SARASIN
& PARTNERS

Prudential Regulation Authority
Bank of England
Threadneedle St
London EC2R 8AH
By email: CP10_25@bankofengland.co.uk

28 July 2025

Dear Sir/Madam,

Re: PRA consultation CP10/25: Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19

We are writing to provide a long-term investor perspective on your Consultation Paper 10/25 for an updated Supervisory Statement (SS) on "*Enhancing banks' and insurers' approaches to managing climate-related risks*". We are supportive of the updated expectations as we believe they will improve banks' and insurers' preparedness for climate-related shocks, that pose a risk to individual entity and system-wide financial stability.

Sarasin & Partners LLP is a London-based asset manager with £17 billion under management. We are long-term in our investment philosophy and aim to act as responsible stewards of our clients' capital.

We have been strong advocates for enhanced climate risk management and disclosure for many years, and set out our support for action on this matter by the PRA in a letter from 21 institutional investors in January 2024[1]. We have appreciated the constructive engagement with the PRA since that time.

Below, we underline key elements of the draft SS which we support, with suggested enhancements where relevant. While this submission focuses on proposals for banks, we are also supportive of steps to enhance insurers climate risk management and investor disclosures.

In keeping with our original letter, our comments focus on recommendations in three Chapters in the draft SS, as follows:

- **Climate scenario analysis** (Chapter 3): We welcome the emphasis placed on the need for forward-looking models to ensure that Internal Capital Adequacy Assessment Processes (ICAAPs) are prudent. We furthermore agree that it is important to tailor scenarios to individual banks, integrating reverse stress testing that identify adverse climate-related impacts that would cause banks to become unviable. In addition, we support requirements that banks are required to use severe but plausible climate scenarios that consider the latest scientific

[1] https://sarasinandpartners.com/stewardship-post/investors-could-play-a-key-role-in-promoting-banks-climate-resilience/

understanding on tipping points and other non-linearities. Recent updates in short-term scenarios from NGFS should be helpful in this regard[2].

- **Disclosures** (Chapter 5): Alongside mandatory disclosures aligned with IFRS S2 (under forthcoming UK Sustainability Reporting Standards), we would welcome requirements for banks to disclose the results of climate stress-testing exercises, including implications for capital adequacy in more severe climate and transition scenarios. This information is vital if investors are to hold banks to account for managing climate risks. Importantly, transparency will be needed not just on exposures via their loan books but also exposures built up in trading books or potentially off-balance sheet.
- **Bank-specific issues** (Chapter 6): A key element of the proposals which we particularly welcome is recommendations that banks take further steps to strengthen consideration of climate risks in capital adequacy assessments and financial accounting (particularly in relation to Expected Credit Loss – ECL – assumptions). The latter is foundational to an effective prudential system of capital buffers. It is also vital to the proper functioning of Pillar 3 of the Basel framework, since financial statements provide investors with information on climate risk exposures in banks' banking and trading books, which enables market discipline.

  We would ask that the PRA also underline the importance of banks' including the results of sensitivity analysis to alternative ECL assumptions (or other impacted assumptions) consistent with more severe but plausible climate-related pathways. This would be consistent with existing accounting guidance that encourages transparency on sensitivities to changes in critical accounting assumptions.

  The proposed bank accounting disclosures are needed above all because, despite guidance from the PRA and FRC on the need to consider material climate impacts in their financial reporting, few banks have taken meaningful steps to include climate risks into their financial reporting. This is evident from the PRA's thematic reviews as well as from large global banks' latest financial statement disclosures[3].

  The PRA's emphasis on getting financial statements right as a basis for reinforcing capital protection and financial stability is consistent with the approach being taken in the European Union, led by the European Banking Authority and the European Securities Market Authority[4].

Facilitated emissions should be considered

[2] https://www.ngfs.net/en/publications-and-statistics/publications/ngfs-short-term-climate-scenarios-central-banks-and-supervisors

[3] See TPI's banking tool, Criteria 10 includes metrics on accounting disclosures covering 27 global banks: https://www.transitionpathwayinitiative.org/banks

[4] https://www.eba.europa.eu/sites/default/files/2023-11/25b12d35-9c28-4335-a589-166c77198920/Final%20Report%20on%20IFRS9%20implementation%20by%20EU%20institutions.pdf; ESMA 2024 Corporate reporting enforcement and regulatory activities, April 2025

In addition to our comments above on specific Chapters in the draft SS, we also wanted to comment on the importance of ensuring the SS also covers banks' off-balance sheet exposures (associated with, for instance, capital market facilitation, underwriting, or derivatives). These activities expose banks to risks of climate-related losses and also contribute to the build-up of systemic risk where climate consequences are not factored into financing decisions. We would, therefore, encourage the PRA to incorporate these activities into its SS to avoid creating a loophole in the regulatory framework.

Requirements for auditors should be reinforced
We would like to see expectations for bank auditors included in the SS. Bank auditors play a critical role in challenging management in their consideration of climate risks in setting accounting assumptions, and making appropriate disclosures. Those charged with governance should ensure they fulfil this function. This may, therefore, be included in Chapter 1 (Governance) in expectations relating to the Board-level Audit Committee, as well as under Chapter 6 (on bank-specific issues). Similar provisions may be added to Chapter 7 on insurers[5].

Managing systemic climate risks through enhanced capital requirements
As a final remark, we would like to reiterate our support for the Bank of England's conclusion in its March 2023 report that when it comes to climate risks*, "capital frameworks require a more forward-looking approach than used for many other risks*" [6]. We flagged this in our letter in January 2024. Since that time, the evidence that climate change poses a systemic risk to financial stability has become stronger and there is thus a strong case for take pre-emptive steps to integrate climate risks into regulatory capital requirements. By calibrating capital requirements to the quality of individual bank's risk management, the PRA would provide a strong incentive for enhanced climate risk management. The PRA is well-placed to continue to play a leadership role in promoting international coordination on climate regulatory capital.

We hope our comments prove helpful in the finalisation of the proposed SS. We would be happy to respond to any follow up queries, or points of clarification.

Yours sincerely,

Natasha Landell-Mills, CFA
Partner, Head of Stewardship

[5] As highlighted above, the focus of this submission is on banks, but several of the recommendations may also apply to insurers.
[6] https://www.bankofengland.co.uk/prudential-regulation/publication/2023/report-on-climate-related-risks-and-the-regulatory-capital-frameworks