Brazilian Central Bank launches Public Consultation on Social, Environmental and Climate Risk Management rules

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Authors

Camila Goldberg

Márcio Pereira

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On April 7, 2021, the Brazilian Central Bank launched Public Consultation No. 85/2021 ("Consultation"), which brings a set of normative proposals to improve the rules related to social, environmental and climate risk management, as well as sets forth the requirements of the Social, Environmental and Climate Responsibility Policy ("PRSAC") for financial institutions. The initiative is aligned with the most recent dimension of sustainability from Agenda BC# and the growing relevance of ESG (environmental, social and governance) in the financial system.

The main focus of the rules is to implement a structure that allows financial institutions to social, environmental and climate risks and to mitigate the adverse effects from the interactions among them. The purpose of the rules is to incorporate the impacts arising from these risks into scenario analyzes, stress tests and reports of the regulated institutions, considering the hypothesis of changes in climate patterns and transition into a low carbon economy.

Among the proposed changes, we highlight the following:

(i) Inclusion of mechanisms to analyze aspects related to social, environmental and climate risks in the concession, classification and monitoring of operations subject to credit risk of the respective borrower;

(ii) Development of policies, strategies and procedures to mitigate liquidity risk, as a result of the materialization of said risks; and

(iii) Implementation of a governance structure responsible for PRSAC, including the appointment of a director responsible for its compliance and the constitution of a social, environmental and climate responsibility committee, linked to the board of directors.

The Prudential and Foreign Exchange Regulation Department (Dereg) issued a statement mentioning that "*the risk management rules focus on dealing with the possibility of losses for the institution, whether due to its activities or the activities performed by third parties with whom it relates, as borrowers of resources, suppliers and controlled entities*" and "*in addition to improving the definition of social, environmental, physical and climate transition risks, the proposal moves towards strengthening the integration of these risks to the management of other risks (credit, market, liquidity and operational)*".

Suggestions may be sent to the Brazilian Central Bank until June 5, 2021.

Click here to read the full result of the Public Consultation (*in Portuguese).

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Camila Goldberg

Márcio Pereira