New regulation on social, environmental, and climate-related risk disclosures

September 15, 2021
This document represents the best efforts of the Central Bank of Brazil (BCB) to provide an English version of the original regulation. Hence, it should not be deemed as an official translation. The Brazilian main prudential financial regulation can be accessed at BCB’s website.

Prudential and Foreign Exchange Regulation Department
Central Bank of Brazil
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1. Executive Summary

This document has the purpose of presenting disclosure rules for social risk, environmental risk, and climate-related risk management by regulated institutions of the National Financial System, published on September 15, 2021. The new regulation incorporates principles of proportionality that consider an institution’s size and risk profile and will apply from December 2022 on to institutions allocated to Segment 1 (S1), Segment 2 (S2), Segment 3 (S3), and Segment 4 (S4), as defined in Resolution CMN 4.553, of January 30, 2017.

This new set of rules on disclosure is directly linked to recent improvements to the risk management framework comprising specific requirements for social risk, environmental risk, and climate-related risk and extending to these risks the general requirements applicable to all financial risks.

Both regulations are part of BCB’s efforts in acknowledging the relevance of social, environmental, and climate-related issues for the Brazilian economy and financial stability. They are deliverables agreed under the Sustainability dimension of the BCB’s institutional agenda (Agenda BC#).

The disclosure rule is inspired by the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) but is not limited to a climate perspective. The scope was enlarged to include social and environmental issues, considering their importance of these topics for Brazil and its financial system.

The disclosure requirements will be implemented in two phases: Phase 1, launched in 2021, addresses qualitative aspects related to governance, strategy, and risk management, and Phase 2, scheduled for 2022, will address quantitative aspects like metrics and targets.

Building on the experience of the Pillar 3 standard in the Basel framework, information is required to be disclosed in a standardized “GRSAC Report”, consisting of templates that focus on each of the core elements in TCFD recommendations: governance, strategy, risk management, and metrics and targets. This approach is useful for achieving consistency and comparability among different institutions.

Disclosure of information related to the management of social risk, environmental risk, and climate-related risk by financial institutions is crucial to improve transparency, to reduce information asymmetry and to improve market discipline in the financial system.

Given the relevance of the subject, the new regulation was submitted to public consultation from April 26 to June 5, 2021.

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1 For more details, please refer to ResolutionCMN4553.pdf (bcb.gov.br)
2 For detailed information: https://www.bcb.gov.br/en/financialstability/sustainability
2. Main aspects of the risk management regulation related to social risk, environmental risk, and climate-related risk

Several aspects of the new rule on disclosure presented in this document are based on the improvements of the regulation on management of social risk, environmental risk, and climate-related risk, highlighting the enhancements in definitions and requirements related to these risks, present in Resolution CMN 4,557 of February 23, 2007.

The new risk management framework focuses on addressing potential losses for a financial institution, whether due to its own activities or the activities performed by its counterparties, controlled entities, and suppliers and providers of outsourced services.

Relevant improvements on the new risk management regulatory framework may be summarized as follows:

- **A new definition of social risk**, characterized as the possibility of losses resulting from events related to violation of human rights and guarantees or to acts harmful to common interests. The definition encompasses a non-exhaustive list of instances of social risk events, such as: acts of harassment, discrimination or prejudice based on personal traits; noncompliance with labor or pension legislation; practice related to slave-like labor conditions or irregular, illegal or criminal exploitation of child labor; practice related to human trafficking, sexual exploitation or criminal exploitation of prostitution; irregular, illegal or criminal act that impacts traditional people or communities, such as indigenous groups; acts harmful to public, historic, or cultural heritage; and irregular, illegal, or criminal practices associated with foodstuff or products potentially harmful to society; environmental disaster, in terms of its social impacts; among others.

- **A new definition of environmental risk**, characterized as the possibility of losses resulting from events related to environment degradation, including the excessive consumption of natural resource. The definition encompasses a non-exhaustive list of instances of environmental risk events, such as: irregular, illegal, or criminal acts against fauna or flora; including degradation of biomes or biodiversity; air, water, or soil pollution; irregular, illegal or criminal exploitation of natural resources; non-compliance with environmental licensing conditions. The list of risk events also encompasses environmental disaster, in terms of its environment degradation, including those resulting from dam failure, nuclear accident, or spillage of chemicals into water; among others.

- **A new definition of climate-related risk**, in its both dimensions of transition risk and physical risk. Climate-related transition risk is characterized as the possibility of losses resulting from events related to the process of adjustment towards a lower-carbon economy, in which the emission of greenhouse gases is reduced or compensated, and natural carbon sinks are preserved. The definition encompasses a non-exhaustive list of instances of transition climate-related risk.

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For the purposes of the regulation, a common interest is that one associated with a group of persons legally or factually connected for the same cause or circumstance, when not related to the definition of environmental risk, climate-related transition risk or climate-related physical risk.
events, such as changes in legislation, regulation, or government action; technological innovations; shifts in supply-and-demand; and negative perceptions on the institution’s contribution to a low-carbon economy. Climate-related physical risk is characterized as the possibility of losses resulting from events related to frequent and severe meteorological conditions or long-term environmental shifts, which may result from changes in climate patterns. The definition encompasses a non-exhaustive list of instances of physical climate-related risk events, such as droughts, floods, storms, cyclones, frosts, and forest fires; and rise of sea level, scarcity of natural resources, desertification and change in rainfall or weather patterns.

- The new rule reinforces the integration of social risk, environmental risk, and climate-related risk in the management of traditional financial risks, establishing specific rules for the identification, measurement, evaluation, monitoring, reporting, control, and mitigation of the adverse effects arising from interactions among all risks. Such rules include mechanisms for the treatment of social risk, environmental risk, and climate-related risk as material sources of credit risk, market risk, interest rate risk in the banking book (IRRBB), operational risk (including legal risk), and liquidity risk.

- The new rule extends to social risk, environmental risk, and climate-related risk the same general requirements already established for traditional risks (credit, market, interest rate in the banking book, operational and liquidity). Such requirements comprise, among other rules, the inclusion of social risk, environmental risk, and climate-related risk in the institution’s Risk Appetite Statement (RAS); in the management of business continuity; in the stress testing program; and in the risk governance structure, including the reporting of information regarding these risks for the senior management, the risk committee, and the board.

- The proposal presents specific requirements for the management of social risk, environmental risk, and climate-related risk. Such requirements include mechanisms for the timely identification of a negative perception of institution’s reputation as well as of concentrations to economic sector or geographical regions more susceptible to suffering or causing damages; the register of relevant data, including data on losses incurred; and the performance of scenario analyses considering hypotheses of changes in climate patterns and adjustment towards a low-carbon economy.
3. The disclosure rule on social, environmental, and climate-related risks and opportunities (GRSAC Report)

RESOLUTION BCB 139, OF SEPTEMBER 15, 2021

Provides for the disclosure of information in the Report on Social, Environmental and Climate-related Risks and Opportunities (GRSAC Report).

The Board of Governors of the Central Bank of Brazil, at a meeting held on August 24, 2021, based on articles 9, 10, item IX, and article 11, item VII, of Law 4,595, of December 31, 1964, and considering article 56 of Resolution CMN 4,557 of February 23, 2017,

RESOLVES:

CHAPTER I

NATURE AND SCOPE OF REGULATION

Article 1. This Resolution BCB provides for the disclosure of information in the Report on Social, Environmental and Climate-related Risks and Opportunities (GRSAC Report).

Article 2. Financial institutions and other institutions licensed by the Central Bank of Brazil allocated to Segment 1 (S1), Segment 2 (S2), Segment 3 (S3) and Segment 4 (S4), as defined in Resolution CMN nº 4,553 of January 30, 2017, must publish the GRSAC Report.

Paragraph 1. The GRSAC Report must be prepared on a consolidated basis comprising all institutions that are part of the same prudential conglomerate, as defined in Resolution CMN 4,280 of October 31, 2013.

Paragraph 2. A credit cooperative system may publish a unified GRSAC Report, regardless of the segment that its member cooperatives are allocated to, subject to the following conditions:

I - the structure for risk management and the structure for capital management are centralized, in the terms of article 4 of Resolution CMN 4,557 of February 23, 2017; and

II - the duties and responsibilities of decision-making instances for social risk, environmental risk and climate-related risk are identical for all members of the credit cooperative system.

Paragraph 3. The GRSAC Report mentioned in Paragraph 2 must be published by the central confederation or by the cooperative bank, or, in the absence of them, by a central cooperative that is a member of the credit cooperative system.
CHAPTER II
DISCLOSURE OF INFORMATION

Article 3. The GRSAC Report must contain the following information related to social risk, environmental risk, and climate-related risk, as defined in Resolution CMN 4,557 of 2017:

I - governance of risk management for the risks listed on the heading, including duties and responsibilities of decision-making instances for social risk, environmental risk and climate-related risk management, such as the board, when existent, and the senior management;

II - real and potential impacts, when deemed relevant, of the risks mentioned in the heading in business strategies undertaken by the institution and in risk management and capital management in the short, medium, and long-term under different scenarios, according to documented criteria; and

III - processes for management of the risks mentioned in the heading.

Article 4. The disclosure of the following information in the GRSAC Report is optional:

I - quantitative indicators used in the management of the risks mentioned in article 3; and

II - business opportunities associated to the following issues:

a) social, considering the respect, the protection and the promotion of fundamental rights and guarantees, and of commons interests, as defined in Resolution CMN 4,557, of 2017;

b) environmental, considering the protection and the recovery of the environment, including damage restoration whenever possible; and

c) climate-related, considering:

1. the transition to a low-carbon economy, in which the level of greenhouse gases is reduced or offset, and the natural carbon-sinks are preserved; and

2. reduction of impacts caused by frequent and severe weather events or by long-term environmental changes which may be associated with changes in weather patterns.

Article 5. The information mentioned in article 3 must be disclosed according to the following templates:

I - Template GVR: Governance of management of social risk, environmental risk and climate-related risk, with regard to the topic in the article 3, item I;

II - Template EST: Strategies undertaken in management of social risk, environmental risk, and climate-related risk, with regard to the topic in the article 3, item II; and

III - Template GER: Management processes for social risk, environmental risk and climate-related risk, with regard to the topic in the article 3, item III.

Article 6. The information mentioned in article 4 must be disclosed according to the following templates:
I - Template MEM: Indicators used in social risk, environmental risk, and climate-related risk management, with regard to the topic in the article 4, item I; and

II - Template OPO: Business opportunities associated with social, environmental and climate-related issues, mentioned in the article 4, item II.

Article 7. The layouts of the templates mentioned in articles 5 and 6 will be established by the Central Bank of Brazil.

Paragraph 1. Provided that no change is made to the order of presentation in the templates established by the Central Bank of Brazil, the following is admitted:

I - inclusion of lines in order to achieve more granularity of information;

II - exclusion, duly justified, of lines that correspond to information deemed not relevant.

Paragraph 2. Templates must be published with their respective headers.

Paragraph 3. The relevance criteria, in the terms of article 56 of Resolution CMN 4,557 of 2017, that justify not disclosing required information must be documented.

Paragraph 4. In the exceptional cases when disclosing information required in the GRSAC Report hampers intellectual property or confidentiality clauses, the corresponding specific item may not be disclosed, provided that a justification is supplied as an additional comment to the respective template.

CHAPTER III
DISCLOSURE REQUIREMENTS BY SEGMENT

Article 8. Institutions allocated to segments S1 and S2 must publish all templates described in article 5.

Article 9. Institutions allocated to segments S3 and S4 must publish the template described in article 5, item I.

CHAPTER IV
DISCLOSURE FREQUENCY

Article 10. The GRSAC Report must be published on an annual basis, considering December, 31 as the reference date, within 90 days after the respective reference date.

CHAPTER V
FINAL PROVISIONS

Article 11. The GRSAC Report must be available for a period of five years from the publication in a single location of easy and public access in the institution’s internet website.

Sole Paragraph. The GRSAC Report must also be made available in open data format, according to specifications provided by the Central Bank of Brazil.

Article 12. The director appointed according to article 56-A of Resolution CMN 4,557 of 2017 is responsible for the disclosure of information in the terms of this Resolution BCB.
Article 13. The GRSAC Report must be immediately updated and republished whenever any inconsistencies are identified.

Sole Paragraph. A correction as mandated in the heading must be explicitly indicated in the new version of the GRSAC Report in the institution’s internet website and be made available for a period of five years from the date of republication.

Article 14. The following schedule applies for the publication of the GRSAC Report:

I - one hundred and eighty days after the reference date for the GRSAC Report relative to December 2022; and

II - one hundred and twenty days after the reference date for the GRSAC Report relative to December 2023.

Article 15. The open data format version of the GRSAC Report must be published from the reference date of December 2023 on.

Article 16. This Resolution enters into force on December 1\textsuperscript{st}, 2022.

Otávio Ribeiro Damaso
Deputy Governor for Regulation
4. Templates

4.1. Template GVR: Governance of management of social risk, of environmental risk and of climate-related risk.

| Objective: | Description of the governance of management of social risk, environmental risk, and climate-related risk. |
| Content: | Qualitative information. |
| Frequency: | Annual. |

A description must be provided of role of the board, the senior management, the Chief Risk Officer (CRO), and the risk management committee in the governance process to identify, measure, evaluate, monitor, report, control and mitigate social risk, environmental risk, and climate-related risk, as defined in Resolution CMN n° 4,557 of February 23, 2017.

**Detailing of information**

| (a) | Identification of the decision instances and their roles within the management structure regarding social risk, environmental risk, and climate-related risk.  
- Consider decision-making instances in their several levels (strategic, tactical, operational, controlling and compliance, as defined in Resolution CMN 4,595 of August 28, 2017), particularly the board, the senior management, the CRO, the risk management and audit committees, and any other committee, business units and risk management unit. |
| (b) | Description of roles, duties and responsibilities of decision-making instances mentioned in item (a) and the interaction among them.  
- Consider, among roles, duties, and responsibilities, forms of controlling, delegation of powers and division of responsibilities. |
| (c) | Description of the processes and frequency that the board or, in its absence, the senior management is informed about social risk, environmental risk, and climate-related risk, considering the attributions described in item (b). |
| (d) | Description of the criteria employed by the board or, in its absence, the senior management to ensure that social risk, environmental risk, and climate-related risk will be considered in reviewing and approving:  
- levels of risk appetite undertaken by the institution;  
- policies, strategies and exposure limits in the risk and capital management;  
- the stress test programme;  
- policies for business continuity;  
- the liquidity contingency plan;  
- capital management and its contingency plan; and  
- compensation policy. |
| (e) | Forms employed by the board or, in its absence, the senior management to monitor the institution’s strategic goals and targets, if applicable, with regard to social, environmental, and climate-related aspects. |
### 4.2. Template EST: Strategies undertaken in management of social risk, environmental risk, and climate-related risk

**Objective:** Identification and description of the actual and potential impacts related to social, environmental, and climate-related risks, if deemed relevant, in business operations, strategies and capital management of the institution.

**Content:** Qualitative information

**Frequency:** Annual

A description is required of the potential impacts, if deemed relevant, related to social, environmental, and climate-related risks in the business operations, strategies, and capital management of the institution, as defined in Resolution CMN 4,557 of February 23, 2017.

#### Detailing of information

<table>
<thead>
<tr>
<th>(a)</th>
<th>Identification of social, environmental, and climate-related risk events that could potentially cause relevant losses to the institution in different time horizons:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Segregate, when possible, the information in categories of social risk events (a.1), environmental risk events (a.2) and climate-related risk events (a.3), along with the subcategories of physical risk and transition risk for this last one.</td>
</tr>
<tr>
<td></td>
<td>• Indicate the percentage of losses in credit portfolio and in other activities of financial intermediations by economic sector, geographic region, and average tenors.</td>
</tr>
<tr>
<td></td>
<td>• Indicate the criteria used to define the geographic region and to break down the time-horizons in short-, medium-, and long-term.</td>
</tr>
<tr>
<td></td>
<td>• Indicate the sources of information used in the identification process of risk events.</td>
</tr>
</tbody>
</table>

| (b) | Description of relevant risk concentrations of risks mentioned in item (a) in terms of credit exposures, considering article 38-D, item V, of Resolution CMN 4,557, of 2017. |

| (c) | Description of how the risk events mentioned in item (a) are considered in the business operations, strategies, and capital management, detailing the time horizon recognized and the criteria for prioritization of assessed risks. |

| (d) | Description of the hypotheses involving climate changes and transition to a low-carbon economy used in scenario analyses under the stress test programme, as defined in article 7, item VII, of Resolution CMN 4,557, of 2017. |

| (e) | Description of the institution’s ability to adapt under the hypotheses mentioned in item (d). |
4.3. Template GER: Management process of social risk, environmental risk, and climate-related risk.

**Objective:** Description of the management structure for social risk, environmental risk, and climate-related risk.

**Content:** Qualitative information.

**Frequency:** Annual.

Description of the risk management tools to identify, measure, evaluate, monitor, report, control and mitigate social risk, environmental risk, and climate-related risk, as defined in Resolution CMN 4,557 of February 23, 2017.

**Detailing of information**

<table>
<thead>
<tr>
<th></th>
<th>Description of the management process for identification, assessment and measurement of social risk, environmental risk, and climate-related risk.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b)</td>
<td>Description of criteria used to classify exposures to social risk, environmental risk and climate-related risk considering economic sector, geographic region, and average tenors.</td>
</tr>
<tr>
<td>(c)</td>
<td>Description of mechanisms for a timely identification of political, legal, and regulatory changes that may impact the climate-related transition risk faced by the institution.</td>
</tr>
<tr>
<td>(d)</td>
<td>Within the scope of an integrated risk management framework, description of the tools and systems used to address the interactions among the social risk, environmental risk, and climate-related risk, as well as among these risks and other risks incurred by the institution, as defined in article 38-E of Resolution CMN 4,557, of 2017.</td>
</tr>
<tr>
<td>(e)</td>
<td>Description of the management process of social risk, environmental risk, and climate-related risk, highlighting the monitoring, control, and mitigation of these risks.</td>
</tr>
<tr>
<td>(f)</td>
<td>Description of the mechanisms for monitoring risk concentration in economic sectors, geographic regions, products and services more susceptible to cause or suffer impacts from social risk, environmental risk, and climate-related risk.</td>
</tr>
</tbody>
</table>
4.4. Template MEM: Indicators used in social risk, environmental risk, and climate-related risk management

**Objective:** Description of quantitative indicators used in management indicators of social risk, environmental risk, and climate-related risk.

**Content:** Quantitative information.

**Frequency:** Annual.

A description is required of indicators used in management of social risk, environmental risk, and climate-related risk, as defined in Resolution CMN 4,557, of 2017.

<table>
<thead>
<tr>
<th>Description of Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(a)</strong> Present indicators used in management of social risk, environmental risk, and climate-related risk, highlighting the ones linked to:</td>
</tr>
<tr>
<td>- classification of risk exposures in terms of economic sector, geographic region, and average tenors; and</td>
</tr>
<tr>
<td>- relevant concentrations of credit risk exposure, with regard to provisions in article 38-D, item V, of Resolution CMN 4,557, of 2017.</td>
</tr>
<tr>
<td><strong>(b)</strong> Description of the methodologies used to calculate or estimate the indicators mentioned in item (a).</td>
</tr>
</tbody>
</table>
4.5. Template OPO: Business opportunities associated with social, environmental, and climate-related issues.

**Objective:** Description of business opportunities associated with social, environmental, and climate issues.

**Content:** Qualitative information.

**Frequency:** Annual.

A description is required of business opportunities associated with social, environmental, and climate-related issues, as defined in Resolution BCB 139 of September 15, 2021.

<table>
<thead>
<tr>
<th>Detailing of Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Description of the governance structure responsible for identification of business opportunities related to social, environmental, and climate-related issues, considering their several levels (strategic, tactical, and operational).</td>
</tr>
<tr>
<td>(b) Description of roles, duties and responsibilities of decision-making instances involved in the process mentioned in item (a) and the interaction among them.</td>
</tr>
<tr>
<td>(c) Description of the processes and frequency that the board and, in the absence of its, the senior management are informed about business opportunities regarding social, environmental, and climate-related issues.</td>
</tr>
</tbody>
</table>
| (d) Identification of business opportunities associated with social, environmental, and climate issues that could potentially generate revenues to the institution in different time horizons:  
  - Segregate, when possible, the information in categories of social events (d.1), environmental events (d.2) and climate-related events (d.3).  
  - Indicate the criteria used to define the geographic region and to break down the time horizons in short-, medium- and long-term. |
| (e) Description of the methods to identify the business opportunities mentioned in item (d). |
| (f) Description of how the business opportunities mentioned on item (d) are considered in the institution’s strategies, detailing time horizons and the criteria for prioritization of such opportunities. |
New regulation on social, environmental, and climate-related risk disclosures