



HONG KONG MONETARY AUTHORITY 香港金融管理局

Our Ref.: B1/15C

21 April 2023

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

Climate risk stress test

I am writing to share with authorized institutions (AIs) a set of guidelines for the second round of the climate risk stress test (CRST).

Drawing on the experience gained from the pilot CRST in 2021 and the industry's feedback, the Hong Kong Monetary Authority (HKMA) has enhanced the CRST framework with a view to obtaining a more comprehensive assessment of AIs' exposures to climate risks, as well as further strengthening their capabilities in managing them. The major enhancements incorporated in the second round of the CRST are:

- *Scenarios* – A new 5-year scenario is introduced to assess the potential impacts on participating AIs arising from simultaneous economic and climate-related shocks. The time span of this scenario aligns with those typically adopted by AIs in their strategic planning. The new scenario and the long-term scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) can complement each other to provide useful insights into the banking sector's climate resilience. A broader set of scenario variables and assumptions will be provided to participating AIs to support more granular assessments under the scenarios.
- *Assessment requirements* – Apart from exposures highly vulnerable to climate-related shocks, exposures which are usually considered less susceptible to climate change will also be covered in the second round of the CRST. Participating AIs are required to follow a specified approach in segmenting their exposures so as to generate a more consistent sectoral impact analysis. Same as the pilot exercise, participating AIs should assume a static balance sheet in the assessment in order to identify their vulnerabilities in respect of the latest business profiles and strategies. In the second round of the CRST, however, participating AIs are allowed to adjust their portfolio mix under the long-term NGFS transition scenarios to reflect the effects of their established climate targets or commitments.

- *Reporting standards* – Reporting standards which are more detailed than those adopted in the pilot exercise have been developed for each of the scenarios in the second round of the CRST. These standards include an expanded set of metrics with sufficient granularity in terms of risk factors, business sectors and geographical locations to support supervisory analysis and comparison of results across AIs.

To harmonise with the cycle of the HKMA's supervisor-driven stress testing programme and reduce the reporting burden on participating AIs, the second round of the CRST will be undertaken over an extended period spanning from June 2023 to June 2024. Additional guidance will be provided to participating AIs throughout the process to ensure they continue to stay on the right track.

The HKMA believes that participating AIs can gain a deep understanding of their potential vulnerabilities to climate change through participation in the second round of the CRST. More than thirty AIs have already confirmed their participation in the exercise with the HKMA. We would encourage other AIs which have not yet firmed up their decisions to get into touch with their usual supervisory contact as soon as possible.

Should you have any questions about the 2023-2024 CRST, please send them to crst@hkma.iclnet.hk.

Yours faithfully,

Raymond Chan
Executive Director (Banking Supervision)

Encl.