CPG229 - APRA's prudential guidance on managing climate change financial risks

June 2022

Prudential regulator guide acts as new prompt to tackle climate change

The prudential regulator's guide to managing the financial risks of climate change is the final prompt for financial services organisations that have yet to tackle the issue.

APRA released Practice Guide CPG 229 last November to help banks, insurers and super funds better manage the financial risks of climate change.

Finity Consulting Principal Sharanjit Paddam said financial services firms could no longer ignore climate change.

"For people who are just getting started on the journey, it was the final kick. That means that they're going to have to do it now, and that was quite remarkable."

Frontier Advisors Head of Investment Governance, Brett Lazarides, said that while the recommendations within CPG 229 are not enforceable, they should be incorporated into businesses and signed off by the board.

"It does represent an incredibly important milestone in effectively confirming a fiduciary obligation on trustees to consider the financial risks associated with climate change."

Many super funds have already adopted the recommendations, which include following the framework established by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

HESTA General Manager Responsible Investment, Kim Tarrant, said APRA's guidance endorsed the Fund's current approach.

"We'd already been taking action to reduce and manage climate change through measuring our portfolio emissions, through our active ownership program, through managing or limiting exposures to companies that pose stranded asset risks."

HESTA was an early adopter of the TCFD principles in 2018 and recently announced plans to vote against AGL's planned demerger because it would not sufficiently accelerate decarbonisation or manage stranded asset risk. The demerger was ultimately called off.

"We seek to assess how a company's plan aligns to the Paris agreement," Tarrant said. "We're looking for Paris aligned targets, and closure dates where relevant for particular assets. We're looking for capex in renewables and storage to replace ability and then we're looking for a transition for workers and communities."

Paddam said some of his financial services clients initially focused on how climate change would affect their company, but a recent step change involved thinking about how it affects their customers and supply chain.

"The clients I find who are most advanced in this are actually saying, how does the world change for my customers? What are the services that they're going to need? What are the products that they're going to have?

"This is about my customers and then that suddenly opens up thinking about how we could make money out of this."