30 July 2021

Mr. G Holland,
General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
1 Martin Place
Sydney NSW 2000

Email: PolicyDevelopment@apra.gov.au

Dear Mr. Holland,

Actuaries Institute response to APRA on draft PPG 229 Climate Change Financial Risk

The Actuaries Institute ('the Institute') welcomes and supports the production of guidance for the industry on this important topic, which is an area of focus for the Institute and a topic of relevance to the actuarial profession. Herein we provide feedback on the draft of CPG229 issued by APRA in April 2021.

Context

The Institute recognises the importance of climate change and associated climate-related risks on financial outcomes for all organisations, and especially financial institutions. Members of the Institute perform statutory and other roles for, or provide professional and advisory services to, these institutions.

Accordingly, the Institute has been active in providing thought leadership and other services to its members and the wider community in relation to Climate Risk. Some recent examples include:

- Created the Australian Actuaries Climate Index (launched in November 2018) as an objective measure of how extreme weather conditions and sea levels are changing over time;
- Developed its own Climate Change Public Policy Statement (originally in 2015 and updated in September 2020); and
- Produced guidance in the form of a "Climate Change – Information Note for Appointed Actuaries" (November 2020).

The latter document was designed to complement APRA's planned PPG, and the Institute notes that APRA has reflected many of the key themes from the Information Note for Appointed Actuaries in the draft PPG229.

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Key points

In compiling these points of feedback, the Institute has viewed the PPG through the lens of "What changes in behaviour and actions will be achieved by publishing this PPG?"

a) For those institutions not well versed in them, the PPG provides an awareness of, and a useful summary of, the existing primary global guidance of the topic of climate-related financial risk.

b) Aligning the PPG with expectations established in these global guidance documents, and in particular the Task Force on Climate-Related Financial Disclosures (TCFD) requirements, will ensure consistency between APRA's expectation and those in the global guidance.

c) In the PPG Introduction APRA has made the statement that the PPG "does not impose new requirements in relation to climate risk". While the Institute appreciates why this may have been included, the statement could be interpreted by institutions that they are already doing enough. Given the significant risks that a changing climate poses, the Institute believes that there is an opportunity for APRA to provide clearer direction and expectations around:

- the level of maturity it is expecting to see from institutions and within what broad timeframes; and
- a statement that APRA expects that a firm's maturity will increase over time in all areas of climate risk management: Governance, Strategy, Risk Management, Metric & Targets.

This would support and reinforce APRA's previously stated position that regulated institutions should raise their game on climate risk disclosure. For example, in APRA's Information Paper on *Climate change: Awareness to action*, it said "APRA expects to observe continuous improvement in the awareness and action of regulated entities." More recently, on the day that the draft PPG was released and in response to a question from a journalist, the APRA Chair stated (and has subsequently restated in a speech to the Committee for the Economic Development of Australia) that in his view the biggest risk from a climate perspective was "that financial institutions might be caught unawares by, and hence unprepared for, the changes occurring around them". This response highlights the urgency of the need for improved understanding of potential climate risk impacts and appropriate preparation in response.

d) The PPG is positioned by APRA as seeking to provide greater clarity for the industry on APRA's expectations and uses encouraging, but passive, language. The Institute notes that the phrase "APRA expects" is only used in three of the 49 sections of the document.

e) As noted above, the Institute observes that the PPG's content is structured into four main sections which are aligned with the areas defined in the PRA Supervisory Statement SS3/19 covering Governance, Risk Management, Scenario Analyses and Disclosure. The PPG also refers in S48 to APRA considering the TCFD recommendations as being a sound basis for disclosure, with these recommendations being structured under the four pillars of Governance, Strategy, Risk Management, Metric & Targets. The Institute notes that Scenario Analysis and Disclosure are sub-sections of the Strategy and Metrics & Targets pillars of the TCFD respectively, meaning that some areas on the TCFD recommendations are not explicitly covered by the APRA structure, namely:

- Assessing climate risks and opportunities over the short, medium and long term;
- Assessing the impact of climate risks and opportunities on strategy and financial planning; and
- The setting of metrics and targets, and the requirement to monitor performance against these targets.

While some of these matters are referenced in various places within the draft PPG, the Institute believes it would be beneficial if clear expectations on these important topics are added to the PPG.

f) More specifically, as climate risk is a key strategic risk for most financial organisations, the Institute suggests a separate section be included in the guidance on strategy that brings together all of the expectations and better practice that APRA would like to see in the development and approval of strategic and financial plans. The Institute believes that without a robust and transparent assessment of the impact of climate risk on all aspects of the operations and financial position of an organisation, an appropriate and resilient strategy cannot be proposed by management or approved by the Board.

Specific points of detail

- S34 – Regular appropriate reporting requirements should apply to external stakeholders as well (albeit containing different content from the internal reporting and at a lesser frequency).

- S44 – Documentation should also include assumptions and limitations, which will be many and highly relevant to the results of the analyses. Inclusion of these will provide important and transparent check points for when analyses should be revisited by the organisation.

Conclusion

The Institute welcomes and supports the publication of this prudential guidance in order to establish APRA's expectations and evolve the maturity of regulated institutions in this important area of strategic risk.

The Institute encourages APRA to use this opportunity of issuing its first guidance on climate-related risks to provide more specific direction and firmer expectations that would raise the level of maturity of climate-related financial risk management across regulated institutions and the wider industry.

The Institute would be pleased to discuss this submission with APRA or to provide further information. If you wish to do so please contact Elayne Grace, Chief Executive Officer of the Actuaries Institute, on (02) 9239 6100 or elayne.grace@actuaries.asn.au.

Yours sincerely

Jefferson Gibbs
President