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Bangladesh Bank
Head Office
Dhaka

Sustainable Finance Department

SFD Circular No: 06

Date: 26 December 2023
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Managing Director/Chief Executive Officer
All Scheduled Banks and Finance Companies operating in Bangladesh

Dear Sir,

Guideline on Sustainability and Climate-related Financial Disclosure.

1. Your attention is drawn to BRPD Circular No. 02/2011, GBCSRD Circular No. 04/2013, SFD Circular No. 05/2020 and SFD Circular No. 03/2023 issued by Bangladesh Bank.
2. Financial markets need clear, comprehensive, high-quality information on the impacts of climate change. This includes the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies in our changing world. Sustainability reporting is becoming increasingly important for stakeholders, with many larger companies already adopting some form of sustainability reporting to accommodate the demands of their key stakeholders. Banks and finance companies were instructed to publish sustainability reporting following internationally accepted format like Global Reporting Initiatives (GRI) targeting their stakeholders through Green Banking Guideline in 2011. In 2020, Bangladesh Bank issued Sustainable Finance Policy (later updated in 2023) instructing banks and finance companies for publishing independent Sustainability Report as per the standard set by Bangladesh Bank.
3. Evaluating the impact of environment friendly banking, green finance, climate finance, carbon finance, green bond and sustainable finance as a result of the activities of international standard setting bodies in the financial sector and to achieve the global targets set through the Paris Agreement and Sustainable Development Goals (SDGs); various action plans have been announced by the Government of Bangladesh namely Perspective Plan of Bangladesh 2021-2041, Eighth Five Year Plan, Intended Nationally Determined Contributions (INDCs), Bangladesh Delta Plan 2100, Mujib Climate Prosperity Plan 2022-2041 and National Adaptation Plan (2023-2050), etc. Considering the need for implementation of the aforementioned action plans and strategies, Government of Bangladesh made a commitment to reduce GHG emissions by 6.73% within 2030. Sustainability and Climate-related Financial Disclosure is indispensable to help facilitate the transition to a more sustainable, low-carbon economy.
4. Guideline on Sustainability and Climate-related Financial Disclosure has been formulated on the basis of IFRS Sustainability Disclosure Standards incorporating TCFD Recommendations which is positioned as a set of requirements and accompanying guidance. This Guideline includes Objectives, Standards Used, Scope, Method of Disclosure, Disclosure requirements, Implementation pathway, Regulatory Reporting, Assurance, and Awareness and Capacity Building.
5. Appendices to this circular shall be deemed to be an integral part of the circular. Reporting as per the attached template should be submitted to Sustainable Finance Department on semi-annual basis by the last working day of the following month.
6. This Guideline is being issued in exercise of its power conferred on it under Section 45 of the Bank Companies Act, 1991 (amended up to 2023) and Section 41(2) of the Finance Company Act, 2023.
7. This circular will come into force with immediate effect.

Yours Faithfully,

Attachment: As stated.

(Chowdhury Liakat Ali)
Director (SFD)
Phone: 9530320

GUIDELINE ON SUSTAINABILITY AND CLIMATE-RELATED FINANCIAL DISCLOSURE

for

Banks and Finance Companies

Bangladesh Bank
Sustainable Finance Department

December 2023

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Preamble

Climate change is one of the emerging issues and challenges for the mankind and Bangladesh has taken it with importance through its Government's growth plan, its global commitment to sustainability and Bangladesh Bank's strategic objectives. Bangladesh Bank has launched a comprehensive green banking initiative since 2011 to support and promote environmentally responsible financing; issuing guidance inter alia for environmental risk assessment of lending proposals and for greening of internal processes and practices within banks and finance companies and also instructed banks to publish sustainability reporting following internationally accepted format like Global Reporting Initiatives (GRI) targeting their stakeholders by December 2013.

Bangladesh Bank has emerged as a leading central bank in promoting Green & Sustainable finance, actively addressing climate and sustainability risks, and seizing opportunities within the financial sector through strategic policy measures. Recognizing the significance of Sustainability reporting among stakeholders, investors and development partners, Bangladesh Bank has made the decision to introduce a policy for the financial sector, aligning with Task Force on Climate-related Financial Disclosures (TCFD) recommendations. The policy intends to guide Sustainability and Climate-related Financial Disclosures. TCFD, established by the Financial Stability Board (FSB) in 2015, aims to enhance and encourage the disclosure of financial information related to climate matters. The International Financial Reporting Standards (IFRS) Foundation has established International Sustainability Standards Board (ISSB) to address the urgent need for a single set of globally accepted sustainability reporting standards that are integrated, consistent and comparable with financial reporting standards. IFRS S1 and IFRS S2 are the first two IFRS Sustainability Disclosure Standards developed by the ISSB. The main objective of IFRS S1 is to disclose all information about sustainability-related risks and opportunities and IFRS S2 sets out disclosure requirements for climate-related financial risks and opportunities which fully incorporate the recommendations of the TCFD that could reasonably be expected to affect a company's prospects.

In line with the above, Bangladesh Bank is issuing guideline for banks and finance companies on disclosures for the sustainability and climate-related risks based on IFRS S1 and IFRS S2 in phases starting from 2024. The Standards issued by the ISSB will help stakeholders to make better decisions with confidence. Bangladesh Bank has decided to implement IFRS S1 and IFRS S2 in collaboration with Financial Reporting Council (FRC) of Bangladesh.

It is also anticipated that, banks and finance companies will be passionate, proactive, and will focus on reporting and disclosure for the sustainability and climate-related risks with due consideration in a coordinated and collaborative manner in order to transform any potential challenges into opportunities.

Acknowledgment

The formulation process of Guideline on Sustainability and Climate-related Financial Disclosure for Banks and Finance Companies is highly indebted to Sheikh Hasina, Honorable Prime Minister of the Government of the People's Republic of Bangladesh for her vision and guidance towards sustainability. Honorable Governor of Bangladesh Bank has strong leadership over the financial sector sustainability which inspired the team for hunting the scopes for the participation of banks and finance companies on Sustainability and Climate-related Financial Disclosures. Bangladesh Bank is grateful to International Finance Corporation (IFC) for the technical assistance in formulating the guideline.

The Guideline on Sustainability and Climate-related Financial Disclosure for Banks and Finance Companies has come into light with prudent reviews and guidance of respected Deputy Governor in charge of Sustainable Finance Department, Executive Director in charge of Sustainable Finance Department, Financial Reporting Council, and IFRS.

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List of Abbreviations

BB	Bangladesh Bank
BoD	Board of Directors
CDSB	Climate Disclosure Standards Board
COSO	Committee of Sponsoring Organizations
FERMA	Federation of European Risk Management Associations
FRC	Financial Reporting Council
FSB	Financial Stability Board
GHG	Green House Gas
GICS	Global Industry Classification Standard
GRI	Global Reporting Initiatives
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
ISSB	International Sustainability Standards Board
MANCOM	Management Committee
NDC	Nationally Determined Contributions
SASB	Sustainability Accounting Standards Board
SFU	Sustainable Finance Unit
TCFD	Task Force on Climate-related Financial Disclosures
VRF	Value Reporting Foundation
WBCSD	World Business Council for Sustainable Development

1.0 Introduction

Sustainability reporting is gaining importance among stakeholders, and numerous major companies have already embraced various forms of sustainability reporting to meet the expectations of their crucial stakeholders. One of the major challenges faced by investors and other stakeholders is the lack of access to high-quality and globally comparable sustainability information, in contrast to the readily available financial data. Recognizing the necessity of Sustainability Reporting, Bangladesh Bank (BB) as a pioneer financial regulatory body, instructed banks to publish sustainability reporting in 2011 through Green Banking Guideline following internationally accepted format like Global Reporting Initiatives (GRI) targeting their stakeholders by December 2013. Finance Companies were instructed similarly in 2013.

Financial markets need clear, comprehensive, quality information on the impacts of climate change. These impacts include the risks and opportunities presented by rising temperatures, climate-related policy, and emerging technologies in our changing world. The Financial Stability Board (FSB) created the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to improve and increase reporting of climate-related financial information. BB is one of the front line leaders in implementing Green & Sustainable finance and addressing sustainability and climate-related risks and opportunities involving the financial sector of Bangladesh through policy measures. There is also the desires and expectations from the global investors and the development partners for sustainability and climate-related financial disclosures. Considering all the factors, BB decided to issue a guideline for the banking sector for their sustainability and climate-related Financial Disclosures following IFRS S1 & IFRS S2 which incorporates TCFD recommendations.

The International Sustainability Standards Board (ISSB) was established by the International Financial Reporting Standards (IFRS) Foundation at COP26 with the aim of improving the consistency and quality of sustainability reporting across the globe, by matching the importance of sustainability reporting with the current regulations around financial reporting. The ISSB brings together the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), which comes from the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards. This is recognized by the international community. The ISSB has international support and is backed by the G7, G20, the International Organization of Securities Commissions (IOSCO) and FSB, amongst others. The Standards issued by the ISSB will help combat the challenges of entity’s 'green washing' that assists stakeholders for taking decisions with confidence.

Following the ISSB Standards—IFRS S1 and IFRS S2—the FSB has asked the IFRS Foundation to take over the monitoring of the progress on entity’s climate-related disclosures from TCFD. IFRS S2 fully incorporates the recommendations of the TCFD. Thereby the FSB noted that the Standards mark "the culmination of the work of the TCFD", which was established in 2017 at the request of the FSB. From 2024—as the ISSB Standards start being applied around the world—the IFRS Foundation will take over these responsibilities from the TCFD, which has been monitoring progress towards climate-related disclosures against the recommendations since they were published. The ISSB is working to support effective implementation of IFRS S1 and IFRS S2, which provide for a global baseline of sustainability and climate-related disclosures worldwide, including capacity building and monitoring progress towards the broad use of high-quality disclosures. The two Standards are designed to be applied together.

To attain both the objectives of the disclosures on Sustainability and Climate-related risks and opportunities, BB decided to implement IFRS S1 and IFRS S2 in coordination with Financial Reporting Council (FRC) of Bangladesh.

2.0 Objective

The Guideline is intended to encourage banks and finance companies to incorporate sound governance and risk management frameworks for sustainability and climate-related financial risks and opportunities within their existing risk management frameworks. This will enable them to better understand, identify, assess, monitor and mitigate these risks and provide guidance for sustainability and climate-related financial disclosures. The guideline is to solicit decision-useful, forward-looking information on financial impacts of the entity.

The intended stakeholders for the reports are the primary users of general-purpose financial reports (annual report), i.e. existing and potential investors, lenders and other creditors including development partners.

3.0 Standards used

a) The Standards used in this guideline are IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.
b) The ISSB Sustainability Standards, notably IFRS S1, aim to capture the environmental and social dimensions of business practices. A social consideration includes, but is not limited to, diversity and inclusion, worker safety, occupational health and safety issues and product safety.
c) IFRS S1adopts a four-pillar core content framework which requires a bank or finance company to provide disclosures about its approach to sustainability-related considerations through its governance, strategy, risk management and use of metrics and targets.
d) IFRS S1 deals with general requirements for the disclosure of material information about significant sustainability-related risks and opportunities across a bank or finance company's value chain.
e) IFRS S2 deals with climate-related disclosures and builds on the four content areas.

f) IFRS S2 sets out disclosure requirements about climate-related risks and opportunities, transition plans and scenario analysis that will facilitate users assessing the impact of these risks and opportunities on the bank or finance company's financial position, performance and cash flows and, strategy and business model.
g) IFRS S1 is designed to be applied alongside future industry or topic specific standards with IFRS S2 that deals with climate, being the first such topic.
h) These standards fully incorporate the TCFD Recommendations. By adopting IFRS S1 and IFRS S2, Bangladesh Bank fully incorporates the TCFD Recommendations for the financial sector and goes beyond to implement the state-of-the-art reporting framework in sustainability-related financial disclosures.
i) The Basel Committee on Banking Supervision has also coordinated with the IFRS Foundation to ensure alignment of its work. Implementing IFRS S1 and IFRS S2 also offers the additional benefit of aligning with Basel III.
j) In line with these standards, the disclosures will be made in the banks and finance companies' annual reports. The IFRS Sustainability Disclosure Standards will be referred as "Sustainability and Climate-related Financial Disclosures".

4.0 Scope

a) The disclosure requirements will be for scheduled banks and finance companies of Bangladesh.
b) Bangladesh Bank is keen to implement leading best practice and has indicated its preference to cover all sustainability topics in the reporting requirements. The need to avoid excessive burden on reporting entities, the guideline will be implemented in a phased approach. This approach will enable the eventual reporting on all sustainability-related financial risks and opportunities but will begin with a stronger focus on climate.
c) The requirements set out a general requirement to consider all sustainability-related financial risks and opportunities, as well as the disclosure of climate-related financial risks and opportunities.

5.0 Method of Disclosure

a) The requirements directly refer to IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.
b) A regulatory template has been developed for the banks and finance companies based on the IFRS S1 and IFRS S2 standards for submitting the required information in a structured way.

c) A bank or finance company shall disclose information about sustainability-related financial risks and opportunities in its annual report that are useful to primary users of their general-purpose financial reports [annual reports] in making decisions relating to providing resources to the bank or finance company.
d) A bank or finance company shall disclose information about climate-related financial risks and opportunities in its annual reports that are useful to primary users of their general-purpose financial reports [annual reports] in making decisions relating to providing resources to the bank or finance company.
e) The first disclosure outlined above shall be reported in the bank or finance company's annual report, for the financial year starting from January 2024.
f) The disclosures shall be included as part of the management discussion and analysis in the front part or in a separate chapter of the annual report.
g) Banks and finance companies may be exempted from disclosing any information in annual reports if it seems to be business sensitive and the information satisfies the criteria for sensitive information within IFRS S1 & IFRS S2 and shall inform Sustainable Finance Department, Bangladesh Bank before finalizing the annual reports.

6.0 Disclosure requirements

6.1 Sustainability-related disclosures (IFRS S1)

Sustainability frames decisions regarding financial, environmental (including climate, biodiversity), social, and human effects ensuring resilience and long-term value creation[1].

Environmental, social, and governance risks and/or opportunities that may impact an entity are called sustainability, non-financial, or extra-financial risks[2]. Consequently, sustainability risk is an uncertain social or environmental event or condition that, if it occurs, can cause a significant negative impact on the entity. It also includes the opportunity that may be available to an entity because of changing social or environmental factors.[3]

The Standard requires a bank or finance company to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the bank or finance company's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the bank or finance company's prospects.

[1] Federation of European Risk Management Associations (FERMA)
[2] WBC SD and COSO
[3] WBC SD and COSO

The reporting bank or finance company is required to disclose material information about all sustainability-related risks and opportunities to which it is exposed. The General Requirements Standard adopts a four-pillar core content framework which requires a bank or finance company to disclose governance, strategy, risk management as well as metrics and targets as follows:

Content Pillar	Description
(a) Governance	The governance processes, controls and procedures the bank or finance company uses to monitor and manage sustainability-related risks and opportunities.
(b) Strategy	The approach for addressing sustainability-related risks and opportunities that could affect the bank or finance company's business model and strategy over the short, medium and long term.
(c) Risk Management	The processes, the bank or finance company uses to identify assess, priorities and monitor sustainability-related risks.
(d) Metrics and targets	Metrics and targets disclose a bank or a finance company's performance in relation to its sustainability-related risks and opportunities, including progress towards any targets the entity has set, and any targets it is required to meet by law or regulation.

Banks and finance companies are required to report all material information about "sustainability-related risks and opportunities", which arise from a bank or finance company's dependencies on resources and its impacts on resources. Moreover, the disclosures are required to describe significant sustainability-related risks and opportunities that are concentrated in their "value chain." i.e., the whole lifecycle of its products or services.

6.2 Climate-related disclosures (IFRS S2)

The climate-related risks and opportunities that could reasonably be expected to affect the bank or finance company's cash flows, cost of capital and its prospects over the short, medium or long term are collectively referred to as 'climate-related risks and opportunities'.

The climate-related risks the bank or finance company is exposed to include, but are not restricted to, the physical risks from climate change and transition risks associated with moving to a lower-carbon economy. The climate-related opportunities available to the bank or finance company are also in scope. The Climate Standard is structured around the four content pillars of governance, strategy, risk management, and metrics and targets specified in the General Requirement Standard.

A bank or finance company shall disclose information about its exposure to significant climate-related risks and opportunities, facilitating users to assess the impacts of these risks and opportunities on the bank or finance company's financial position, performance and cash flows, enterprise value and strategy and business model.

An overview of the key disclosures required under four pillars is as follows:

Content Pillar	Description
(a) Governance	Bank or finance company is required to disclose information regarding: i) the responsibility of the board and a committee (consisting of board members) charged with oversight of climate-related risks and opportunities; ii) how the board and a committee (consisting of board members) ensures that the appropriate skills and competencies are available to oversee the strategies designed to respond to climate-related risks and opportunities; and iii) how the dedicated controls and procedures are applied to the management of climate-related risks and opportunities and integration with other internal functions.
(b) Strategy	Bank or finance company is required to disclose information regarding: i) the climate-related risks and opportunities that it could reasonably expect to affect its flows, its access to finance and its cost of capital (also referred to as the bank or finance company's prospects), over the short, medium or long term; ii) the current and anticipated effects of climate-related risks and opportunities on its business model and value chain; iii) the effects of climate-related risks and opportunities on the Bank or finance company's strategy and decision making including its climate-related transition plan; iv) The effects of climate-related risks and opportunities on the bank or finance company's financial position, financial performance and cash flows; and v) the climate resilience of its strategy and its business model to significant physical and transition risks. This includes using climate-related scenario analysis to assess its climate resilience. The standard provides for Bank or finance company's approach to scenario analysis to be determined in terms of its own skills, capabilities and resource availability.
(c) Risk Management	Bank or finance company shall disclose the processes it uses regarding: i) how to identify, assess and manage climate-related risks, and how the processes are integrated into the bank or finance company's risk management framework; ii) how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used);

Content Pillar	Description
	iii) how it prioritises climate-related risks relative to other types of risks, including its use of risk assessment tools; iv) to identify, assess and prioritise climate-related opportunities; and v) to monitor and manage the climate-related risks and opportunities, including related policies.
(d) Metrics and targets	Bank or Finance Company shall disclose: i) metrics, including Scope 1, 2 and 3 emissions, and targets used to assess and manage climate-related risks and opportunities; ii) information relevant to cross-industry metric categories, industry base metrics and other metrics used by the board or management to measure progress towards targets; iii) targets set by the bank or finance company to mitigate or adapt to climate-related risks or maximize climate-related opportunities; iv) how the targets the bank or finance company has set to manage climate-related risks and opportunities compared with those created in the latest international agreement on climate change and whether it has been validated by a third party; and v) whether the bank or finance company intends to use carbon offsets[4] to achieve those targets.

7.0 Implementation pathway

The first year(s) of reporting will likely prove to be challenging for banks and finance companies, as they scale up their expertise and implement the right processes within their

[4] Scope 1 emissions are direct greenhouse gas emissions that occur from sources that are owned or controlled by a bank or finance company. Scope 2 emissions are indirect greenhouse gas emissions that occur from the generation of purchased electricity, heat or steam consumed by an entity. Scope 3 emissions are indirect emissions, outside of Scope 2 emissions, that occur in the value chain of the reporting bank or finance company, including both upstream and downstream emissions.

organisations. To accommodate the challenge and avoid excessive burden, the implementation pathway is designed in different phases. This implementation pathway would phase in the requirements gradually, over a period of 3 years.

8.0 Regulatory Reporting

a) Bank or finance company shall disclose sustainability-related financial risks and opportunities of its business using the template attached in Annexure 1.
b) Bank or finance company shall disclose information regarding climate-related financial risks and opportunities of its business using the template attached in Annexure 1.
c) Disclosures outlined in 9(a) and 9(b) shall be submitted to Bangladesh Bank on the semi-annual basis, no later than 31 January and 31 July, respectively.

Banks and finance companies shall disclose information outlined above using *IFRS S1-General Requirements for Disclosure of Sustainability-related Financial Information* and *IFRS S2- Climate-related Disclosures*, as published by the ISSB of the IFRS Foundation and the *Global GHG Accounting and Reporting Standard for the Financial Industry*. Global Industry Classification Standard (GICS) or international best practices shall be followed for industry classification.

9.0 Assurance

Limited assurance of the reported information is required in the annual Report.

10.0 Awareness and Capacity Building

Awareness and Capacity Building for the disclosure of Sustainability and climate related financial risks and opportunities is a must for all concerns and needs to be ensured by the Sustainable Finance Unit (SFU) with the support from the competent authority (BoD/Regional Office or MANCOM of Foreign Commercial Bank). Banks and Finance Companies will arrange events/programs for BoD members, senior, mid and all management level executives/officials (head office, zonal/regional office, branches, units, Sustainable Finance Dedicated Help desks) separately. The banks and finance companies may arrange awareness raising events for the customers, entrepreneurs' associations, suppliers and service providers. They will be encouraged for developing time bound action plan that addresses the implementation pathways.

11.0 Conclusion

The guideline is to require a bank or finance company to disclose information about its sustainability and climate-related risks and opportunities that is useful to the primary users of general-purpose financial reporting when they make decisions about providing resources to the bank or finance company. This will play a vital role in mobilizing private sector funds in the field of sustainability and climate financing. The guideline reiterates that sustainability and climate-related disclosures are an important element in the transition to a net-zero economy. Sectoral information of financed Green House Gases (GHGs) and the target for reduction will help government to achieve the Nationally Determined Contribution (NDC). Disclosure of sustainability and climate-related risks and opportunities are instrumental to ensure a better management of these forces and to scale up green and climate finance. The disclosure will enable market participants to identify and capitalise on sustainability and climate-related opportunities. Moreover, the disclosures require banks and finance companies to establish the necessary procedures, and build the necessary skills, to identify and manage sustainability and climate-related risks as internationally consistent disclosure is a key component in the collective efforts to improve the resilience of the financial system.