The Basel Committee's Revised Core Principles for Effective Banking Supervision: Addressing Climate-Related Financial Risks in ASEAN+3[1]

Policy Brief

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At the end of April 2024, the Basel Committee on Banking Supervision (BCBS) released a revised version of its most important document, the Core Principles for effective banking supervision.[2] Whilst not all jurisdictions have adopted the Basel III banking supervision regime, the Core Principles target all financial supervisors globally. They serve as "the de facto minimum standard" for the "sound prudential regulation and supervision of banks and banking systems." They are also "used by the International Monetary Fund (IMF) and the World Bank in the context of the Financial Sector Assessment Program (FSAP) to assess the effectiveness of countries' banking supervisory systems and practices."[3] Non-compliance with these principles can therefore have a considerable impact on sovereign credit ratings and refinancing costs.

The revised Core Principles reinforce the need for preventive resilience-based supervision, taking a forward-looking approach to risk like climate-related financial risks explicitly into account and moving beyond relying mainly on backward-looking data for risk analysis and management.[4] This finally brings in line the BCBS's Core Principles with the need for forward looking risk based supervisory tools and approaches, which became prevalent in the 2007/2008 Global Financial Crisis, and which has become embedded in accounting standards such as IFRS 9 for high risk and non-performing exposures. The Core Principles thereby reinforce various guidelines and principles issued by the BCBS over recent years on how supervisors are expected to ensure that financial institutions assess and manage

[1] The authors would like to thank Liyang (Alex) Tang, Economist, Financial Surveillance Group, AMRO, and Dr Alexander Barkawi, Director, CEP, for their input into this paper.
[2] BCBS, 2024. Core principles for effective banking supervision.
[3] BIS, 2024. International supervisory community meets to discuss challenges ahead for global bank supervision and regulation. Press release.
[4] BCBS, 2024. Core principles for effective banking supervision.

climate risks effectively.[5] In addition, they formally introduce a definition of "climate-related financial risks" (CP10.1) and adjustments to the requirements for scenario analysis and stress testing to facilitate a more flexible and proportionate application (CP15 Risk management process).

While the specific progress of each ASEAN+3 economy in aligning with the revised BCBS Core Principles can vary, there are several overarching efforts and initiatives that reflect their commitment to these principles:

1. **Climate-Related Financial Risks:** The ASEAN+3 economies are increasingly recognizing the importance of addressing climate-related financial risks within their supervisory frameworks. Supporting tools to this end are initiatives such as the ASEAN Disaster Risk Financing and Insurance program (ADRFI) and the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), which aim to strengthen the region's resilience against disaster and climate risks. These efforts are complements to the BCBS's emphasis on incorporating climate-related financial risks into the supervisory process, as discussed in the Basel Committee's holistic approach to addressing such risks.

2. **Forward-Looking Risk Management:** Acknowledging the likelihood of forward-looking risks to materialise, ASEAN+3 economies have started taking a proactive approach to economic and financial risk management, as demonstrated by their disaster risk financing initiatives. These initiatives are designed to provide access to necessary financial resources in the aftermath of shocks to mitigate the financial impacts of disaster and climate shocks. Supervisors have also started to assess climate-related financial risks with stress tests and scenario analysis, supporting an anticipatory and forward-looking approach to managing climate-related financial risks. This approach is in line with the BCBS's revised Core Principles, which advocate for a forward-looking perspective in risk analysis and management.

3. **Preventive Resilience-Based Supervision:** The emphasis on preventive resilience-based supervision is mirrored in the ASEAN+3's efforts to strengthen financial and societal resilience against disaster and climate risks. By focusing on disaster risk financing solutions and promoting regional cooperation mechanisms, ASEAN+3 economies have already started working towards building a more resilient financial system and are increasingly assessing tools to ensure that the financial system can also pre-emptively manage and mitigate climate-related financial, economic and societal risks.

[5] BCBS, 2022. Principles for the effective management and supervision of climate-related financial risks; and BCBS, 2022. Frequently Asked Questions on climate-related financial risks.

4. **Moving Beyond Backward-Looking Data:** Although there are still few explicit examples of ASEAN+3 economic and financial actors moving beyond backward-looking data for risk analysis and management, their focus on scenario analysis and disaster risk financing suggests a shift towards more dynamic and predictive risk assessment methods. These methods rely on a range of data sources, including forward-looking scenarios, to better anticipate and manage potential risks.

Next steps for the Basel III Pillars

To that end, acting across all three pillars of the Basel framework is key for the effective regulation and supervision of climate-related risks. This includes:

1. Ensuring that climate-related risk drivers and other associated risk drivers, such as nature-related risks, are included in the assessment of financial risks across all risk categories, and ensuring that these assessments are adequately reflected in the calculation of risk-weighted assets (RWAs) **(Pillar 1)**;

2. Defining and reviewing supervisory expectations on assessing and managing climate-related risks, , including on transition planning; and the inclusion of climate risks in the Internal Capital Adequacy Assessment Process (ICAAP) **(Pillar 2)**;

3. Improving climate-related financial risk disclosures by updating disclosure standards, including issuing machine-readable disclosure templates that capture all climate risks **(Pillar 3)**.

Whilst the BCBS has to date focused on climate-related financial risk integration, nature-related financial risks are also part of emerging financial risks, which the Core Principles require to be taken into account for financial supervision and regulation. In the following, we focus on climate-related aspects, however, financial supervisors are well advised to also develop approaches for emerging risks such as nature-related financial risks.

Pillar 1

The BCBS states that climate risks are drivers of traditional risk categories such as credit, market, liquidity and operational risks, and are expected to be taken into account in the risk-weighted assets calculation. It is therefore a welcome development that the BCBS has finally explicitly integrated climate-risk considerations within its Core Principles, and thereby reinforce their expectations outlined in previous guidelines for financial supervisors[6] to ensure that their supervised institutions integrate these risks appropriately, amongst others in their risk-weighted asset calculations.[7]

Due diligence is a core BCBS recommendation for Pillar 1, asking financial supervisors and financial institutions to ensure that data appropriately reflects climate-related risks for the asset valuation process. Various financial supervisors have also started to take action. The European Banking Authority (EBA) defined a set of possible short, medium and longer term measures for the integration of environmental (including climate-related) and social risks in Pillar 1.[8] The European Central Bank (ECB) explicitly mentions the need to integrate climate and environmental risk drivers into the risk assessment process in the updated ECB guide to internal models.[9]

Following the BCBS's climate risk guidelines and the revised Core Principles, supervisors need to specify their expectations on how climate-related risk drivers should be accounted for by FIs in assigning risk exposures in the Standardised Approach, as well as their expectations for the integration of climate risks in the Internal Ratings Based approach. Ensuring compliance with these expectations is critical to mitigate against risk under-estimation and model arbitrage.

Furthermore, the BCBS recommended already in 2022 that banks should take a conservative approach to the calculation of the RWAs when they lack sufficient information to fully capture a counterparty's climate-related risks and to account for uncertainties.[10] Institutions are recommended to add margins of conservatism (MoC) to their estimates,[11] and might in the future also use in-model adjustments or overlays based on expert knowledge. Such approaches are expected to develop as best practice in the context of assessing forward-looking and novel, emerging financial risks.[12] In its guide to internal models, the ECB considers expert-judgement based overrides for model inputs and outputs, and highlights that utilising such overrides of final ratings, using a more conservative approach for climate-related

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[6] BCBS, 2022. Principles for the effective management and supervision of climate-related financial risks; and BCBS, 2022. Frequently Asked Questions on climate-related financial risks.
[7] BCBS, 2023. The Basel Framework.
[8] EBA, 2023. On the role of environmental and social risks in the prudential framework. Report.
[9] ECB, 2024. ECB guide to internal models.
[10] BCBS, 2022. Frequently Asked Questions on climate-related financial risks.
[11] The need to apply MoCs to account for uncertainty and estimation errors has been reiterated in the revised core principles, see BCBS, 2023. Core principles for effective banking supervision. Consultative Document.
[12] See for example ECB, 2023. Overlays and in-model adjustments: identifying best practices for capturing novel risks.

and environmental risks, might be appropriate to overcome issues of insufficient information.[13]

Building on the BCBS' Core Principles and previous climate risk guidelines, financial supervisors in ASEAN+3 could start with implementing the following straightforward steps, in order to encourage financial institutions to integrate climate risk considerations appropriately into their Pillar 1 calculations:

(1) **Supervisors could integrate the wording as found in the Basel Core Principles[14] and in the various elements of the Basel III framework[15] into their domestic supervisory guidance for risk assessment.** This would ensure appropriate focus is given to the oversight of climate-related financial risks.

(2) **Integrate climate risk considerations explicitly in the supervisory guidance on the calculation of risk-weighted assets across all relevant standards[16].** This holds for all traditional risk categories, such as the calculation of credit risk, operational risk, market risk and liquidity risk.

(3) **Include expectations to add margins of conservatism to the underlying asset values calculated for the RWAs to account for climate-related and other uncertainties.** Issue also additional recommendations on best practice and the use of overlays and in-model adjustments to deal with uncertainty and missing forward-looking information.

In addition to the current recommendations from the BCBS, financial supervisors could start to explore supporting the resilience of financial institutions to climate and nature-related risks by adjusting the risk weights to considerably exposed assets. They could build on the approach that the BCBS has

[13] ECB, 2024. ECB guide to internal models.
[14] See Footnotes related to climate in BCBS, 2024 - Core principles for effective banking supervision. Examples include: (a) The supervisor considers the macroeconomic environment, climate-related financial risks and emerging risks in its risk assessment of banks; (b) Banks should include climate-related financial risks assessed as material over relevant time horizons, including in their stress testing programmes where appropriate; (c) The time horizon for establishing a forward-looking view should appropriately reflect climate-related financial risks and emerging risks as needed.
[15] Basel Framework: Various FAQs in footnotes across the full Basel Framework documents include the wording from the BCBS, 2022 Frequently Asked Questions on climate-related financial risks. Such as for example the note on CRE 20.4 (Due Diligence requirements): "FAQ1 - Should banks assess climate-related financial risks as part of the due diligence analyses with respect to counterparty creditworthiness? Climate-related financial risks can impact banks' credit risk exposure through their counterparties. To the extent that the risk profile of a counterparty is affected by climate-related financial risks, banks should give proper consideration to the climate-related financial risks as part of the counterparty due diligence. To that end, banks should integrate climate-related financial risks either in their own credit risk assessment or when performing due diligence on external ratings."
[16] Further information on the key points to integrate into supervisory guidance can be found in BCBS, 2022 - Frequently Asked Questions on climate-related financial risks.

recommended for the prudential treatment of crypto assets, with higher risk weights up to 1250% for high risk assets.[17] This would ensure a one-for-one approach for very risky exposed assets, i.e. that for each $100 of lending to a climate or nature-related high risk project or firm (such as firms without appropriate transition and adaptation plans), the bank would need to hold $100 of capital to safeguard against the prospective financial loss[18] (and to mitigate against possible contagion effects across institutions). This would be a limiting approach for lending to such risky assets, with the idea to either discourage such risky lending, or for undertaking further mitigating actions to be taken to reduce the risk.

Pillar 2

As outlined by the BCBS, it is crucial that financial regulators and supervisors define standards and guidelines for financial institutions regarding their climate-related risk management.[19] Such standards should then serve as the basis for supervisory dialogues under Pillar 2 of the Basel Framework, as well as their SREP processes, and could imply capital add-ons for financial institutions who do not meet Supervisory expectations for the treatment of such assets.

Various ASEAN+3 financial supervisors have already issued climate or broader nature-related financial risk management guidelines and expectations for banks and other financial institutions and are continuously updating their expectations as climate and nature-related financial risk management matures. This includes for example the Bangko Sentral ng Pilipinas (BSP)[20], the Bank Negara Malaysia (BNM),[21] the Bank of Thailand (BOT),[22] the Monetary Authority of Singapore (MAS),[23] and the Japan Financial Services Agency (JFSA).[24]

If institutions fail to meet the prudential risk management expectations, supervisors need to take enforcement action such as penalties or imposing additional capital requirements, as foreseen in the Basel III framework.[25] For example, the ECB includes the qualitative requirements of its climate and

[17] BCBS, 2022. Prudential treatment of cryptoasset exposures.
[18] i.e. 8% of ($100*1250%) = $100
[19] BCBS, 2022. Principles for the effective management and supervision of climate-related financial risks.
[20] BSP, 2021. Environmental and soclal Rlsk Management Framework.
[21] BNM, 2022. Climate Risk Management and Scenario Analysis; and BNM, 2022. Climate Risk Management and Scenario Analysis. Supplemental Guidance.
[22] BOT 2023. Internalizing Environmental and Climate Change Aspects into Financial Institution Business.
[23] MAS, 2020. Guidelines on Environmental Risk Management for Banks; and MAS, 2022. Information Paper on Environmental Risk Management (Banks).
[24] JFSA, 2022. Supervisory Guidance on Climate-Related Risk Management and Client Engagement. Discussion Paper.
[25] BCBS, 2019. Overview of Pillar 2 supervisory review practices and approaches.

environmental risk management expectations in their supervisory evaluation, and already adjusted their SREP add-ons for some banks, which impacted their capital requirements.[26] In addition, the ECB announced to introduce penalties for non-compliant banks.[27] By the end of 2024, it expects banks to fulfil all supervisory expectations, including the incorporation of these risks into banks' internal assessment of capital adequacy.[28]

Within ASEAN+3, various financial supervisors are already engaging on the adequacy of the ICAAP and the overall risk management of financial institutions with regards to climate and environmental risks. MAS for example calls for further work by banks to "integrate environmental and climate-related risks into internal capital adequacy assessment processes where appropriate".[29] BNM in its climate risk management expectations repeatedly highlights the need to integrate climate risks in the ICAAP, amongst others, in Principle 5: "Financial institutions shall embed climate-related risks into the risk appetite framework, including the potential long-term impact of these risks as drivers of existing types of material risks. Financial institutions shall reflect these material risks in the internal capital adequacy assessment process."[30] The BSP has stated that "a bank shall measure and manage Environmental and Social (E&S) risks relative to its credit operations. It shall adopt measurement methodologies that capture, quantify, and assess the most relevant E&S risks. These shall include stress testing exercises and scenario analysis aligned with the banks business model, risk appetite, and credit risk strategy, amongst others."[31] The BOT has stated that "Financial institutions should integrate environmental risks as part of the organizational risk culture and risk management process with regards to the Three Lines of Defense model, as well as having in place policies, mechanisms, and data capability to support effective risk management. Lastly, there should be policies and processes to identify, assess, control, monitor and report environmental risks."[32]

Complementary to the general risk management expectations, various financial supervisors in ASEAN+3 and beyond have outlined that forward-looking climate and nature-related financial risk management requires the definition of explicit transition planning expectations for financial institutions. This supports the financial resilience of institutions and the sector as a whole, since it reduces the endogenous risks of accumulating climate-and nature-related risks in the economy and in financial institutions' balance sheets. Acknowledging the need for appropriate

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[26] ECB, 2022. ECB sets deadlines for banks to deal with climate risks.
[27] Elderson, 2024. Making banks resilient to climate and environmental risks – good practices to overcome the remaining stumbling blocks.
[28] ECB, 2022. ECB sets deadlines for banks to deal with climate risks.
[29] MAS, 2022. Information Paper on Environmental Risk Management (Banks).
[30] BNM, 2022. Climate Risk Management and Scenario Analysis.
[31] BSP, 2021. Environmental and Social Risk Management Framework. Circular No. 1128.
[32] BOT, 2023. Policy Statement of the Bank of Thailand Re: Internalizing Environmental and Climate Change Aspects into Financial Institution Business.

transition planning and transition finance to move towards net zero economies, MAS, for example, issued a set of consultation papers on guidelines for financial institutions' transition planning,[33] which could eventually also be used in the Pillar 2 supervisory evaluation and for additional capital add-ons if expectations are not met. European supervisors are also preparing for a more structural integration of transition plans in the current legislative reform of EU's prudential regulation.[34] Similarly, the Hong Kong Monetary Authority (HKMA) expressed its expectations on core high level principles for transition planning in a letter to its supervised financial institutions.[35]

As highlighted by the NGFS, another important risk to consider would be the surge in climate and nature-related litigation, which might involve compensation for climate and nature-related damages and paying for restoration activities. Indeed, litigation risks do not even necessarily need to materialize – just the presence of the risk itself might require firms to provision substantial amounts of revenues to pay for future possible liabilities and reduce their profits accordingly. This might then reduce the equity value of such listed firms, as there would be a reduction in the amount of revenue available for dividend payments, share buy-backs, and capital expenditure. If firms do not provision the amount of capital that might be potentially required for litigation risks, they may face solvency issues in case of successful litigation cases against them, with major second-round repercussions for investors and financial markets. Disclosure standards need to specify how these litigation risks are dealt with, in addition to the standard transition and physical risks. The recent surge in climate litigation cases has amplified the need for such explicit considerations.[36] This looming climate litigation risk and its special nature, compared to other risk drivers, has been highlighted by the NGFS,[37] alongside considerations of the micro-prudential implications of those risks.[38]

The following steps may be useful for supervisors in ASEAN+3 to take to enhance supervisory practice within Pillar 2, in order to improve and enhance climate-related risk management of the financial institutions they supervise:

(1) **Issue supervisory expectations for climate-related financial risk management, including net zero transition planning expectations**, and ensure that these expectations are understood and integrated consistently by financial institutions into their internal risk management process.

[33] MAS, 2023. Consultation Paper on Proposed Guidelines on Transition Planning for Banks.
[34] Elderson, 2024. Failing to plan is planning to fail – why transition planning is essential for banks. Blog post.
[35] HKMA, 2023. Planning for net-zero transition.
[36] Columbia Sabin Center for Climate Change Law, 2024. Climate Change Litigation Databases.
[37] NGFS, 2023. Climate-related litigation: recent trends and developments.
[38] NGFS, 2023. Report on micro-prudential supervision of climate-related litigation risks.

(2) **Review and raise areas for improvement for the fulfilment of the supervisory expectations for climate-related financial risk management and net zero transition planning in annual supervisory dialogues with financial institutions,** ensuring that key activities for better risk management are defined, and that expectations evolve in line with best practice as experience with climate-related risk management increases.

(3) **Ensure that climate-related risks are appropriately reflected in the ICAAP of financial institutions,** and that the methods, assumptions and results are not less stringent than under the Pillar 1 RWA calculation processes.

(4) **Enforce the supervisory expectations by using additional supervisory tools under Pillar 2 like penalties and capital add-ons,** if financial institutions repeatedly fail to meet the risk management expectations, and do not adequately reflect climate-related financial risks in the ICAAP process.

Pillar 3

The BCBS is currently co-ordinating with the International Sustainability Standards Board (ISSB) on integrating on climate and nature related risks into the Basel III Pillar 3 disclosure requirements.[39] Whilst the ISSB's global baseline for sustainability-related financial disclosures (IFRS S1[40]) and the climate-related disclosures standard (IFRS S2[41]) target both financial and non-financial corporates, the alignment of Pillar 3 disclosures with the ISSB standards is high on the agenda at the global level and for national supervisors.

In parallel, various financial supervisors have started to explore the integration of the ISSB standards into their domestic disclosure and regulatory reporting regimes. The financial regulators' announcements are accompanied by general aims to improve corporates' climate and environmental disclosures to reduce information asymmetries, enable comprehensive financial risk management and enhance consumer protection. For example, MAS, together with the Singapore Exchange Regulation (SGX RegCo) announced the implementation of mandatory sustainability-related disclosures for listed companies, major financial institutions, and retail ESG

[39] BCBS, 2023. Disclosure of climate-related financial risks. Consultative document.
[40] IFRS, 2023. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
[41] IFRS, 2023. IFRS S2 Climate-related Disclosures.

funds, starting with the financial year 2022.[42] Moving ahead, MAS,[43] SGX RegCo together with the Singapore Accounting and Corporate Regulatory Authority (ACRA)[44] as well as the Hong Kong Stock Exchange (HKEX)[45] and the Joint Committee on Climate Change (JC3) from Bank Negara Malaysia and the Securities Commission Malaysia[46] have engaged in consultations with their regulated entities on how to update mandatory reporting moving from TCFD-based disclosures to the implementation of the ISSB standards starting for the financial year 2024 or 2025, respectively. The move towards mandatory ISSB-based reporting is in line with recommendations by the FSB,[47] and with the recommendations by international standard setters such as the International Organization of Securities Commission (IOSCO).[48]

In addition to the climate risk disclosures on past developments and the status quo, standardized and comparable forward-looking disclosures and transition plans are key. The ISSB standards recommend the disclosure of transition strategies and resilience of business models in the light of increasing climate risks. Transition plans are the outcome of meaningful transition planning processes (cf. Pillar 2 elaborations on the matter above). The usefulness of transition plan disclosures by financial institutions for the supervisory process has been repeatedly stated by regulators including the MAS,[49] and is also high on the agenda in the NGFS[50] and at the FSB. In the FSB 2023 Roadmap for Addressing Financial Risks from Climate Change Progress report, a key priority area is noted as follows: "There is a growing interest in the role of transition plans of financial institutions and non-financial corporates not only in enabling an orderly transition, but also as a source of information for financial authorities to assess micro-and macroprudential risks."[51] As a further example, the HKMA released a letter to its supervised entities to share its expectations

[42] MAS, 2022. Disclosure and Reporting Guidelines for Retail ESG Funds. Circular No. CFC 02/2022; and SGX RegCo, 2024. Sustainability Reporting.
[43] MAS, 2024. Sustainability-related Disclosures.
[44] ACRA and SGX RegCo, 2023. Turning Climate Ambition into Action in Singapore. Recommendations by the Sustainability Reporting Advisory Committee. Consultation Paper.
[45] HKEX, 2023. Enhancement of Climate-related Disclosures under the Environmental, Social, and Governance Framework. Consultation Paper.
[46] JC3, 2023. Joint Statement by Bank Negara Malaysia and Securities Commission Malaysia: Updates from the 11th Joint Committee on Climate Change (JC3) Meeting.
[47] FSB, 2023. FSB Roadmap for Addressing Financial Risks from Climate Change Progress Report.
[48] IOSCO, 2023. IOSCO endorses the ISSB's Sustainability-related Financial Disclosure Standards. Media Release.
[49] MAS, 2023. MAS to Set Expectations on Credible Transition Planning by Financial Institutions. Press Release; and MAS, 2023. MAS Guidelines for Financial Institutions on Transition Planning for a Net Zero Economy. Press Release.
[50] NGFS, 2023. Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities.
[51] FSB, 2023. FSB Roadmap for Addressing Financial Risks from Climate Change Progress report.

on core high level principles for transition planning, referencing the requirement to disclose transition plans as part of the ISSB standards.[52]

In line with the recommendations and steps undertaken by the BCBS, financial supervisors would benefit from improving Pillar 3 disclosure requirements to enhance financial market discipline and to also allow them to better conduct sound reviews under Pillar 2 by implementing the following next steps:

(1) **Integrate the IFRS S1 and S2 disclosure elements into Pillar 3 disclosure requirements** and ensure that the requirements are updated as further ISSB standards are developed and released.

(2) **Issue supervisory guidance for transition plans for the strategy-related disclosures,** to ensure that forward-looking qualitative disclosures are precise and include specific elements to be disclosed to ensure comparability across institutions. Disclosure elements that allow for simplified yes/no assessments could support comparability and assessments of the transition plans.

(3) **Issue disclosure templates for the required Pillar 3 disclosure requirements,** to reduce search costs for financial institutions (i.e. which information should be disclosed exactly), and information costs for users (i.e. to enhance comparability across financial institutions).

(4) **Ensure that disclosure templates are machine-readable,** by building on the IFRS's release of the Sustainability Disclosure Taxonomy,[53] which is an xbrl-based digital tagging system that is already used for financial reporting in general, to enhance access to the information for supervisory purposes and reduce the level of human resource needed for the analysis of such supervisory reporting.

[52] HKMA, 2023. Planning for net-zero transition.
[53] IFRS, 2024. IFRS Sustainability Disclosure Taxonomy 2024.

Moving Ahead

Moving ahead, financial supervisors need to set clear standards and guidelines to ensure that climate-related financial risks and other emerging risks such as nature-related risks are firmly on top of the agenda of individual financial institutions and that the financial system builds up resiliency against these risks. Whilst adjusting regulatory and supervisory tools to tackle these risks might be challenging, not taking action will only escalate the risks in the medium term.

An early start to explicitly integrating climate-related financial risks across all three Basel III Pillars is key to enhance climate related data availability and quality, to strengthen assessment tools and methodologies, and thus safeguard financial stability. Supervisors will also need to ensure they have the knowledge and understanding to be able to assess whether climate risks are being appropriately captured within financial institutions' RWA calculations, and to mandate capital add-ons and penalties when they are not. In parallel, financial supervisors are well advised to also develop and strengthen supervisory approaches for emerging risks such as nature-related financial risks.