

BANK OF GHANA



EXPLANATORY NOTES ON THE REVISED CLIMATE-RELATED FINANCIAL RISK DIRECTIVE

FOR BANKS, SPECIALISED DEPOSIT-TAKING INSTITUTIONS, FINANCIAL HOLDING COMPANIES, DEVELOPMENT FINANCE INSTITUTIONS, MORTGAGE FINANCE COMPANIES AND LEASING COMPANIES

NOVEMBER 2024

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INTRODUCTION

Pursuant to Section 92(1) of the Banks and Specialised Deposit-Taking Institutions Act, 2016 (Act 930), section 84 (1) of the Development Finance Institution Act, 2020 (Act 1032) and section 44(1) of the Non-Bank Financial Institution (NBFI) Act, 2008 (Act 774), the Bank of Ghana (BOG) has issued the Climate-Related Financial Risk Directive in November 2024 following consultation with the banking industry (herein called “the industry”), key stakeholders including the IFC and Network for Greening the Financial System (NGFS) as well as the IMF Resident Advisor.

The Climate-Related Financial Risk Directive is aimed at ensuring that banks, specialised deposit-taking institutions (SDIs), financial holding companies, mortgage finance companies, leasing companies and development finance institutions, hereafter referred to as Regulated Financial Institutions (RFIs), have a framework for effectively managing climate-related financial risks, understand BOG’s supervisory expectations on the approach to the management and disclosure of climate-related financial risk, integrate management of climate-related risks into the RFI’s Environmental, Social and Governance (ESG) initiatives, and ensure that RFIs remain financially resilient under severe, yet plausible, climate risk events, and operationally resilient to disruptions due to climate-related disasters.

The Bank of Ghana has since carefully considered the Climate-Related Financial Risk Directive in the light of feedback, comments and contributions received during the public consultation process. This has culminated in a revised Climate-Related Financial Risk Directive dated November 2024 which addresses material issues identified in the Exposure Draft of the Climate-Related Financial Risk Directive.

This document therefore explains the significant revisions reflected in the final version of the Directive titled Bank of Ghana’s Climate-Related Financial Risk Directive, 2024.

NOTES EXPLAINING REVISIONS REFLECTED IN THE CLIMATE-RELATED FINANCIAL RISK DIRECTIVE, 2024

Part I – Transitional Arrangements

The transitional arrangement deadline has been updated to 31st December 2025 for banks and 31st December 2026 for SDIs and NBFIs. This is to factor the current economic and financial environment as well as related pressures on RFIs to meet the requirements of this Directive. The effective implementation date has also been included.

Part II – Introduction and Overview

a. An insertion at the end of Paragraph 10.

Consequently, this Directive aligns with goals to address climate change mitigation and adaptation in line with Ghana's Nationally Determined Contributions (NDCs) to the Paris Agreement.

This is to anchor the Directive to global and national priorities and commitments made in addressing climate change crisis.

b. An insertion at the end of Paragraph 11.

RFIs are also expected to incorporate in their framework for managing climate-related financial risk the concept of double materiality.

This is to ensure that RFIs are aware that they are not only impacted by climate change but can also have an impact on climate change.

Part II – Figure 1

Figure 1 has been amended to align with the BCBS' Climate-related risks drivers and their transmission channels issued in April 2021.

Part III – Management of Climate-Related Financial Risks

A paragraph under the Internal Control Framework has been newly inserted.

RFIs shall enhance their Anti-Money Laundering (AML) and Countering the Financing of Terrorism and Proliferation (CFT) policy measures to ensure that they do not contribute to the impact on climate change through fostering money laundering and illicit financing of environmental crimes (including illegal mining, logging, waste disposal and pollution).

Newly inserted to provide measures to curb an RFI's impact on climate change.

Part VI – Implementation Roadmap

Implementation timelines in Table 2 have been amended to align with the change in the transitional arrangement deadlines.

Reference

Three newly inserted references to reflect or support contents of the Directive.

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