



OG/370/2021
8th November 2021

Chief Executive Officer
All Licensees
Manama
Kingdom of Bahrain

Dear Sir/ Madam,

Subject: Climate-Related Risks

As you may be aware, the Government of the Kingdom of Bahrain has committed to achieving the global climate goals. A sustained global response by national authorities, the international community, and the private sector can address the financial and economic implications of climate change. The CBB is accordingly working toward requirements relating to climate-related risks.

Climate-related risks pose significant challenges for the global economy and to the safety and soundness of financial institutions and the stability of the financial sector more broadly. It is worth noting that the IMF has announced that it will integrate macro-critical aspects of climate change into its core activities as part of Article IV consultations. It is also expected that climate-related risk rating will potentially become relevant for capital allocation, financing and investment decisions just like credit ratings and credit scores.

A number of international initiatives have been launched in the last two decades to address the various aspects of climate-related risk. The Task Force on Climate-Related Financial Disclosures (TCFD) is one such platform, created in 2015 by the Financial Stability Board (FSB) to develop consistent climate-related risk disclosures for use by companies and investors in providing information to stakeholders. TCFD came up with its Fundamental Principles for Effective Disclosure in 2017. These principles call for effective disclosures which are relevant, specific, complete, clear, timely, verifiable, balanced and consistent over time.

In cooperation with the Sustainable Development Committee of the Bahrain Association of Banks, the CBB conducted a survey in January 2021 to collect qualitative and quantitative information to assess the current state, practices and exposures related to ESG (Environmental, Social, Governance) and sustainable finance. The survey was distributed to conventional and Islamic retail and wholesale banks, investment firms and financing companies and the results clearly indicate that the level of awareness and readiness is inadequate.



Office of the Governor

The CBB intends to deal with the issue of climate related risk in phases. As a first step, this circular requires all licensees to raise awareness within their organization about climate-related risks and assess how they would identify and address climate related risks. The CBB also encourages the licensees to include these topics in their annual training plans and also require members of the board, management and staff to attend the various training programs including those offered by BIBF's Sustainable Development Academy. The CBB will issue the requirements, in the near future, in relation to the initial phase which would focus on qualitative disclosure requirements regarding efforts made to address climate-related risks, followed by more comprehensive requirements including quantitative requirements in subsequent phases. The CBB requirements would be developed based on guidance from relevant international official sector bodies such as Basel Committee on Banking Supervision (BCBS), International Association of Insurance Supervisors (IAIS), International Organization of Securities Commissions (IOSCO) the Financial Stability Board (FSB), etc.

If you have any questions in this regard, please contact your Supervisory Point of Contact (SPoC) at CBB.

Yours faithfully,

Rasheed M. Al-Maraj
Governor

cc: External Audit Firms
Law Firms