

1. Introduction

Tackling climate change is particularly important to the financial sector due to the risks it poses to the real economy and its possible effects into financial stability. The transition to a low carbon economy can also create economic opportunities associated with adaptation and mitigation measures.

In light of that the Brazilian Federation of Banks (FEBRABAN), the main entity representing the banking industry in Brazil, has been assisting the sector in implementing the TCFD Recommendations.

In 2018, FEBRABAN created a [Roadmap](#)¹ with actions to be implemented in two levels: (i) collectively by the banking sector through FEBRABAN; and (ii) individually by the banks considering their particularities. This initiative has been carried out in a working group with the participation of 14 banks and the technical support of SITAWI Finance for Good to share knowledge, methods and tools designed to expand the availability and quality of financial information related to climate change.

Since [2019](#), many initiatives have been developed according to this Roadmap, both by FEBRABAN and its member banks². Therefore, the purpose of this report is to provide updates on the implementation of the planned Roadmap and the TCFD Recommendations by the Brazilian banking sector in 2020. The [full status report](#)³ is

available in Portuguese on FEBRABAN website.

2. A roadmap for the Brazilian banking sector

2.1 Actions at FEBRABAN level

The FEBRABAN Roadmap foresaw a series of measures to be carried out by the Federation itself in a sectorial context mainly to facilitate the advancement of risk management and climate opportunities and therefore generating greater efficiency in the necessary efforts.

In 2020, FEBRABAN also updated its SARB Norm 014/14, a self-regulated standard for financial institutions on the management of social and environmental risks. Among other new features, now it incorporates requirements for managing and reporting climate change risks and opportunities, in line with the TCFD. Signatory institutions will have until June 2021 to adapt to the new socio-environmental requirements.

The initiatives concluded in 2020 are highlighted in the following table. Their main goals are to raise awareness and improve knowledge on climate-related risks and opportunities and potential tools and processes to better manage them.

1 <https://cmsportal.febraban.org.br/Arquivos/documentos/PDF/Roadmap%20FEBRABAN%20para%20implementa%C3%A7%C3%A3o%20da%20TCFD-FSB%20-%20FINAL.pdf>

2 https://cmsportal.febraban.org.br/Arquivos/documentos/PDF/Implementing%20the%20TCFD_f.pdf

3 <https://portal.febraban.org.br/pagina/3085/43/pt-br/sfn-economia-verde>

Guide on GHG emissions disclosure and reporting

Developed to advance into a harmonized measurement and disclosure of GHG emissions by the Brazilian banks. The guide provides an overview of the emissions of these gases by the Brazilian banking sector, methodologies and good practices for measuring financed emissions, as well as the difficulties and recommendations for their implementation.

Training on climate change impacts by sector for banks' technical staff

To deepen the understanding of the potential impacts of climate change, both in terms of risks and opportunities, on three economic sectors (agriculture, energy and mining) and their transitional channels for the banking sector, remote training was offered to more than 130 participants from banks' technical teams (Sustainability, E&S Risk, Compliance, Credit, etc.).

Identification of existent tools that provide inputs for climate risk assessment

FEBRABAN analyzed and presented a set of tools that provide inputs for climate risk assessment of companies and projects. Some of these tools were presented by their providers at the working group (e.g. WRI - Global Forest Watch and Aqueduct, Bloomberg Maps, World Bank - Brazilian Atlas of Natural Disasters).

Revision of FEBRABAN Green Taxonomy⁴

The new version combined national (National Environment Council - CONAMA) and international references (TCFD, Climate Bonds Standard, Social Bond Principles, EU Taxonomy). The National Classification of Economic Activities (CNAE) was used as a basis to classify activities into 3 categories: Exposure to Climate Change; Exposure to Environmental Risk; Green Economy - the potential positive impact on society/the environment. The new methodology also categorized 44 federal credit lines for sustainable agriculture and renewable energy to improve the methodology.

Events open to the public

The 58th edition of FEBRABAN Coffee with Sustainability event⁵ focused on the theme "Towards a greener banking system: the Brazilian experience" and addressed the role of the banking sector in the development of a more resilient economy, both from a regulatory and voluntary point of view. It was organized by FEBRABAN, the Brazilian Central Bank (BCB) and the Bank of International Settlements (BIS). Another event that took place was the Webinar to promote the Public Consultation of the Green Taxonomy⁶.

FEBRABAN also kept its continuous dialogue with key stakeholders (e.g. the Brazil's Central Bank, business associations) throughout the year on the importance of the TCFD agenda.

In addition, two other actions were initiated in 2020 and will be concluded in 2021: (i) the development of a Climate Risk Sensitivity Tool designed for the Agricultural

sector, that will address the relevance of climate risk to different crops and consider the several portfolio individual customers; and (ii) development of climate change scenarios (physical and transitional risks) adapted to the Brazilian context, so that banks have more aligned information for carrying out analysis of climate scenarios.

⁴ <https://portal.febraban.org.br/paginas/1103/pt-br/>

⁵ <https://cafecom sustentabilidade.febraban.org.br/edicoes/edicao-58/>

⁶ <https://www.youtube.com/watch?v=hguVKTM2V9Y>

2.2 Actions at the banks' level

Each of the 13 actions proposed by the Roadmap to banks is related to one or more of the TCFD recommended disclosures, under its four pillars: Governance, Strategy, Risk Management and Metrics and Targets.

FIGURE 1 - CORE ELEMENTS OF RECOMMENDED CLIMATE-RELATED FINANCIAL DISCLOSURES



SOURCE: TCFD, 2017⁷

These actions primarily aim to:

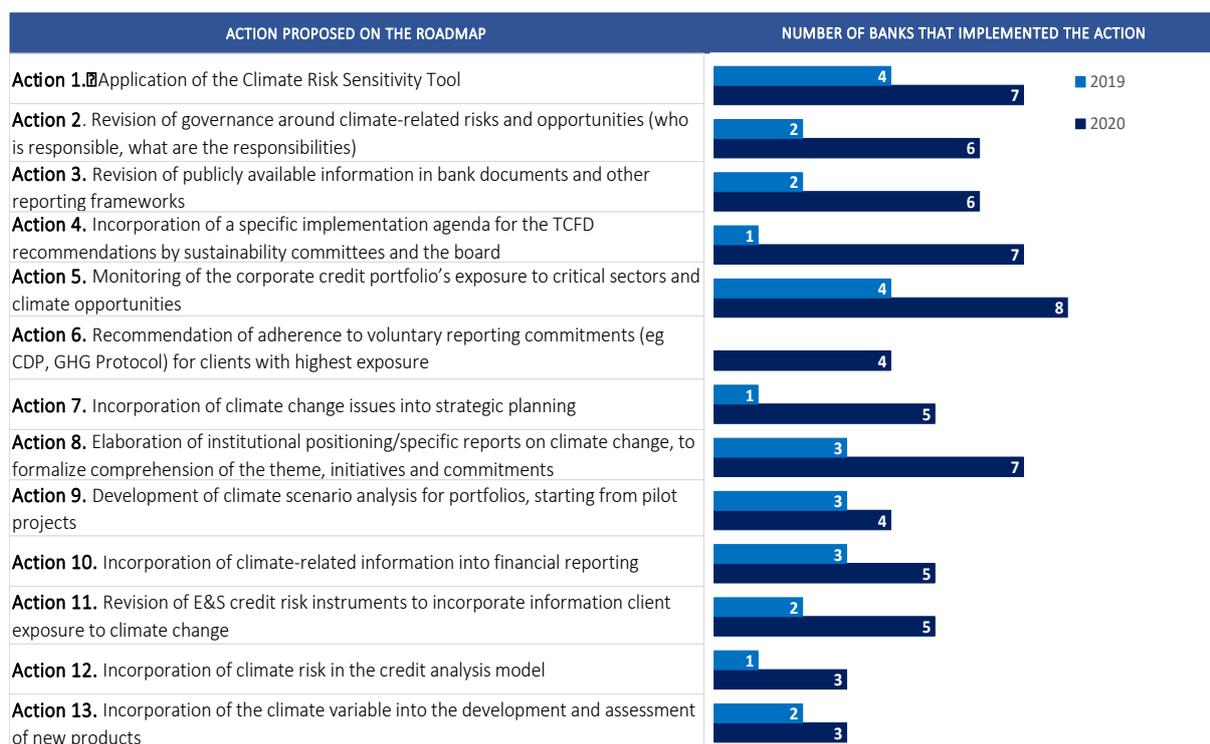
- improve the understanding of the materiality of climate-related issues;
- increase the availability of data to perform clients' risk appraisal and climate scenario analyses; and
- boost bank's transparency and accountability with investors, clients and other stakeholders regarding their exposure to climate risks and opportunities.

In total, 10 banks, that account for nearly 67% percent of the corporate credit portfolio in Brazil, reported on their progress in 2020⁸. Compared with 2019, all actions had an increase in the number of banks involved, and more than half had at least 50% of banks engaged. This increased participation demonstrates the sector's awareness and concern regarding the improvements needed to manage climate-related risks and capture opportunities.

⁷ <https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf>

⁸ <https://www3.bcb.gov.br/efdta/>

FIGURE 2 - OVERVIEW OF ACTIONS AND THEIR ADHESION BY BANKS



Source: FEBRABAN, 2020⁹

The main actions in which banks have made some progress are summarized and presented as follows.

In actions related to the incorporation of TCFD recommendations on banks governance and agenda (Actions 2 and 4), some banks informed the definition of “sponsors” in high leadership bodies and the incorporation of an existing structure (e.g. climate risk unit) to assess and monitor their exposure to climate risk. Brazilian banks also reported actions related to the incorporation of climate risk issues into the Committees agenda, including periodic analysis of indicators and workshops with senior leadership.

Regarding publicly available climate-related information into reporting frameworks (actions 3 and 10), three banks have committed to implement and review

the bank’s adherence to the TCFD Recommendations and six banks partially reported climate-related information in their annual or sustainability report.

In action 5, banks have advanced in the analysis and monitoring of their portfolio's sensitivity to climate risks using some tools made available by the FEBRABAN (Sensitivity Tool and Taxonomy) or with the monitoring of specific green products. Some results are already being reported in Annual Reports or Committees, and indicators for the bank's risk appetite have been prepared.

In action 8, four banks have their positions on climate change published, featuring their business strategies, GHG compensation targets and renewable energy consumption, opportunities, etc.

⁹ https://cmsportal.febraban.org.br/Arquivos/documentos/PDF/Acc_Implementacao_Roadmap%20TCFD_FSB_2020.pdf

Additionally, banks informed the revision of socio-environmental questionnaire considering climatic aspects for critical sectors, improvements in information gathering (e.g., location of operations) enabling better future analysis of climate risks and/ or the inclusion of a specific contractual clause for clients with significant exposure to climate risk for action 11.

Two actions that banks are facing more difficulties to progress were identified. The first one, action 12, banks are still struggling to incorporate the climate issue into the credit analysis model. As well as in action 9, the low adherence in this action was due to the difficulty in obtaining data. The development of climatic scenarios in 2021 by FEBRABAN surely will be of greater help to advance this action.

3. What comes next?

In Brazil, the banking sector has been leading the TCFD agenda, especially within the scope of FEBRABAN and its working group dedicated to Climate and Green Economy. In 2021, this leadership tends to consolidate even more due to the new regulatory agenda under public consultation by the BCB ([BC# Sustainability](#)¹⁰) that endorses the TCFD Recommendations.

In 2021, FEBRABAN already initiated actions with banks on capacity building and stakeholder engagement, especially with regulators and companies of the real economy, as well as on the development of tools that can assist the banks' journey in implementing the TCFD Recommendations. FEBRABAN understands that this is a continuous process and that it is necessary to keep moving forward.

¹⁰ <https://www.bcb.gov.br/en/financialstability/sustainability>

About FEBRABAN



The [Brazilian Federation of Banks \(FEBRABAN\)](#)¹¹ is the main representative body of the Brazilian banking sector. Founded in 1967 in São Paulo, it is a not-for-profit association with a commitment to strengthening the financial system and its relations with society, while contributing to Brazil's economic, social and sustainable development.

FEBRABAN has 119 associated banks, which account for 98% of the total assets of the entire segment in Brazil. Its permanent objectives include: representing its associates in all spheres of government, interacting with authorities and institutions in the elaboration and improvement of the regulatory system, developing initiatives to improve the productivity of the banking sector as well as directing efforts to enable the population's access to financial products and services, thus helping to strengthen Brazil's market and growth prospects.

Access FEBRABAN's Sustainability Studies at:

<https://portal.febraban.org.br/pagina/3085/43/en-us/financial-system-green-economy>

About SITAWI



[SITAWI Finance for Good](#)¹² is a Brazilian organization whose mission is to mobilize capital for positive social and environmental impact. It develops financial solutions for social impact and advise the financial sector on how to incorporate environmental and social issues into strategy, risk management and investment analysis. Among its solutions, SITAWI conducts qualitative and quantitative analysis on climate risks and opportunities, and provides advisory for a better disclosure of climate-related financial impacts.

SITAWI has the largest Latin America's practice on sustainable finance and ESG research. It was ranked one of the 10 best environmental and social research houses for investors according to Extel Independent Research in Responsible Investment - IRRRI 2016.



¹¹ <https://portal.febraban.org.br/?idioma=en-us>

¹² <https://www.sitawi.net/?lang=en>