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## Consultation Response – PRA CP 10/25

### Draft Supervisory Statement – Enhancing banks’ and insurers’ approaches to managing climate-related risks – Update to SS3/19

30 July 2025

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#### Introduction and General Comments:

The Association for Financial Markets in Europe (AFME) welcomes this opportunity to comment on the PRA’s consultation on its draft supervisory statement – Enhancing banks’ and insurers’ approaches to managing climate-related risks – Update to SS3/19. It is helpful to reflect on the progress banks, supervisors and international organisations have made in the past six years to understand and mitigate risks stemming from climate and consolidate the findings and ways of addressing these risks in one supervisory statement. However, AFME also believes that the updated SS will represent a significant uplift from SS3/19 in various areas, including enhanced governance and strategy integration and advanced climate scenario analysis.

In terms of the process, we note the intention to give firms six months to implement the expectations in the final supervisory statement. As it is unclear when the final supervisory statement will be published, we recommend that greater clarity is provided with regard to the timeline. We understand from CP10/25 that while the updated SS3/19 will be effective immediately, the six months’ time window refers to the date by when PRA supervisors can ask firms for their gap analysis and action plans to address the updated supervisory expectations (i.e. firms are not expected to be fully compliant after six months and some measures may require multi-year timelines). Financial institutions reserve judgment on the feasibility of further implementation, while noting consultations on both the UK transition plans and UK SRS are underway. Ideally, any implementation to the successor to SS3/19 should phase in sufficient time to digest further related proposed guidance / rules / regulations – for example it may be difficult to meet disclosure requirements if they come out during the six-month process of gap analysis and action plans. The PRA should also take into account the multiplicity of requirements that banks are being required to implement simultaneously – especially in respect of disclosure and ISSB standards – and prioritise consistency with a ‘disclose once, publish everywhere’ approach.

Overall we welcome the commitment to a proportional approach. In this respect it could be clarified that the statement is intended to complement and be consistent with other international approaches (i.e. not a replication), in particular for international firms which have to comply with multiple climate and environmental expectations. Indeed, with regard to international firms which have UK branches we note in the PRA’s CP (para 1.6) that the expectations do not apply to branches, which is welcome. This was not explicit in the previous SS 3/19, and it would be helpful for the PRA to confirm that the requirements in SS 3/19 do not extend to third country branches.

Proportionality should also be considered in relation to banks’ current practices to risk registers and identification of material relationships, which should not require a bespoke duplicative process for managing climate risks. Furthermore, as reflected in the results of the BES exploratory exercise in 2022, the aggregate impact of climate risks was not considered to have a material impact, and there are many levels of banks’ businesses and their clients’ businesses for which there will be no material consideration. This should be

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clearly considered in the application of requirements and banks should have the flexibility to consider introducing materiality thresholds where relevant.

As a general point, AFME members would request the PRA to be clearer in the final SS with regards to use of examples versus minimum expectations. For example, on the risk appetite statements at para 4.1.11 AFME understands that classification of risk appetites organised under ‘Accept, Manage, Avoid’ is an example rather than a baseline or required approach. If that is indeed the case, it would be helpful to put this preferably outside of the SS in a separate supporting document of best practices or, failing that, in a clearly defined ‘example’ box. This is important because firms are likely to have various valid approaches which do not follow this structure and could be left to interpret the current wording as a requirement considering it is an integral part of the SS. Any additional guidance document should be clear that it is in no way binding on firms.

## **Section 2: How climate-related risks affect firms**

1. In paragraph 2.6 the reference to climate related risks being systemic should be qualified (i.e. “have the potential to be systemic”). In practice we note in recent years a number of climate related events have taken place without triggering a systemic event.

## **Section 3: Implementation**

2. As it is unclear when the final supervisory statement will be published, we recommend that greater clarity is provided with regard to the timeline as soon as possible in terms of when the PRA intends to publish the SS and for the transition period to ensure consistent industry wide application e.g. the type and level of gap analysis they expect to be performed over six months and nature of any remediation plan. This should also take into account any additional preparations that may be required for transition plan disclosure & UK SRS, dependent on the final scoping resulting from the consultations.
3. With regard to proportionate implementation into firms’ risk management (paragraph 3.13) we recommend an explicit clarification that for international firms which have to comply with multiple regulations, the approaches set out by the PRA should be applied proportionately to what firms have already implemented in other jurisdictions and should allow firms to leverage where they are already fulfilling similar expectations.
4. We welcome a proportionate approach to material risks (paragraph 3.14), however this should make clear that firms should leverage their existing risk management practices for assessing and classifying climate-related risks rather than require developing bespoke climate specific approaches.

## **Chapter 1 – Governance**

5. Throughout the Governance section, and indeed the proposals in general, the PRA refer to the role of “the board” in climate risk management. It should be clarified for international firms operating through one or more legal entities in the UK, this may be approached in a number of ways. Firms may follow a range of different frameworks for allocating responsibilities between entities, and between local entities and the group level, and that the allocation of responsibilities of entity boards vs. group boards may vary between firms. While the current drafting does not necessarily preclude this, providing explicit guidance to this effect will significantly simplify the interpretation and implementation of the PRA’s expectations, in particular for international firms.

6. In Paragraph 4.1.6. the PRA discuss requirements related to the meeting of climate targets. It is important to note that, firms frequently set climate targets at a group level and may not have entity level goals. As such, for international firms which are not UK based companies in particular, the PRA should not mandate that local entities be able to demonstrate how they will contribute to group-level climate goals for which they may have limited or no contribution. However local entities should expect to explain how they contribute to wider group climate targets. Paragraph 4.1.11 sets out a possible way in which firms could classify their risk appetites in relation to climate risk. There is a risk that this is interpreted to mean that the PRA requires firms to follow this approach (i.e. Accept / Manage / Avoid). We suggest this is removed from the supervisory statement and included in a separate supporting best practices document, or if this is not possible demarcated as an example only (e.g. in an example box rather than a numbered paragraph) along with any other suggested approaches that may derive from this classification process, and an explicit recognition that different approaches to risk appetite classification are valid.
7. Paragraphs 4.1.8 – 4.1.11 set out how firms should define their risk appetite hierarchy. We would underline that the PRA should not require a completely bespoke approach for the sake of climate risk. Firms should be able to enter climate risks into their risk register in way that is consistent with their existing practices and should not require them to novate any new processes or approaches. This should include the flexibility to account for the fact that firms may approach risk appetite for climate by either setting a climate risk appetite or considering climate risk as a risk driver when setting their risk appetite for traditional risk categories. It would be helpful for the PRA to specifically recognise both models of approaching risk appetite.
8. Paragraph 4.1.12 includes reference to the use of reverse stress testing. As discussed in our comments on paragraph 4.3.11, it may not be appropriate from a cost-benefit analysis to conduct climate-specific reverse stress testing for all firms and may be more appropriate to ensure that climate factors are considered as part of the wider reverse stress testing programme.
9. Paragraphs 4.1.13-4.1.14: The PRA should clarify if its expectation is that firms allocate responsibility for managing climate-related risk to multiple SMFs, across the firm's business areas and control functions. In particular, it would be helpful if the PRA could clarify that the reference to 'individual' (para 4.1.14) does not preclude the option for firms to include managing climate-related risks in the statements of responsibilities of more than one SMF in line with an earlier reference to allocating responsibilities to the 'management body' (para 4.1.13).

## **Chapter 2 – Risk Management**

10. Paragraph 4.2.2 sets out how firms should approach risk identification and assessment and requires that each entry in the firm risk register should be linked to an existing risk type and the transmission channel should be clearly articulated. This would be an extensive and disproportionate requirement which does not account for firms existing risk management practices and processes. We recommend that firms are allowed to establish the identification of climate risks in line with their existing risk identification approaches.

### *Material Relationships*

11. Paragraphs 4.2.6 – 4.2.12 set out identification of ‘material relationships’. Firms may have existing ways of managing such relationships and a new process of identification may be counterproductive and burdensome (e.g. requiring new documentation for the same clients). In so far as possible firms should be able to leverage their existing knowledge of their clients and, where necessary and consistent with proportionality, add an additional layer of climate related assessment rather than duplicate established processes.
12. Given that climate-related risks are drivers of existing risk types, the proposed identification and classification of relationships as “material relationship” will in effect be just one more way to cut aggregate risk type exposure (e.g. a material relationship from a climate-driven credit risk perspective, a material relationship from a climate-driven operational risk perspective, etc.). Material relationships from a risk type perspective should continue to be identified and managed within that risk type.
13. The PRA should treat the list of considerations in para 4.2.9 (e.g. emissions targets, transition plans) as illustrative rather than mandatory, allowing firms to apply risk-based judgment as to which considerations/metrics are relevant for them to include in their processes (to the extent that they are not already included) that provides meaningful and decision-useful information.

### *Materiality assessments*

14. In line with our earlier comments, paragraph 4.2.13 frames the PRA’s explanation of how material risks should be considered around their previous example approach to risk categorisation. This could be interpreted to effectively require the use of that approach to risk categorisation which would be unduly burdensome and disruptive, in particular for international banks which may have an established global group approach or multiple jurisdictions’ to comply with. We would request that the PRA separate out this example into a separate best practice guidance document to avoid ambiguity or, failing that, a specific worked-example box, to avoid the impression that this specific approach is required. We would also recommend that the PRA explicitly reference that firms’ approaches to considering material climate risks should follow existing firm wide approaches, frameworks and processes.
15. The PRA should explicitly recognise that the level of detail and sophistication required when identifying and assessing the materiality of climate-related risks should be proportionate to the inherent susceptibility of the firm’s business model to climate-related risks e.g. broker-dealers with mostly traded risk exposures are less likely to be impacted by climate transition and physical (chronic) risks than mortgage lenders. In particular, firms should not be expected to conduct climate scenario analysis to assess all climate-related risks but only for those that are likely to be the most material.
16. While the draft supervisory statement recognises that the risk management response should be proportionate to the vulnerabilities identified, it does not explicitly allow proportionality to guide the depth of the risk identification process itself. A requirement to undertake extensive materiality assessments to demonstrate that prima facie immaterial risks are indeed immaterial would not be proportionate since it would require firms to undertake the complex task of effectively “proving a negative.”

17. Under paragraph 4.2.14 the PRA set out their expectations for the development of quantitative metrics and limits. This could be read to imply that firms may not use existing metrics and limit structures already in place, which would be unduly disruptive and undermine the PRA's approach of embedding climate risk in firms' risk management frameworks. We would suggest updating this wording to "ensure that appropriate metrics and limits are in place", to reflect that firms' existing metrics and limits may adequately reflect climate risk.
18. Paragraph 4.2.21 – the PRA should not suggest that firms create a new internal reporting infrastructure for climate, instead the message should be that firms should leverage their internal reporting infrastructure which already exists for other risks. We highlight that climate risk is designated as a cross-cutting risk and can manifest through existing risk types. Climate risk drivers can impact each risk category (e.g. strategic, reputation and credit) and should be reflected within the existing reporting for those risk types. Additionally, it would be helpful for the PRA to recognise under 4.2.22 that firms may leverage existing risk reporting approaches for the reporting of material climate risks to the Board.
19. Paragraph 4.2.23 states that regular management information and reporting of exposures to climate-related risks should include interaction of climate and non-climate events. It is not clear from the draft supervisory statement what the PRA is expecting to be covered under interactions between climate and non-climate events. We would welcome more detail in particular in terms of scope and expected output use. For instance, could the PRA clarify or scope what should be considered a 'non-climate even'? We suggest, rather than use negative terminology it could be explicitly stated what the PRA is referring to here. We understand from outreach to the PRA that the intention on 'non-climate events' was to cover broader risk events, and not specifically on nature-related, social or governance risks events. This clarity would be welcome
20. Under paragraph 4.2.25 it would be helpful for the PRA to clarify the definition of outsourcing and third-party arrangements, specifically whether it extends to intragroup arrangements and whether it is in line with their joint policy statement with the FCA (PS24/16). Similarly, the term "critical operations" should be clarified.
21. Paragraph 4.2.26 includes the statement that "The PRA considers firms to be operationally resilient if they can prevent disruption occurring to the extent practicable". This seems to go against the essence of operational resilience, which is focused on the mitigation of impacts from disruption rather than the prevention of disruption. We would propose amending this wording to "manage and mitigate disruption" to the extent practicable.

### **Chapter 3 – Climate Scenario Analysis (CSA)**

22. Paragraph 4.3.1 requires for the Board to define and agree the CSA, while firms currently reflect and elevate management of climate risks to the board. We would appreciate further clarification from the PRA on this expectation, particularly from a proportionality perspective. Further there should be greater recognition consistently throughout the policy statement that banks have a range of board and governance structures and in the interests of proportionality the expectations should reflect the diversity and validity of these different models. For example, some firms that have multiple legal entities within a group structure may find it appropriate for the Group-level Board to approve

scenarios and for local governance to oversee results. Other firms may follow an approach of seeking group board level approvals for group-wide scenarios and entity board approvals for entity-specific scenarios. The PRA should also give the Board the flexibility to delegate the responsibility of CSA to the appropriate management level and introduce a materiality consideration if appropriate.

23. Specifically, the expectation to apply multiple climate scenarios, time-horizons, and severity levels may not be proportionate across all firms and business models. For example, for broker-dealers or firms with predominantly short-dated exposures, long term climate scenarios are unlikely to be informative in the context of their current business environment.
24. The PRA should also provide firms the flexibility to choose between running climate-driven reverse stress tests (RST) or integrating climate-related risks into their broader RST frameworks, as appropriate to their business model. In making this decision, firms should have the flexibility to consider whether climate-driven scenario(s) leading to business model failure may yield implausible scenarios that provide limited management value, particularly when designed to take the bank to the point of failure rather than just to point at which it experiences material losses.
25. We recommend that the PRA reconsiders and clarifies its expectations on the scale and scope of CSA and RST, allowing firms to tailor their approach based on, where appropriate, materiality, size, and complexity in addition to the materiality of climate related risks to which they are exposed.
26. For instance, Paragraph 4.3.5 sets out how banks will need to conduct multiple CSA. Can the PRA confirm that multiple scenarios can have multiple uses (i.e. banks are not expected to do multiple balance sheet stress tests)?
27. Paragraph 4.3.8 refers to valuation. More clarity is needed on the application of CSA with respect to prudent valuation and fair value. The footnote also mentions trading book – can the PRA clarify the expectation here? Ideally CSA undertaken in respect of the trading book should be consistent with and build upon the work already undertaken by industry (see ISDA publications<sup>1</sup>).
28. In relation to paragraph 4.3.9, which sets out the expectation that firms' use cases for CSA should align with the time horizons for use cases, members believe there are significant challenges around using long-term CSA to inform strategy, given that uncertainty over forward-analysis increases with the duration of the time period.
29. Paragraph 4.3.11 requires firms to apply reverse stress testing (RST) to the extent of impacting the solvency of a bank. We think that conducting a climate only reverse stress test is not proportionate for the entire bank and could result in extreme, unrealistic and catastrophic scenarios which are unlikely to be decision useful. This is particularly pronounced for firms that differ from typical banking entities (e.g. firms with a focus on short-term trading books). Instead we suggest that the reverse stress that firms already conduct should consider climate factors in the design of their scenarios.

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<sup>1</sup> See following ISDA publications:

July 2023 : A conceptual framework : <https://www.isda.org/2023/07/12/a-conceptual-framework-for-climate-scenario-analysis-in-the-trading-book/>

Feb 2024 : Phase II – Testing the framework, creating Climate Scenarios and calibration of MR Shocks : <https://www.isda.org/2024/02/12/climate-scenario-analysis-in-the-trading-book-phase-ii/>

Feb 2025 : Phase III – Expansion of the Market Risk factors for the Transition Scenario : <https://www.isda.org/2025/02/05/climate-risk-scenario-analysis-for-the-trading-book-phase-3/>

30. We note more widely that the PRA has not scoped in the draft SS3/19 how firms should integrate climate factors into their BAU stress-testing. From an industry perspective, we believe that integrating climate scenarios analysis into BAU stress testing would help to better embed climate into firms' BAU risk management and decision-making processes.

## Chapter 4 – Data

31. Paragraph 4.4.4 states that firms should balance the appropriate use of data from external suppliers with the appropriate development of in-house capabilities over the short and long term. We would welcome explanation from the PRA on how it envisages firms should approach the development of strategic plans to manage and close data gaps, in relation to the development of in-house capabilities from external suppliers. It is not clear how realistic this expectation would be for firms to implement. The PRA should also recognise in the short to medium term that there will be a continued reliance on external models (e.g. to factor in flooding or subsidence risks) and there will be areas where in house capabilities development will not be possible or valuable (e.g. peril data), while over the longer-term firms may consider in-house development once best practices are more firmly established. Indeed, it should also be recognised that it may not be proportionate or necessary for firms to build in house capability for certain types of data which could be better provided by third parties more efficiently and higher quality. More generally, banks and insurers leverage third party data for a wide range of risk drivers and other purposes where in house capacity is not a pre-requisite, this should also be recognised for climate-related data.
32. Paragraph 4.4.1. states that “Firms should identify and assess any data gaps to understand and quantify the extent of uncertainty...”. In practice the quantification of uncertainty is extremely challenging across these sorts of datasets. Members would suggest that this be reworded to “assess data gaps and understand potential impacts”. In the absence of this adjustment, the PRA would need to provide guidance on the approach to quantifying uncertainty, including metrics which should be used.
33. Additionally, proposals that firms do more to scrutinise external data and projections is ambiguous. While we agree that firms should understand the assumptions and limitations of the data used, and should ensure consistency across different data sources, in practice there is a limit to the due diligence that can be done on the data itself. This should be acknowledged and reflected in the PRA's proportionate approach to assessing these requirements.
34. Paragraph 4.5.4 – can the PRA confirm their expectation that, as well as engaging on the UK SRS, firms can leverage their international disclosure frameworks (ISSB compliant) to meet the PRA's expectations? It is important that the interdependencies between these expectations and the broader data developments underway is explicitly acknowledged.
35. Paragraph 4.4.6 – We would highlight that some of these requirements may require the implementation of significant infrastructure, and as such may take some time. This should also be considered in relation to the PRA's future banking data project and appropriately reflect the trade-off between necessary data and increasing costs for banks to provide this.

## Chapter 6 – Banking specific issues

36. Paragraph 4.6.6 – The PRA should include consideration of appropriateness in the requirement, e.g. “Banks should ensure that identified climate-related risks, including those within the bank’s sustainability reporting, are integrated, where appropriate, within the judgements and estimates which support financial reporting.
37. Paragraph 4.6.8 – The PRA require firms to enhance the data needed, which presumes that it is insufficient. We would suggest replacing this with “source and manage data sufficient to factor...”
38. Paragraph 4.6.11 – This does not consider materiality, and even extremely immaterial climate risks could affect balance sheet valuations to an immaterial extent. We would suggest that the PRA incorporate consideration of materiality e.g. “...climate-related risk drivers that have the potential to materially affect balance sheet valuations...”
39. Paragraph 4.6.12 – Similarly, materiality should be incorporated e.g. “These should ensure complete, consistent and accurate capture of material climate-related risk...”
40. Section ‘Quantifying the impact of climate-related risks on balance sheets and financial performance’ (page 28): We would highlight the scale of challenge firms are likely to encounter in trying to factor climate into balance sheet changes communicated in external disclosures, based on forward-looking assumptive scenarios with limited data and high modelling uncertainty. We would ask whether the PRA’s expectations are realistic in this area.
41. Section ‘Quantifying the impact of climate-related risks on ECL’ (page 29): We note that the text is in line with existing expectations. Going forward it would be useful to understand how to build in a more extreme yet plausible scenario into ECL as IFRS9 rules will require it to be weighted accordingly (low % applied), hence potential overlay numbers may be expected to be small until such time as climate risks (both physical and transition) become more prevalent over shorter time horizons. In addition, we note that helpful guidance and discussion on pricing adjustments provided in CP10/25 (such as under the section 4: ‘Cost Benefit Analysis’) is notably absent in the draft SS itself. Including this would help to enhance clarity.
42. Paragraph 4.6.31: Can the PRA clarify their expectation for banks to “monitor how prices are impacted by climate risk drivers” for market risk? This sounds difficult to implement practically.

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## About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.<sup>2</sup>

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<sup>2</sup> AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76.