

CLIMATE FINANCIAL RISK FORUM GUIDE 2021

CLIMATE RISK TRAINING

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This chapter represents the output from the Risk Management Working Group of the Climate Financial Risk Forum (CFRF).

The document contains information on developing a climate risk training programme.

This CFRF guide has been written by industry, for industry. The recommendations in this guide do not constitute financial or other professional advice and should not be relied upon as such. The PRA and FCA have convened and facilitated CFRF discussions but do not accept liability for the views expressed in this guide which do not necessarily represent the view of the regulators and in any case do not constitute regulatory guidance.

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1 Overview

Delivering climate risk training across all levels is an essential to embed climate risk into risk management practices and to help achieve climate strategies.

This document aims to offer practical advice on developing and implementing an effective climate risk training programme.

The content in the document comprises a range of example practices from firms, leading thinking and industry papers. It is not intended to signify a benchmark for best practice.

The document focuses on 3 key elements:

- The key topics that form the basis of a comprehensive climate risk training curriculum
- The importance of conducting a detailed learning needs analysis to tailor training materials to effectively embed climate risk management across a firm
- The factors needed to ensure the success of a firm's climate risk training programme

Wider sustainability and corporate social responsibilities topics are not considered in detail here in line with the focus of the PRA's Supervisory Statement SS3/19 on climate-related financial risks.

Integration with existing Training

Different firms may take different approaches to delivering climate risk training. For example, climate risk training may be included within existing ESG or Sustainability training; or may be delivered as a standalone programme. These approaches are not exclusive and may even be combined.

Good practice is to ensure climate risk training is linked to a firm's climate strategy, purpose and values and should highlight the linkage between opportunities and risk.

Ownership

The approach to establishing ownership for the development and delivery of a climate risk training programme should mirror the approach taken for other training. However, a structure should be in place to ensure the right tone is set from the top of the firm to emphasise the importance of the training and to drive engagement at the right levels.

There should be a clear expectation that all three lines of defence have a role in the development and delivery of the training programme.

2 Core Curriculum

Key topics

A successful climate risk training programme should cover a number of key topics.

These topics can be incorporated into existing training structures or delivered as a standalone programme depending on a firm's preferred approach.

Key Topics	Purpose	Recommended Core Content
Environmental, Social & Governance and Climate	Provide an introduction to climate change, and how it fits within ESG	<ul style="list-style-type: none"> • Provide an overview of ESG, including core definitions and topics and how climate is a key element of the 'E'. • Option to provide more detail on other environmental, social and governance issues and link to climate change e.g. natural capital, biodiversity, human rights to reflect a firm's ESG risk management structure, strategy and priority risks • Explain climate change, the science, it's implications and the responses required • The impact on the climate through net zero (or other) alignment • Outline stakeholder expectations
Climate Strategy	Provide an overview of the firm's climate strategy	<ul style="list-style-type: none"> • Outline the firm's climate strategy and plans to achieve it • Introduce the link between climate opportunities and risk
Introduction to Climate Risk	Introduce and raise awareness of climate risk across the firm.	<ul style="list-style-type: none"> • Link to the firm's climate strategy • Explain how climate risk is a core element of the 'E' in ESG risk • Define and provide examples of Transition and Physical risks, focusing on examples of the key risks to the firm from an operations and customer perspective • Signpost to other resources that will help individuals to build their understanding of climate risk and support the delivery of the firm's strategy.
First Line of Defence & Climate Risk	Explore how climate risk will impact the firm's customers and the role of the first line of defence in managing it in line with the firm's risk management structure and supporting policies and processes.	<ul style="list-style-type: none"> • Explain how climate risk will impact the firm's portfolio through the key transmission channels and provide examples of impacts relevant to each business, such as operational risk, credit risk, reputational risk, regulatory compliance risk. • Use business case studies to demonstrate climate risk considerations in decision making. • Provide detail on the roles and responsibilities of the three lines of defence in managing climate risk. • Provide an overview of the firm's climate risk appetite and key concepts/thresholds

		<ul style="list-style-type: none"> • Provide an overview of the key policies that should be used to manage climate risk. • Explain how managing climate risk effectively can help achieve portfolio alignment and facilitate financing opportunities. • Explain the importance of data quality
Second Line and Third Line of Defence & Climate Risk	Explain how climate risk is likely to manifest across the firm's risk taxonomy and how it should be managed in line with the firm's risk management framework	<ul style="list-style-type: none"> • Outline the role and responsibilities of the three lines of defence to manage climate risk • Detail the firm's approach to climate risk management e.g. if it will be managed as a standalone or cross-cutting risk • Provide examples of how climate risk will manifest across the firm's risk taxonomy • Explain how the risk appetite can be used to manage climate risk and provide detail on the key concepts/thresholds supporting policies and controls • Explain how emerging climate risks can be identified.
Climate Risk Reporting and Regulatory Landscape	Explore stakeholders' expectations on climate risk management, including regulators, investors and customers and provide an overview of the evolving reporting and regulatory landscape and how this is likely to impact the firm.	<ul style="list-style-type: none"> • Provide an overview of the climate regulatory and reporting landscape and how this is likely to evolve over time, for example pillar 3 disclosures and the TCFD framework for climate disclosure • Explain how your firm complies with climate regulation and how it will meet any additional disclosure commitments • Explain the purpose and importance of reporting on climate risk • Describe the main climate risk disclosure requirements
Climate Risk Data	Introduce different climate risk data types, sources, key methodologies and analytical tools that can help the firm collect the data it needs to manage climate risk and achieve the firm's climate strategy.	<ul style="list-style-type: none"> • Explain how climate risk data plays a central role in managing climate risk and identifying opportunities • Introduce the concepts of different types of climate risk data and use cases • Describe the key methodologies and analytical tools used by your firm • Highlight the available data sources (internal and external), why they are important, the main challenges and limitations of climate risk data • Detail roles and responsibilities for collecting and using climate risk data
Climate Risk Scenario Analysis	Explore how scenario analysis can be used to explore the potential future impacts climate change may have on the firm's operations and customers.	<ul style="list-style-type: none"> • Describe the purpose of climate scenario analysis and how the outputs are leveraged by the firm. • Explain how scenario analysis can be used to inform the firm's strategy and risk management approach. • Outline the key internal and external scenarios that can be used.

		<ul style="list-style-type: none"> • Provide an example to show results and how they can be used to inform strategy and risk management. • Describe the key roles and responsibilities for using climate scenario analysis across the firm
Climate Risk Models	Explore how models can be used for climate risk management.	<ul style="list-style-type: none"> • Explain how models can be used to estimate the impact of climate risk on portfolios and the firm's operations • Draw out any differences in the models used for physical and transition risk • Highlight issues and challenges in model development • How model analytics can be used to identify climate opportunities • Explain how regulations will impact models and where.

Firm's should also consider encouraging participation in external training and qualification schemes where appropriate.

Delivery Format

The delivery format of the training can differ to reflect the firm's target audience. For example, the topics above can be delivered to a broad range of employees across the firm as e-learning modules or used for tailored masterclass sessions for the board of directors or executive management. For tailored board masterclasses, external experts can also be used where necessary.

It is recommended that all the key topics be readily available to all employees to complete if they wish to do so. A targeted approach to delivery can be used for decision makers who need to have a deeper understanding of the firm's climate risk strategy and risk management approach.

3 Learning Needs Analysis

A learning needs analysis should be completed to identify the climate risk training required across the different levels of the firm and to inform the development of the training content. A good understanding of learning needs across the firm will inform the key topics that need to be covered, the level of detail and format.

There should be an expectation that all employees have a general awareness of climate change and the firm’s strategy, with key decision makers having a deeper understanding to decide the firm’s strategy and to manage climate risk. This approach is reflected in the modules listed below and recommendations for specific audiences.

Area	Assessment	Key Topics
Board of Directors & Executive Management	The role of Board and executive management is to understand the climate risks the firm faces, regulation with which it must comply and impact on strategy. The Board needs to understand climate risk and have oversight of the firm’s approach to the management of climate risks to ensure the long-term health and resilience of a firm. They should have the understanding and tools to understand and challenge MI and methodologies.	Climate Strategy Introduction to Climate Risk Second Line of Defence & Climate Risk Regulatory and Reporting Landscape Scenario Analysis
First Line of Defence	The first line of defence is responsible for the delivery of your climate strategy and managing climate risk. They will need to understand and have the capabilities to perform the required risk management activities and to ensure the appropriate governance, controls, monitoring and reporting are in place to manage climate risk. They also need to understand climate risk to engage with your customers in an informed way. For example: Relationship managers should be required to have the understanding of climate risk to engage with customers in an informed way on the risks they may face and how the firm can provide finance to help them address these risks. Business Support Teams should have an awareness of how climate risk is likely to impact the business to enable them to support the relationship managers.	ESG & Climate Climate Strategy Introduction to Climate Risk First Line of Defence & Climate Risk
Second Line of Defence	The Second Line of Defence are responsible for reviewing and challenging the First Line of Defence activities to ensure that climate risk management decisions are within Risk Appetite. Training is required to make sure they have the understanding and capability to set policy and control standards to manage climate risk.	ESG & Climate Climate Strategy Introduction to Climate Risk Three lines of Defence and drill down into 2LOD

	<p>For example:</p> <p>Credit approvers should be able to identify the climate impacts to clients and counterparties, the steps that can be taken to help customers better manage their climate risk or the steps the firm can take to mitigate credit risk.</p>	
Third Line of Defence	<p>The Third Line of Defence provide independent assurance to management and the non-executive Risk and Audit Committees to ensure that climate risk management, governance and internal control processes are designed and operating effectively. They should understand the organisations approach to climate risk so they can assess its effectiveness.</p>	<p>Introduction to Climate Risk</p> <p>Second Line of Defence and Third Line of Defence & Climate Risk</p>
Finance & Reporting	<p>Teams responsible for finance, stress testing and reporting will need to understand climate risk from a stress testing, data and reporting perspective to undertake their roles.</p>	<p>Introduction to Climate risk</p> <p>Climate Scenario Analysis</p> <p>Climate Data.</p> <p>Climate Regulatory & Reporting Landscape</p>
Operations	<p>The teams responsible for reducing your own carbon footprint and managing the impact climate risk may have on your operations. They will need to understand and have the capabilities to ensure these risks are adequately managed.</p>	<p>Introduction to Climate Risk</p>

4 Success factors

Consideration should be given to the following factors to ensure the success of a climate risk training programme.

<p>Connect with the firm’s strategy, purpose and values</p>	<p>Connecting the climate risk training programme to the firm’s strategy, getting sponsorship from the top and getting broader stakeholder engagement is key to emphasise the importance of climate risk and is critical to the success of the programme.</p>
<p>Set the tone from the top</p>	<p>Giving the first and second line ownership of or opportunity to contribute to the development of the training will make sure the training is relevant and lands well in their respective areas.</p>
<p>Engage stakeholders across the organisation in the development of the training</p>	<p>Senior leadership videos to introduce the training, together with leader-led communications can be used to emphasise the strategic importance of managing climate risk.</p>
<p>Identify the learning needs across your organisation on an ongoing basis</p>	<p>The level of climate risk training required is dependent on individual roles, with varying degrees of subject matter expertise required to manage climate risk. A good understanding of the learning needs across the firm will inform the key topics that will need to be covered, the level of detail and format. It is important that learning needs are reviewed regularly as climate risk and our understanding of its management are likely to evolve over time.</p>
<p>Tailor your training approach to your audiences</p>	<p>This analysis should be undertaken with consideration to future developments, internally within the firm, as well as external regulatory and reporting developments as this will determine the longevity of your training material and ongoing refresh and embedding required.</p>
<p>Continual engagement and communication on climate risk</p>	<p>Continually engaging employees on climate risk across the organisation is going to help develop the right culture and capabilities required to embed climate risk into daily decision making. It also helps to drive interest and encourage people to build their own expertise using the internal and external resources available.</p>