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Transition Planning

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This module should be read in conjunction with the [Introduction](#) and with the [Glossary](#), which contains an explanation of abbreviations and other terms used in this Manual. If reading on-line, click on blue underlined headings to activate hyperlinks to the relevant module.

Purpose

To provide guidance to AIs on enhancing their resilience and managing the risks and opportunities associated with the net-zero transition.

Classification

A non-statutory guideline issued by the MA as a guidance note.

Previous guidelines superseded

This is a new guideline.

Application

To all AIs

Structure

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1. Introduction

1.1 Background

- 1.1.1 Globally, there is broad consensus that an orderly transition to net zero can minimise the worst impacts of climate change and reduce climate-related risks. During the economy's transition, companies face numerous challenges, such as the need to change their business models, adopt innovative technologies and navigate policy changes. These will have impacts on the risks faced by companies, and in turn, the banks which do business with them. Apart from transition risk, the economy also has to grapple with physical risk brought by changes in climate patterns and extreme weather events. At the same time, the transition of the economy and the need to build physical resilience bring about opportunities such as higher resource efficiency and the possibility to tap into new markets.
- 1.1.2 The international central banking and regulatory community has undertaken work relevant to transition planning, for example:
- (a) the Financial Stability Board set up a Transition Plans Working Group under the Standing Committee on Supervisory and Regulatory Cooperation in 2023 to develop a conceptual understanding on the relevance of transition plans and planning by financial and non-financial firms for financial stability. A report was published in 2025;¹ and
 - (b) the Central Banks and Supervisors Network for Greening the Financial System (NGFS) began analysing the role of transition plans in 2022 and completed a stocktake of transition plan frameworks and practices in 2023.² A package of

¹ Source: Financial Stability Board, [The Relevance of Transition Plans for Financial Stability](#), January 2025.

² Source: NGFS, [Stocktake on Financial Institutions' Transition Plans and their Relevance to Micro-prudential Authorities](#), May 2023.



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further reports was published in 2024,³ with further notes on target setting and scenario analysis published in 2025.⁴

- 1.1.3 In Hong Kong, the HKMA published the Sustainable Finance Action Agenda in 2024, setting out eight goals in four areas.⁵ For the banking sector, one of the goals is “all banks to strive to achieve net zero in their own operations by 2030 and in their financed emissions by 2050”. This module is part of the HKMA’s efforts to assist banks in managing the risks and opportunities associated with the net-zero transition, which could, in turn, support banks in meeting the goals set out in the Sustainable Finance Action Agenda.

1.2 Scope

- 1.2.1 The HKMA recognises that there are different aspects to an AI’s response to the real economy’s net-zero transition and some AIs modify their business models and strategies to address risks and capture opportunities that arise from the transition to support AIs’ long-term development and climate resilience. It should be emphasised that the focus of this module is on how AIs manage and address the risks associated with the net-zero transition. The HKMA does not intend to influence how AIs make business decisions. Nevertheless, business strategy and risk management are interconnected. Each AI has to find an appropriate balance between the level of risk the AI is willing and able to take and the level of return it seeks to attain, without undermining its overall financial soundness and viability.⁶ Therefore, AIs should understand and consider the risk implications of their business strategies in the context of the transition of the economy, so as to ensure resilience to the associated climate-related risks.

³ Source: NGFS, [Press release: NGFS publishes a package of reports relating to Transition Plans](#), 17 April 2024.

⁴ Source: NGFS, [Press release: NGFS publishes two notes relating to transition plans on climate target setting and climate scenario analysis](#), 16 July 2025.

⁵ Source: HKMA, [Sustainable Finance Action Agenda](#), October 2024.

⁶ Source: HKMA, [SPM module IC-1 on “Risk Management Framework”](#), October 2017.



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- 1.2.2 Certain elements related to the management of the risks associated with the net-zero transition have been covered in [GS-1](#) “Climate Risk Management”. However, there have been developments in climate risk management, particularly in transition planning, after [GS-1](#) was promulgated. The current module aims to set out the related considerations in more detail in order to reflect the latest developments. In other words, this module elaborates on and supplements [GS-1](#). Sections 2 to 4 set out the HKMA’s requirements on how AIs should incorporate transition planning considerations into their governance, strategy and risk management, while section 5 illustrates how AIs should make use of scenario analysis in transition planning. Section 6 sets out the HKMA’s expectations on how AIs should communicate their transition planning to stakeholders. AIs should read this module in conjunction with [GS-1](#) and any other applicable modules as well as guidance issued and updated by the HKMA from time to time.
- 1.2.3 The primary objective of this module is for AIs to establish a robust and proportionate transition planning process. “Transition planning” refers to the internal planning and risk management processes undertaken by an AI to prepare for risks and potential changes in business models associated with the transition to net zero.⁷ In its transition planning, an AI should consider alignment with jurisdictional climate goals, having regard to its own circumstances. It should also consider that there could be a range of possible future states of the world, such as varying degrees of warming and changes in policies, consumer sentiments and technology. For the avoidance of doubt, “transition planning” covers both physical and transition risks. This is because there will still be a certain extent of climate change and variations in climate patterns even in an orderly transition to net zero, and physical risk will still manifest.
- 1.2.4 Although this module focuses on climate-related risks, AIs should strive to address other environmental risks as their capacity and capabilities improve, given that there

⁷ This interpretation is taken from a technical document published by the NGFS in April 2024, [Credible Transition Plans: The micro-prudential perspective](#).



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is a strong nexus between those two types of risks. Indeed, actions that facilitate the transition may increase environmental risks, including nature-related risks. For example, installing solar panels contributes to clean energy, but clearing land for the installation may result in destruction of natural habitats. As methodologies and data availability and quality improve, AIs should build up their understanding of environmental risks and, where possible and appropriate, consider whether their transition planning would lead to increased environmental risks and address them accordingly.

1.3 Documentation

- 1.3.1 Transition planning requires a multi-year approach and takes place over a long time horizon that goes beyond the typical strategic planning horizon. AIs need to take an iterative approach to implementing the requirements set out in this module. To guide their transition planning and to facilitate the monitoring of progress, AIs should properly document the targets, policies, procedures and controls that are put in place to monitor and manage the risks and opportunities associated with the net-zero transition over the short, medium and long term. AIs should also document changes to their business models if such changes are made in response to the risk implications associated with the net-zero transition. The documentation mentioned in this para. 1.3.1 will hereafter be called “transition planning documentation”.
- 1.3.2 As set out in [GS-1](#), climate-related risks are transmitted via credit risk,⁸ market risk, liquidity risk, operational risk, legal risk, reputational risk and strategic risk. The transition planning documentation should show how the AI is addressing issues related to the net-zero transition in its management of the aforementioned risk types as appropriate.
- 1.3.3 For the avoidance of doubt, the transition planning documentation is focused on risk management and is not

⁸ The Supplementary Guidance on the Revised Credit Risk Framework (issued via circular on [13 December 2024](#) and [21 July 2025](#)) contains some guidance on how climate risks may be captured under the existing Pillar 1 framework. Of particular relevance are Chapter III – STC Approach and Chapter IV – IRB Approach.



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the same as the strategic or business transition plans currently being produced by some AIs, despite some similarities between the two.⁹ Nevertheless, AIs may use relevant information contained in their strategic or business transition plans (if any) to fulfil some of the requirements in this module (see para. 1.4.5 below).

1.4 Application and implementation

1.4.1 This module is applicable to all AIs. Locally incorporated AIs which are not subsidiaries of banks incorporated outside Hong Kong should apply this module on a solo-entity basis and, where applicable, on a consolidated basis covering their subsidiaries. To the extent practicable and if the risks are assessed as material, they should also consider applying this module to their associated companies and joint ventures. International banking groups operating in Hong Kong (whether in the form of a local subsidiary or a branch) may rely on the transition planning being conducted at the group or regional level,¹⁰ provided that such planning has been assessed to be appropriate for addressing, and able to adequately address, the risks related to the net-zero transition at the local level, taking into account the size, nature and complexity of local operations. Where group or regional transition planning arrangements do not exist or do not fully apply to an AI's Hong Kong operations, the AI should assess whether the resulting gaps give rise to material risks at the local level. Where such risks are identified, the AI should put in place proportionate local controls or other measures to address them, taking into account the size, nature and complexity of its Hong Kong operations.

1.4.2 An AI's transition planning depends to a large extent on the transition of its clients. The HKMA recognises that engaging with clients and collecting data from clients

⁹ For example, for an AI which has developed a strategic or business transition plan to achieve certain transition financing goals, its strategic or business transition plan may set out the AI's implementation approach such as how it intends to modify its business strategy and how the AI mobilises the relevant business units, whereas its transition planning documentation, which is risk-focused, may set out how its strategy would impact its risk appetite and exposures, and how it intends to build resilience against the associated risks.

¹⁰ For the avoidance of doubt, this also applies to metrics and targets set at the group or regional level.



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could take time. In addition, methodologies are evolving and it could take time for AIs to build the capabilities needed to conduct transition planning. As such, the HKMA will take a pragmatic approach in applying this module. AIs should have transition planning documentation in place by 1 July 2030 and revise their documentation whenever there are material updates or changes.

- 1.4.3 In the period between the issuance of this module and 1 July 2030, the HKMA expects AIs to take active steps to implement the requirements set out in sections 2 to 6 and to prepare their transition planning documentation. After 24 months of the issuance of this module, AIs should be prepared to illustrate their progress in implementing this module and demonstrate their readiness to have transition planning documentation in place by 1 July 2030. The HKMA will adopt a pragmatic approach to monitoring AIs' progress, expecting greater efforts to meet the requirements set out in section 2 and section 3 initially. AIs may demonstrate the aforementioned in the form of a progress report or update.
- 1.4.4 Consistent with the HKMA's approach to reviewing AIs' implementation of [GS-1](#), the HKMA will adopt a proportionate and pragmatic approach to reviewing AIs' implementation of this module, taking into consideration the size, nature and complexity of each AI's operations, the materiality of climate-related risks the AI is exposed to, and the practical challenges that AIs face in transition planning. The HKMA does not expect AIs to mitigate their risks simply by exiting relationships with high-emitting clients.
- 1.4.5 AIs which have already published or disclosed information about their transition planning, for example in the form of a strategic or business transition plan, may make use of that information to fulfil the requirements in para. 1.4.2 and para. 1.4.3 above, provided that the information can reflect how the AIs are able to meet the requirements set out in this module. AIs may include cross-references to their strategic or business transition plan or other relevant materials in their transition planning documentation, and where such information is



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insufficient to meet the requirements set out in this module, AIs should have relevant supplementary information in place.

2. Governance

2.1 Responsibilities of the board and senior management

- 2.1.1 The board has primary responsibility for the oversight of an AI's transition planning.
- 2.1.2 Nevertheless, the board may delegate its authority to board-level committees. AIs are reminded that any delegation of the board's authority to board-level committees should be made formally with the relevant roles and responsibilities, governance structure, and escalation / reporting procedures clearly outlined and defined. The board-level committee which is tasked with overseeing the AI's risk management (hereafter called "risk management committee") should, when exercising its authority and carrying out its duties, take into consideration the risks that the AI faces due to the net-zero transition. For example, when reviewing and assessing the adequacy of the AI's risk management framework and policies, the risk management committee should review and assess whether risks associated with the net-zero transition are properly monitored and addressed, and whether the AI's transition planning is adequately considered in the AI's risk management framework.¹¹
- 2.1.3 The senior management is responsible for ensuring that the AI's transition planning is properly implemented and integrated into the AI's risk management framework. It should monitor the implementation of the targets, policies, procedures and controls set out in the transition planning documentation and put in place effective escalation channels for reporting deviations from the AI's

¹¹ For the avoidance of doubt, an AI's transition planning as a whole may be overseen by a committee that is not the risk management committee, such as the sustainability or ESG committee. However, the risk management committee should still fulfil the responsibilities outlined in para. 2.1.2.



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transition planning that may materially affect the AI's risk profile or implementation.

- 2.1.4 The board and senior management should possess sufficient knowledge and understanding of the net-zero transition and how it will impact the AI. They should also ensure that their business models and decisions are commensurate with the magnitude of risks that the AI faces due to the net-zero transition.
- 2.1.5 At the management level, AIs should designate personnel or committees to be responsible for implementing the transition planning and vest them with sufficient authority so that they can carry out their duties effectively. The designated personnel or committees should possess the relevant knowledge, skills and experience.

2.2 Oversight

- 2.2.1 The board should exercise oversight of the development and implementation of the AI's transition planning, including approving the progress report/update referred to in para. 1.4.3 above and the transition planning documentation and ensuring that there are appropriate resources, mechanisms, systems and measures to support the implementation of the targets, policies, procedures and controls set out in the documentation. In approving the progress report/update referred to in para. 1.4.3 above and the transition planning documentation, the board should consider relevant global, regional and local developments and goals, such as developments in climate scenarios and sectoral transition pathways, availability and commercial viability of the latest technologies, and emerging practices.
- 2.2.2 The board should be regularly updated on material developments in the implementation of the AI's transition planning and the AI's progress in meeting its targets.
- 2.2.3 The board is responsible for overseeing how risks associated with the net-zero transition are integrated into the AI's risk management framework and risk appetite. The board should ensure consistency across the AI's business strategy, transition planning, risk management



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framework and risk appetite, and ensure that these are consistent with regulatory requirements and the AI's targets and commitments.

2.3 Skills and culture

- 2.3.1 The board and senior management should cultivate a risk culture in the AI that embeds risk considerations about the net-zero transition into the AI's business activities and decision-making processes. They should engage relevant departments and business units when developing the AI's transition planning and establish communication channels within the AI to gather views and insights for continuous review and refinement of the processes.
- 2.3.2 The board and senior management should ensure that staff involved in the AI's transition planning possess the relevant knowledge, skills and experience. Where there are gaps, capacity building opportunities should be provided to relevant staff.

3. Strategy

3.1 Approach

- 3.1.1 Aligning with the approach stated in para. 1.3.1, AIs should devise short-, medium- and long-term goals and targets to guide transition planning. Appropriate metrics and indicators should be used to help translate the AI's long-term goals and targets into concrete actions and milestones, and to track progress. Where appropriate, an AI's actions should be underpinned by relevant standards and frameworks, such as the use of taxonomies for identifying green or transition projects.¹² The standards and frameworks used should be widely accepted by the industry, for example developed by local, national or international authorities or organisations for industry-wide application. If an AI

¹² The HKMA published the [Hong Kong Taxonomy for Sustainable Finance \(Phase 2A\)](#) (Hong Kong Taxonomy) in January 2026 to enable informed decision making on green and sustainable finance and facilitate relevant finance flows. The HKMA encourages AIs to use the Hong Kong Taxonomy to assess the greenness of projects and assets.



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chooses to rely on internal frameworks, it should demonstrate the frameworks' robustness and relevance, such as through illustrating how they were built on the foundation of similar external, well-recognised frameworks. Milestones should be used as checkpoints for AIs to assess their transition planning progress or progress in implementing their transition planning documentation and gauge whether any update or modification to its planning (including its transition planning documentation) is needed.

3.2 Reviews and updates

- 3.2.1 The real economy's transition, and thus an AI's transition planning, is affected by the climate change trajectory, policy support, consumer preferences and technology developments. All these factors will change over time. For example, a technology roadblock may slow down the decarbonisation of certain sectors, and advances in climate modelling may lead to new climate scenarios.
- 3.2.2 To ensure that their transition planning remains relevant over time and that their risk management framework and risk appetite reflect the latest material developments, AIs should review their transition planning processes and transition planning documentation at least annually, and whenever they revise their business strategy in response to the risk implications associated with the net-zero transition or whenever there are fundamental changes to the underlying assumptions, scenarios and pathways.¹³ AIs should update the relevant processes and documentation as necessary as stated in para. 1.4.2.

4. Risk management

4.1 Metrics and targets

- 4.1.1 AIs should incorporate risk considerations associated with the net-zero transition into their risk management

¹³ For example, if an AI relies on the NGFS scenarios in its transition planning, it should review and determine whether it is necessary to update its transition planning documentation whenever the NGFS releases a new set of scenarios.



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framework, monitor their exposures to such risks and ensure that their exposures are consistent with their risk appetite. To guide their risk management, Als should set targets that allow them to monitor and manage the risks associated with:¹⁴

- (a) the transition of their own operations; and
- (b) the real economy's adjustment towards the climate or transition objectives set out in the policies or laws of the jurisdictions where they operate or where their exposures are located (i.e. where their loans and advances are used).¹⁵

Als may choose to set any relevant and appropriate targets to guide their risk management process and should be able to explain the reasons for choosing those targets.

- 4.1.2 Als should be clear about the scope and coverage of the targets they set. For instance, if an AI chooses to set emission targets, it should state clearly whether they are absolute or intensity targets, which pathways and base year are used, what emission scopes are covered, and what sectors and asset classes are included.
- 4.1.3 To support the setting of their targets, Als should make use of a mix of qualitative and quantitative metrics and indicators which are appropriate for their business strategy and risk appetite. Also, as mentioned in section 3 above, transition planning requires a multi-year view and entails regular reviews and adjustments. Als should therefore make use of short-, medium- and long-term metrics and indicators which are able to provide them with a forward-looking view on their risk profiles, so as to measure and monitor material physical and transition risks, track their performance in risk management, and monitor their progress in meeting their targets.

¹⁴ For the avoidance of doubt, targets are not limited to operational or financed emissions targets, and could include risk limits, among others. For example, a target could be to limit exposure to a high-emitting sector to a defined level by a specified date, with level of exposure to that sector at a certain point in time serving as a metric and indicator to support target-setting and monitoring of progress.

¹⁵ Exposures in jurisdictions with a 2050 net-zero timeline, for example, are subject to a different set of climate policies (and therefore different operating environment and risk considerations) than exposures in jurisdictions with a 2060 or later net-zero target.



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Examples of metrics and indicators include: ¹⁶

- (a) general/qualitative: vulnerabilities and risk drivers that the AI is subject to;
- (b) exposure-related: exposure to sectors or clients that are sensitive to climate-related risks, evolution of the risk profiles of clients that are subject to material climate-related risks, and amount of collateral located in areas vulnerable to physical risk;
- (c) emission-related: financed emissions, ¹⁷operational emissions, and emission intensity of financed projects;
- (d) financial: amount of financing towards green, transition, or adaptation activities, energy supply banking ratio, and income from vulnerable sectors or clients; and
- (e) operations-related: number of branches, offices and data centres in areas vulnerable to physical risk.

4.1.4 In cases where an AI's metrics and indicators show that the AI is deviating significantly from its risk management or its planned progress in meeting its targets, the AI should assess the risk implication of such deviation, and take timely remedial and mitigation actions as appropriate.

4.1.5 AIs should update the targets, metrics and indicators as necessary to ensure that they remain relevant over time, following the approach stated in para. 3.2.2.

4.2 Stakeholder engagement

4.2.1 AIs' transition planning depends to a large extent on clients' delivering on their own transition plans. The

¹⁶ For the avoidance of doubt, these are examples only. AIs should use metrics and indicators that are appropriate for their circumstances. They are not required to use all of the listed metrics and indicators and are free to use ones that are not listed here.

¹⁷ The HKMA recognises that financed emissions may go up initially as an AI steps up its support to clients which are seeking to transition, before decreasing in the medium to long run as the AI and its clients decarbonise. The HKMA will not assess an AI's performance or progress based on its financed emissions alone.



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inability of clients to transition may expose them to climate-related risks, thereby posing risks to AIs, the extent of which would be commensurate with the materiality of AIs' exposures to those clients. As such, AIs should assess the materiality of the climate-related risks that clients are exposed to, and seek to understand whether clients to whom AIs have material risk exposures recognise the impact of the transition on their businesses and whether they are taking appropriate risk mitigation and adaptation measures. Clients which are considered to be exposed to high climate-related risks (hereafter called "high-risk clients") should be appropriately engaged and monitored.

4.2.2 In general, AIs should prioritise client engagement and seek to understand and support clients' transition strategies rather than simply divesting from carbon-intensive assets. AIs should put in place a structured process to engage clients on a risk-proportionate basis. This should include:

- (a) engaging in regular dialogue with high-risk clients, to better understand the clients' transition goals, strategies and plans and the impact of the transition on the clients' businesses and risk profiles. AIs should seek to understand the assumptions that inform the clients' transition goals, strategies and plans;
- (b) collecting information on high-risk clients' transition goals, strategies and plans, as well as their transition progress. Examples of such information are:
 - the clients' climate or transition targets, and the actions or measures (including resource reallocation) to achieve those targets;
 - the clients' emissions data, including as far as possible and where material, the clients' Scope 3 emissions;
 - the locations of the clients' key assets that are subject to material physical risk;



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- the key assumptions, dependencies and feasibility of actions of clients' transition strategies or plans, for instance whether they take reference from science-based sectoral pathways and whether they are prepared in accordance with well-recognised transition plan frameworks, applicable policies and sectoral developments; and
- the clients' risk mitigation and adaptation measures.

While it is acceptable to collect such information from the public domain, AIs should, wherever possible, supplement publicly available information with data and information obtained directly from their clients;

- (c) discussing with high-risk clients the need to adopt mitigation and adaptation measures and providing support as necessary, as a means to mitigate the climate risks faced by the AI;
- (d) implementing a mechanism to monitor, review and escalate cases where there is a significant inconsistency between a high-risk client's transition goal, strategy or plan and the AI's own targets, strategy or risk management framework, or cases where a high-risk client's actions or progress is found to be falling behind its goals or plan. AIs should assess the materiality of the impact arising from these situations on their risk exposures and take appropriate remedial actions to mitigate any material risks. Such actions can include engaging the client to assess the reasons for the inconsistency and/or deviation (for example, whether the inconsistency and/or deviation is the result of temporary circumstances or a long-term change, and whether it is due to sector- or region-specific factors that are beyond the client's control), supporting the client in getting back on track with its transition progress if practicable, and reviewing the client's credit risk



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level to ensure that the additional risk factors are adequately reflected.

- 4.2.3 Als should recognise that different sectors and regions face different challenges and have their unique decarbonisation pathways, and tailor their client engagement strategies or processes accordingly. Als should take a multi-year view where appropriate. For example, emissions data observed at a particular moment may not reflect clients' long-term emissions reduction plans or risk trajectory.
- 4.2.4 Where an AI's data systems are inadequate for the management of risks associated with the transition, the AI should seek to enhance its data collection process and adapt its systems to capture relevant data and information on its clients' transition goals, strategies or plans. Als should conduct data reviews annually (e.g. through asking clients to provide updates) to ensure that the input to their transition planning remains relevant and up-to-date. To ensure data credibility, Als should seek third-party assessment of clients' data where appropriate (for example if there is significant inconsistency between the provided data and the AI's expectations or common understanding). Where there are data gaps, Als may leverage alternative methods such as proxy methodologies and data, solutions from external providers etc. Als should seek to understand the sources, scopes, underlying assumptions, methodologies and limitations of such methods and resources, and have an appropriate process to assess the quality and reliability of the data, products or services as stated in [GS-1](#).
- 4.2.5 Transition planning requires knowledge and skills in a range of subject areas such as climate change, vulnerability of buildings to physical hazards, sectoral decarbonisation pathways, government policy, etc. Apart from engaging their clients, Als should also engage relevant stakeholders, such as the government, industry associations, standard setting bodies, research



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institutes, etc,¹⁸ to keep abreast of the latest developments in climate scenarios, sectoral decarbonisation pathways, climate risk assessment methodologies, policy, technology, etc.

5. Scenario analysis

5.1 Application to transition planning

- 5.1.1 Climate scenario analysis (CSA) is an important forward-looking tool for Als to assess the resilience of their business models and strategies to a range of climate-related pathways and to determine the impact of climate-related risk drivers on their overall risk profiles. CSA covers a range of plausible pathways and future states of the world, not only extreme or stressed scenarios.
- 5.1.2 In the context of transition planning, Als should use CSA to identify and assess risks and opportunities and to test the resilience of their business strategy over different time horizons.¹⁹ They should also make use of CSA to understand plausible sectoral decarbonisation pathways and portfolio alignment and to assess the appropriateness of their strategies in achieving their targets. Quantitative metrics and targets should be evaluated and complemented by qualitative analysis.²⁰
- 5.1.3 In choosing sectoral pathways, there may not be a one-size-fits-all scenario for all sectors. For instance, Als may adopt [International Energy Agency](#) scenarios for energy-intensive sectors and opt for sector-specific scenarios for some sectors, such as the [Carbon Risk Real Estate Monitor](#) pathways for the real estate sector, as these scenarios consider more detailed data and models within the sectors. Als should seek to understand the methodology and assumptions

¹⁸ Als are reminded to consult not only stakeholders in the financial industry, but also stakeholders in relevant sectors where applicable.

¹⁹ Please refer to the [Good practices on transition planning](#) published by the HKMA for examples of how banks apply CSA to transition planning.

²⁰ For example, qualitative analysis can cover different climate risk drivers that may have a material impact on the Als' risk profiles (particularly risk drivers that cannot be evaluated quantitatively due to data or methodology limitations) and the validity of the assumptions made.



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underpinning the scenarios, assess the relevance to the regions where they operate, and make adjustments as appropriate.

- 5.1.4 Als should note that while it is important to conduct CSA to identify and assess risks, it is also pertinent to utilise the CSA results to inform business decisions and management actions that need to be taken to achieve their targets.

5.2 Considerations

- 5.2.1 When setting scenarios, Als should ensure that short, medium and long time horizons are covered, so as to allow them to assess their short-, medium- and long-term targets and actions. Conditional on available methodologies and data, Als should ensure that both direct risk drivers (such as temperature change, policy and technological developments) and indirect risk drivers (such as supply chain disruptions) are reflected in the scenarios and that information at an appropriate level of granularity is incorporated into the scenarios. Wherever possible, Als should incorporate information about the transition goals, strategies or plans of the clients which would materially affect the risk profiles of the Als, to enable them to assess how these clients' actions and risk exposures may affect the Als' risk outcomes under different scenarios.

5.3 Limitations

- 5.3.1 Given that climate risk assessment methodologies are still evolving, Als should be aware of the limitations of CSA, particularly regarding the uncertain probability of occurrence and the accuracy of physical hazard estimations. They should note that scenarios are not predictions of future outcomes and that the actual decarbonisation pathway of the real economy may deviate from any particular scenario. There could be complications from compound risks, feedback loops, and uncertainties around the responses of the market, society, companies and governments to deteriorating climate conditions.
- 5.3.2 As such, besides regularly reviewing their CSA



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framework and methodology, Als should also stay abreast of the latest developments in data and methodologies and update their CSA framework and methodology as necessary.

6. Communication

- 6.1 The transition planning documentation is not required to be disclosed under this module. Nevertheless, there have been increasing expectations and requirements for Als to make sustainability-related disclosures in accordance with international standards, such as the recommendations of the Task Force on Climate-Related Financial Disclosures, the IFRS Sustainability Standards, and the Basel Committee on Banking Supervision's disclosure framework for climate-related financial risks. Under these requirements, Als may need to disclose certain information pertaining to their transition planning. Als are reminded to monitor the relevant developments and make disclosures as appropriate.
- 6.2 Internally, Als should communicate their transition planning across different levels and business units (for example via staff newsletters and internal portals).
- 6.3 In their external communication, Als should be transparent about the key assumptions, dependencies and data sources (including data proxies) used in their transition planning, as well as the entities covered, if disclosure is required or where Als choose to disclose their transition plans. They should also be transparent about the limitations of the methodologies used and sources of uncertainty.