



## **Public Consultation 86**

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

**April 26, 2021**

*This document represents the best efforts of the Banco Central do Brasil (BCB) to provide an English version of the original public consultation. Hence, it should not be deemed as an official translation. The Brazilian main prudential financial regulation can be accessed at BCB's website.*

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## CONTENTS

<b>1. Executive Summary .....</b>	<b>4</b>
<b>2. Main aspects of the proposal on management of social risk, environmental risk, and climate-related risk .....</b>	<b>5</b>
<b>3. The disclosure proposal on social, environmental, and climate-related risks and opportunities (GRSAC Report) .....</b>	<b>7</b>
<b>4. Templates.....</b>	<b>10</b>
4.1. Template GVR: Governance of management of social risk, of environmental risk and of climate-related risk.....	10
4.2. Template EST: Strategies undertaken in management of social risk, environmental risk and climate-related risk.....	11
4.3. Template GRI: Management process of social risk, environmental risk, and climate-related risk.....	12
4.4. Template MEM: Indicators used in social risk, environmental risk, and climate-related risk management.....	13
4.5. Template OPO: Business opportunities associated with social, environmental, and climate issues.....	14

## 1. Executive Summary

This document has the purpose of presenting Public Consultation 86, launched by the Banco Central do Brasil (BCB) on April 26, 2021 and involving disclosure rules for social risk, environmental risk, and climate-related risk management by institutions of the National Financial System. The new regulation will be subject to principles of proportionality that consider an institution's size and risk profile and will apply to institutions allocated to Segment 1 (S1), Segment 2 (S2), Segment 3 (S3), and Segment 4 (S4), as defined in Resolution CMN 4.553<sup>1</sup>, of January 30, 2017.

This proposal is directly linked to the ongoing Public Consultation 85<sup>2</sup> on improvement to the risk management framework to encompass requirements for social risk, environmental risk, and climate-related risk. Besides extending to these risks the general requirements applicable to all risks, a new set of specific rules is introduced. The new definitions and requirements in Public Consultation 85 form the basis for the rules on disclosure.

Both proposals 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<sup>3</sup> Pillar of the BCB's institutional agenda (Agenda BC#).

The disclosure proposal 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, outlined in the acronym ESG (Environmental, Social and Governance), considering their importance of these topics for Brazil and its financial system.

The disclosure requirements will be implemented in two phases: the first one, in 2021, addresses qualitative aspects related to governance, strategy, and risk management, and the second one, in 2022, will address quantitative aspects like metrics and targets.

Building on the experience of the Pillar 3 standards 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.

This new disclosure regulation is expected to be in force on January 1<sup>st</sup>, 2022, as proposed in Public Consultation 86<sup>4</sup>, which will be available for comments until June 5, 2021, at the BCB's website.

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<sup>1</sup> For more details, please refer to [ResolutionCMN4553.pdf \(bcb.gov.br\)](https://www.bcb.gov.br/resolucao/cm4553.pdf)

<sup>2</sup> Please refer to the translation of the Public Consultation 85 of April 7, 2021 at: [https://www.bcb.gov.br/content/financialstability/ruralcreditdocs/BCB\\_PublicConsultation85.pdf](https://www.bcb.gov.br/content/financialstability/ruralcreditdocs/BCB_PublicConsultation85.pdf).

<sup>3</sup> For detailed information: <https://www.bcb.gov.br/en/financialstability/sustainability>

<sup>4</sup> Portuguese versions of both public consultations are available in: <https://www3.bcb.gov.br/audpub/AudienciasAtivas?1>

## 2. Main aspects of the proposal on management of social risk, environmental risk, and climate-related risk

Several aspects of the disclosure proposal presented in this document are based on the new regulation on management of social risk, environmental risk, and climate-related risk, considering the improvements in definitions and requirements related to these risks.

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, directly or indirectly, from events related to violation of human rights or to acts harmful to collective interests. The definition encompasses a non-exhaustive list of social risk events, such as acts of harassment, discrimination or prejudice based on personal traits; noncompliance with labor legislation; invasion of land occupied by traditional communities; acts harmful to public, historic, or cultural heritage; and irregular, illegal, or criminal practices associated with products potentially harmful to society or with the exercise of mining activities.
- A new definition of environmental risk, characterized as the possibility of losses resulting, directly or indirectly, from events related to activities of environment degradation, including the excessive consumption of natural resources, or to environmental disasters resulting from human intervention. The definition encompasses a non-exhaustive list of environmental risk events including irregular, illegal, or criminal conduct against the environment, such as acts against fauna or flora; air, water, or soil pollution; consumption of water or energy resources; and the exercise of mining activities. The list of risk events also encompasses large-scale environmental destruction, including those resulting from dam failure, nuclear accident, or spillage of chemicals into water resources.
- 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, directly or indirectly, from events related to the process of adjustment towards a lower-carbon economy, in which the emission of greenhouse gases is reduced or compensated. The definition encompasses a non-exhaustive list of transition climate-related 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, directly or indirectly, from events related to extreme environmental conditions, which may result from changes in climate patterns. The definition encompasses a non-exhaustive list of physical climate-related risk events, such as more frequent and severe weather conditions; long-term environmental shifts; and mass human migration.

- The proposal 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, 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 monitoring of institution's reputation as well as of concentrations to economic sector, geographical regions, or segments of products 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 proposal on social, environmental, and climate-related risks and opportunities (GRSAC Report)**

#### **RESOLUTION BCB XX, OF MONTH DAY, 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 Banco Central do Brasil, at a meeting held on Month Day, 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.

#### **R E S O L V E S:**

##### **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 Banco Central do Brasil 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.

Sole Paragraph. The GRSAC Report must be prepared on a consolidated basis comprising all institutions part of the same prudential conglomerate, as defined in Resolution CMN 4.280 of October 31, 2013.

##### **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 February 23, 2017:

I - governance of risk management for the risks listed on the heading, including duties and responsibilities of the board, when existent, and of the senior management;

II - strategies undertaken by the institution for business conduct, risk management and capital management in the short, medium, and long-term under different scenarios; 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 and protection of fundamental rights and guarantees, and of collective interests;

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

c) climate, considering the transition to a low-carbon economy, in which the level of greenhouse gases is reduced or offset, and the reduction of impacts of extreme environment conditions.

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, of environmental risk and of 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 GRI: 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 issues, defined in the article 4, item II.

Article 7. The layouts of the templates mentioned in articles 5 and 6 will be established by the Banco Central do Brasil.

Paragraph 1. Provided that no change is made to the order of presentation in the templates established by the Banco Central do Brasil, 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 REQUERIMENTS BY SEGMENT

Article 8. Institutions allocated to S1, S2 and S3 segments must publish all templates described in article 5.

Article 9. Institutions allocated to S4 segment 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 a specific section of the institution's internet website.

Sole Paragraph. The location of the GRSAC Report must be informed in the institution's financial statements publication.

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 information 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. This Resolution enters into force on January 1<sup>st</sup>, 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)	<p>Identification of the decision instances and their roles within the management structure with regard to social risk, environmental risk, and climate-related risk.</p> <ul style="list-style-type: none"> <li>Consider decision-making instances in their several levels (strategic, tactical, operational, controlling and compliance, as defined in the 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.</li> </ul>
(b)	<p>Description of roles, duties and responsibilities of decision-making instances mentioned in item (a) and the interaction among them.</p> <ul style="list-style-type: none"> <li>Consider, among roles, duties, and responsibilities, forms of controlling, delegation of powers and division of responsibilities.</li> </ul>
(c)	<p>Description of the processes and frequency that the board and senior management are informed about social risk, environmental risk, and climate-related risk, considering the attributions described in item (b).</p>
(d)	<p>Description of the criteria employed by the board and senior management to ensure that social risk, environmental risk, and climate-related risk will be considered in reviewing and approving:</p> <ul style="list-style-type: none"> <li>levels of risk appetite undertaken by the institution;</li> <li>policies, strategies and exposure limits in the risk and capital management;</li> <li>the stress test programme;</li> <li>policies for business continuity;</li> <li>the liquidity contingency plan; and</li> <li>capital management and its contingency plan.</li> </ul>
(e)	<p>Description of the criteria employed by the board and senior management to link targets concerning the performance of social risk, environmental risk, and climate-related risk management to compensation policies.</p>
(f)	<p>Forms employed by the board and senior management to monitor the institution's strategic goals with regard to social, environmental, and climate-related aspects.</p>

#### 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

(a)	<p>Identification of social, environmental, and climate-related risk events that could potentially cause relevant losses to the institution in different time horizons:</p> <ul style="list-style-type: none"> <li>• Divide, optionally, 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.</li> <li>• Highlight losses in credit portfolio and in other activities of financial intermediations by economic sector, geographic region, and average tenors.</li> <li>• Indicate the criteria used to break down time the horizon in short-, medium-, and long-term.</li> </ul>
(b)	Description of the method to identify the risk events mentioned in item (a).
(c)	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.
(d)	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.
(e)	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.
(f)	Description of the institution's ability to adapt under the hypotheses mentioned in item (e).

### 4.3. Template GRI: 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.

**Description of Disclosure**

(a)	Description of the management process for identification, assessment and measurement of social risk, environmental risk, and climate-related risk.
(b)	Description of tools used to classify exposures to social risk, environmental risk and climate-related risk considering economic sector, geographic region, and average tenors.
(c)	Description of the criteria undertaken for a timely identification of political, legal, and regulatory changes that may impact the climate-related transition risk faced by the institution.
(d)	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 risk, as well as among these risks and other risks incurred by the institution, as defined in article 38-D, item IX and in paragraph 4 of the same article of Resolution CMN 4.557 of 2017.
(e)	Description of the management process of social risk, environmental risk, and climate-related risk, highlighting in particular the identification, mitigation and control of these risks.
(f)	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 risks.

#### 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 February 23, 2017.

##### Description of Disclosure

(a)	<p>Present indicators used in management of social risk, environmental risk, and climate-related risk, highlighting the ones linked to:</p> <ul style="list-style-type: none"> <li>• classification of risk exposures in terms of economic sector, geographic region, and average tenors; and</li> <li>• relevant concentrations of credit risk exposure, with regard to provisions in article 38-D, item V, of Resolution CMN 4.557 of 2017.</li> </ul>
(b)	<p>Description of the methodologies used to calculate or estimate the indicators mentioned in item (a).</p>

4.5. Template OPO: Business opportunities associated with social, environmental, and climate 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 issues, as defined in Resolution BCB ## of Month Day, 2021.

**Detailing of Information**

(a)	Description of the governance structure responsible for identification of business opportunities related to social, environmental, and climate issues, considering their several levels (strategic, tactical, and operational).
(b)	Description of roles, duties and responsibilities of decision-making instances involved in the process mentioned in item (a) and the interaction among them.
(c)	Description of the processes and frequency that the board and senior management are informed about business opportunities regarding social, environmental, and climate issues.
(d)	Identification of business opportunities associated with social, environmental, and climate issues that could potentially generate revenues to the institution in different time horizons: <ul style="list-style-type: none"> <li>• Divide, optionally, the information in categories of social events (d.1), environmental events (d.2) and climate events (d.3).</li> <li>• Indicate the criteria used to break down time the horizon in short-, medium- and long-term.</li> </ul>
(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.



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