will contribute to your further discussions regarding means of ensuring a stable financial system.

We recognize that taking action on environmental issues, including climate change, is a shared and urgent challenge for human beings and that climate change risks could be a source of financial risk for banks. Based on such circumstances, it is understandable that the PRA has expressed its intention, ahead of any other jurisdictions, to enhance banks' and insurers' approaches to managing the financial risks from climate change, as UK authorities have been active in addressing climate change risks.

1. <u>Purpose of the proposals in the consultation paper (CP)</u>

Taking into consideration the limitations of historical data availability and methodologies in addressing climate change risks that have been pointed out by UK authorities, it would be useful to work on the establishment of frameworks for analysing climate change risks by building upon the proposed approaches in the CP.

On the other hand, we respectfully request the PRA to clarify that the proposals only represent the PRA's expectations for covered financial institutions and are not mandatory requirements for them to comply with.

2. <u>Scope of application</u>

The CP mentions that it is relevant to all UK insurance and reinsurance firms and groups, banks, building societies, and PRA-designated investment firms, and it is understandable that the proposals will be applied to foreign banks' subsidiaries established in the UK. It is however not clear whether they will be applied to foreign banks' UK branches, so we respectfully request the PRA to clarify it.

Generally, a UK branch of a foreign bank constitutes part of that foreign bank, and therefore the UK branch's risk management policy should be consistent with that of the foreign bank's head office. If the PRA nonetheless determines to apply the proposals to foreign banks' UK branches, we ask that the PRA takes into account the consistency with supervisory expectations and regulatory frameworks of the foreign banks' home jurisdictions and considers establishing an internationally-harmonised framework.

3. <u>Consistent application of the proposals to foreign bank groups (1)</u>

When applying the proposals to the UK branches of foreign banks that are under the PRA's supervision (if such branches are to be subject to the proposals) or foreign banks' UK subsidiaries, the PRA should consider their home countries' energy-related situations that are significantly different among jurisdictions, and should also take into account their industrial policies, industrial structures, home regulators' supervisory expectations and regulatory frameworks that are based on the respective energy situations of the home countries.

Foreign banks' UK branches or subsidiaries appropriately operate their UK business under the PRA's supervision. Our concern is that inconsistent supervisory expectations between the UK and the home jurisdiction would overcomplicate or increase the burden on the foreign banks' management of the financial risks from climate change. Therefore, the PRA should determine its supervisory expectations and disclosure policies based on the principle of proportionality in consideration of the scope, scale and complexity of each entity's UK business.

4. <u>Consistent application of the proposals to foreign bank groups (2) - Timing</u>

- The Task Force on Climate-related Financial Disclosures (TCFD) set up by the Financial Stability Board (FSB) released their final report, recommending voluntary efforts to disclose information about the risks and opportunities due to climate change.
- We understand that one of the reasons that the TCFD recommends a voluntary disclosure framework is that the TCFD aims to establish practices through the experiences of disclosure initiatives by relevant organizations while approaches for identifying, measuring and managing the financial risks from climate change are not necessarily established at the moment.
- In enhancing banks' approaches to managing the financial risks from climate change in response to supervisory expectations, it is preferable that the PRA deepens their understanding of what would be desirable financial risk management through dialogue with banks according to, among other things, each respective

bank's initiatives, business complexity and the nature of their portfolio (diversity of exposures to regions, sectors, etc.). As mentioned above, particularly when applying the proposals to the UK branches of foreign banks that are under the PRA's supervision (if such branches are to be subject to the proposals) or foreign banks' UK subsidiaries, the PRA should preferably engage in sufficient dialogue with the home authorities of foreign banks and take into account their home countries' energy-related situations that are significantly different among jurisdictions, and should also consider their industrial policies, industrial structures, home regulators' supervisory expectations and regulatory frameworks that are based on these respective energy situations, and then establish supervisory policy positions in a phased manner.

- The PRA should also note that there could be a variety of approaches for banks to determine the materiality of climate change risks at UK entities.