GUIDELINES ON CLIMATE-RELATED FINANCIAL RISKS MANAGEMENT, 2022

BANK OF TANZANIA

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	PART I **PRELIMINARY PROVISIONS**
Citation	1. These guidelines shall be cited as the Guidelines on Climate-Related Financial Risks Management, 2022.
Authorization	2. These guidelines are issued under Section 71 of the Banking and Financial Institutions Act, 2006.
Application	3. These guidelines shall apply to all banks and financial institutions.
Interpretation	4. In these guidelines, unless the context otherwise requires: "Act" means the Banking and Financial Institutions Act, 2006; "Bank" means the Bank of Tanzania; "bank" has the same meaning ascribed to it in the Act; "Board" means the Board of Directors of a bank or financial institution; "climate-related financial risk" means the potential risks that may arise from climate change or from efforts to mitigate climate change, their related impacts and their economic and financial consequences; "financial institution" has the same meaning ascribed to it in the Act; "physical risks" means economic costs and financial losses resulting from the increasing severity and frequency of extreme climate change-related weather events, and longer-term gradual shifts of the climate; "transition risks" means risks related to the process of adjustment towards a low-carbon economy including; changes in Government policies, legislation and regulation, changes in technology and changes in market and customer sentiment;
Introduction	5. Climate change may result in physical and transition risks that could affect the safety and soundness of banks and financial institutions and have broader financial stability implications in the banking system. To address climate-related financial risks within the banking sector, the Basel Committee on Banking Supervision issued the Principles for Effective Management and Supervision of Climate-related Financial Risks, 2022. In recognition of that, and to align with these Principles, the Bank has issued these Guidelines to set out its expectations of a prudent approach to climate-related financial risks with a view to enhancing the resilience of the banking sector against these risks.
Objectives	6. These Guidelines are intended to assist banks and financial institutions in incorporating sound governance and risk management frameworks for climate-related financial risks within their existing risk management frameworks. This will enable them to better understand, identify, assess, monitor and mitigate these risks. The Guidelines further outline the broad principles which banks and

	financial institutions may use to develop their climate-related financial disclosures.
	PART II **GOVERNANCE STRUCTURE AND OVERSIGHT**
Governance	7. A bank or financial institution shall establish robust governance arrangements to enable effective identification, management, monitoring and reporting of the climate-related financial risks that could materialize over different time horizons
Responsibilities of the Board	8. The Board of a bank or financial institution shall: (i) ensure an appropriate collective understanding of climate-related financial risks at both Board and senior management level; (ii) approve and periodically review the strategies, policies, procedures and risk management frameworks for climate-related financial risks; (iii) clearly set the roles and responsibilities of senior management, internal organizational structures as well as Board member, as applicable, for the management of climate-related financial risks; (iv) ensure adequate and timely reporting to the Board on climate-related financial risks; (v) ensure relevant capacity development and training programs on climate-related financial risks; and (vi) consider whether the incorporation of climate risk in the bank's strategy and risk management framework might warrant changes to the compensation policies.
Responsibilities of senior management	9. Senior management of a bank or financial institution shall; (i) develop and implement climate-related financial risks management strategies, policies and frameworks; (ii) regularly review the effectiveness of the strategies, policies frameworks, tools and controls; (iii) provide periodic reports to the Board on climate-related financial risks issues; (iv) ensure that the internal structures responsible for managing climate-related financial risks are clearly defined and have adequate resources, skills and expertise; (v) ensure that staff have sufficient awareness and understanding to identify potential climate-related financial risks through periodic training and capacity development; and (vi) ensure that material climate-related financial risk issues are addressed in a timely manner.

	PART III **INTERNAL CONTROL FRAMEWORK**
Internal control	10. -(1) A bank or financial institution shall put in place an adequate and appropriate internal control framework, across the three lines of defence, to ensure sound, comprehensive and effective identification, measurement, monitoring, mitigation and management of material climate-related financial risks. (2) A bank or financial institution shall clearly define and communicate the roles and responsibilities of business lines and three lines of defence in relation to climate-related financial risks in the manner stipulated below: (i) in the first line of defence, frontline staff shall undertake climate related financial risks assessment for instance during client onboarding, credit application and credit review process; (ii) in the second line of defence, the risk function shall conduct independent climate-related financial risks assessment and monitoring. The compliance function shall ensure adherence to applicable rules and regulations; and (iii) in the third line of defence, internal audit shall perform regular reviews of the adequacy, appropriateness and effectiveness of the risk management and internal control framework for climate-related financial risks.
Policies and procedures	11. -(1) A bank or financial institution shall establish a climate-related financial risks management policy, which at minimum shall include: (i) roles and responsibilities of the Board and senior management in climate-related financial risks management; (ii) roles and responsibilities of frontline staff, risk management, compliance and internal audit functions in climate-related financial risks management; (iii) a framework for identification, measurement, monitoring, and control of climate-related financial risks; (iv) lines of authority and responsibility for managing climate-related financial risks; and (v) contents and frequency of management reports to the Board on climate-related financial risks management. (2) A bank or financial institution shall ensure that management of material climate-related financial risks is embedded in policies, processes and controls across all relevant functions and business units.

	PART IV **RISK MANAGEMENT PROCESS**
Risk management process	12. A bank or financial institution shall identify, measure, monitor and manage all climate-related financial risks that could materially impair its financial condition, including capital and liquidity positions.
Risk identification	13. A bank or financial institution shall put in place a framework for identifying climate-related financial risks which shall at minimum: (i) comprise a process for the identification of climate-related financial risks deemed as material, at the level of counterparty, business lines, industry, economic sectors and geographical locations; (ii) include clear Board-approved criteria and thresholds for determining materiality of climate-related financial risks; (iii) consider the potential impact of such material risks in the short, medium and long term time horizons; (iv) incorporate results of climate-related financial risks stress testing and scenario analysis; (v) consider the impact of material climate-related financial risks in its internal capital and liquidity adequacy assessment processes; and (vi) ensure that material climate-related financial risks are duly assessed; for instance, under credit, at loan origination stage and at subsequent reviews.
Risk measurement and monitoring	14. A bank or financial institution shall put in place a framework for measuring and monitoring material climate-related financial risks which shall at minimum: (i) include the development of relevant risk indicators to categorize counterparties, industry, economic sectors and geographical locations based on the extent of climate-related financial risks; (ii) comprise an adequate risk monitoring process which include the use of qualitative and quantitative analytic tools and metrics to monitor relevant risk indicators and climate-related financial risk exposures against the overall strategy and risk appetite for climate-related financial risks to support decision making; (iii) ensure that the risk appetite framework incorporates relevant risk exposure limits and thresholds for the risks; (iv) encompass measures to encourage counterparties to provide relevant disclosures on climate-related financial risks; and (v) consider processes and procedures to enhance risk data aggregation and reporting, including by investing in data infrastructure and enhancing existing systems. A bank or financial institution shall ensure that data are reliable, accurate and comparable.

Risk Mitigation	15. A bank or financial institution shall put in place a framework for mitigating material climate-related financial risks which shall at minimum: (i) require appropriate risk mitigation plan where the risks are assessed as being material; and (ii) include regular engagement with counterparties representing material risk to understand and monitor its risk mitigating plans. A bank or financial institution shall strive to understand companies transition targets, emission intensity, carbon footprint, and sensitivity to climate policies of their counterparties.
Risk management	16. -(1) A bank or financial institution shall understand the impact of climate-related financial risk drivers on its prudential risk profiles and ensure that risk management systems and processes for prudential risks consider material climate-related financial risks. (2) A bank or financial institution shall, at a minimum, consider the following risk management approaches for prudential risks: (i) Credit risk (a) A bank or financial institution shall have clearly articulated credit policies and processes to address material climate-related credit risks; (b) A bank or financial institution shall consider material climate-related financial risks into the entire credit life cycle, including client due diligence as part of the onboarding process, contractual covenants, pricing and ongoing monitoring of clients' risk profiles; and (c) A bank or financial institution shall identify, measure, evaluate, monitor, report and manage the concentrations within risk types associated with climate-related financial risks such as exposure to geographies and sectors with higher climate-related financial risks. (ii) Liquidity risk A bank or financial institution shall assess the impact of climate-related financial risks on net cash outflows (e.g. increased drawdowns of credit lines, accelerated deposit withdrawals) or the value of assets comprising its liquidity buffers. (iii) Market risk A bank or financial institution shall understand how climate-related financial risk drivers could affect the value of financial instruments in its portfolios, evaluate the potential risk of losses from increased volatility of its portfolio, and establish effective processes to control or mitigate the associated impact.

	(iv) Operational risk (a) A bank or financial institution shall assess the impact of climate-related risk drivers on its operations in general and its ability to continue providing critical operations. A bank or financial institution shall analyze how physical risk drivers can impact its business continuity and take material climate-related risks into account when developing business continuity plans; and (b) A bank or financial institution shall assess the impact of climate-related risk drivers on other risks, such as strategic, reputational, compliance and liability risk, and take such risks, where material, into account as part of its risk management and strategy-setting processes.
	PART V **SCENARIO ANALYSIS AND STRESS TESTING**
Scenario analysis and stress testing	17. -(1) A bank or financial institution shall regularly use scenario analysis and stress testing to determine the size and potential impact of climate-related financial risks and to assess the resilience and vulnerabilities of its business model to such events. (2) In carrying out scenario analysis and stress testing, a bank or financial institution shall at minimum: (i) consider a range of outcomes relating to different transition channels including physical and transition risks; (ii) cover short, medium and long term time horizons related to climate change; (iii) consider forward-looking information, in addition to historic data; and (iv) assess the impact of scenarios on its revenues, assets, significant counterparties, liquidity and capital positions.
	PART VI **GENERAL PROVISIONS**
Disclosures	18. -(1) A bank or financial institution shall disclose, at least on an annual basis, in its annual reports, information on climate-related financial risks it is exposed to, the potential impact of material risks and its approach to manage these risks. (2) A bank or financial institution shall regularly review and reinforce its disclosures, with a view to making them as insightful as possible. The disclosures shall take into consideration the evolving needs of stakeholders regarding information on climate-related financial risks and reflect the bank or financial institutions' evolving understanding of these risks.

	(3) A bank or financial institution shall make disclosures on climate-related financial risks on the following four thematic areas: (i) Governance A bank or financial institution shall disclose its governance process regarding climate-related financial risks including roles and responsibilities of the Board and senior management. (ii) Strategy A bank or financial institution shall disclose: (a) its strategy for climate-related financial risks; and (b) climate-related financial risks which have been identified over the short, medium and long term and the impact thereof on its strategy and financial planning. (iii) Risk Management A bank or financial institution shall disclose: (a) the processes for identifying, assessing and managing climate-related financial risks; (b) the elements considered in the assessment of materiality of climate-related financial risks; and (c) how climate-related financial risks are integrated in the overall risk management framework. (iv) Metrics and Targets A bank or financial institution shall disclose: (a) key performance indicators and key risk indicators used with regard to climate-related financial risks for the purposes of its strategy setting and risk management; (b) comparison of key performance indicators and key risk indicators against the internal targets; and (c) reference methodologies, definitions and criteria associated with the metrics and targets included in its disclosure.
Sanctions	19. Without prejudice to the other penalties and actions prescribed by the Act, the Bank may impose one or more of the following sanctions where any of the provisions herein are contravened: - (a) civil money penalty on the banking institution or directors, officers or employees responsible for non-compliance in such amounts as may be determined by the Bank;

(b) suspension of access to the credit facilities of the Bank;

(c) suspension of lending and investment operations;

(d) suspension of capital expenditure;

(e) suspension of the privilege to accept new deposits;

(f) suspension from office of the defaulting director, officer or employee;

(g) disqualification of any defaulting director, officer or employee from holding any position or office in any banking institution in Tanzania; and

(h) revocation of banking license.

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Dar es Salaam.

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Governor