HKMA’s Common Assessment Framework on Green and Sustainable Banking

More than just a “self-assessment”

The HKMA issued its Common Assessment Framework on Green and Sustainable Banking on May 13, 2020. The Framework assesses an institution’s readiness and preparedness to address climate and environmental-related risks and allows the HKMA to determine the “Greenness Baseline” of individual banks. However, it is more than just an assessment. The value generated from this self-assessment process is identifying the gaps and actions needed to futureproof the organisation. The objective now should be to set a firm-wide ESG strategy covering all aspects of governance and planning through to disclosures and communication. While risk management is not a new concept for banks, connecting climate-related impacts to financial risks is a complicated task that requires multi-disciplinary expertise in ESG, risk management and banking.

About the Assessment Framework

The Framework consists of two types of questions and aims to collect information on 20 sub-elements grouped under six key elements. Institutions are also required to report their stage of development for each sub-element using a rating between 0 and 3; and considering separately climate risk and broader environmental risk. The HKMA may require evidence to support the responses. Institutions need to be aware that reputational risk is not the focus when completing the assessment, but it is financial risks (e.g. credit and market risks) that are being targeted.

Self-assessment scorecard rating the 20 sub-elements on a scale of 0-3

The summary below gives you an idea of the topics (or sub-elements) and questions that might need to be considered under the six main categories:

1 - Governance

Effective oversight by Board and senior management over climate and environmental risks faced by institutions.
Q: Do roles and responsibilities of the Board and senior management explicitly cover these risks?

2 - Corporate Planning and Tools

Institutions should incorporate climate and environmental risk into strategic planning, business planning, financial planning, scenario analysis and stress testing.
Q: Do your stress tests include climate-related scenarios?

3 - Risk Management

Specific risk management techniques are required to identify, measure and monitor exposures to climate and environmental risks.
Q: Is there a mechanism in place to identify and monitor such risks?

4 - Business policies, products, services

Lending and investment policies should make specific reference to climate and environmental risks which may include limits or restrictions to certain sectors.
Q: Do these policies make reference to such risks?

5 - Performance and Resources

Performance targets should be established, data collected, and indicators monitored over time.
Q: Are plans in place to increase staff capacity and training in the areas of climate and environmental risks?

6 - Disclosure and Communication

Institutions should communicate both internally and externally their approach to managing climate risks and broader environmental risks.
Q: Does the institution produce climate-related financial disclosures in accordance with the TCFD recommendations?

Additional questions

The additional questions are primarily aimed at collecting quantitative information when an institution’s response to certain assessment questions is affirmative. For example, information on the number of scenarios and frequency of stress tests is required if the institution confirms that these tools are in place. Where a certain element is currently not in place, the institution can provide further information for the HKMA’s consideration.

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What you need to do

- Understand the self-assessment template to prepare for completion and submission to the HKMA. You will have 12 weeks to complete the assessment.
- Accumulate evidence to support responses provided in the assessment.
- Provide topical training to key stakeholders and obtain input from the Board.
- Develop plans to integrate climate and environmental risks into your governance, business and strategic planning, risk management and key policies and processes for areas where the assessment identified a gap. Aspects of these plans may also need to be included in the response to the HKMA.
- If you are listed, consider how the outputs from the assessment could be most efficiently used in preparing for the new/amended HKEX ESG reporting rules.

How KPMG can help you

2 to 3 weeks

- Conduct an independent review of your internal risk management and other related policies and procedures.
- Prepare a draft gap analysis to highlight key weaknesses against the framework.
- Provide support in completing the self-assessment framework template for submission to the HKMA.
- Presentation and training sessions to the bank’s key stakeholders.

2 to 3 weeks

- Benchmark your internal policies against best practices in ESG.
- Assist with drawing up plans and action items to mitigate and address identified gaps.
- Advice on climate scenario development, identification of key risk drivers, and transmittal of impacts to key sectors, companies and financial instruments (loan, equity and bond valuations).
- Suggestions to quantify relevant financial impacts (i.e. credit risk – PD, LGD, ECL and provisions)

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