



June 2024

## Draft disclosure framework on climate-related financial risks, 2024

Climate change is increasingly recognized globally as a significant financial risk for banks and financial institutions, posing threats to the soundness and resilience of the overall financial system. Recognising the need for a better, consistent, and comparable disclosure framework for preventing mispricing of assets and misallocation of capital, the Reserve Bank of India (“RBI”) has proposed the 'Draft Disclosure framework on Climate-related Financial Risks, 2024' (“**Disclosure Framework**”) to establish a standard mandatory disclosure framework for regulated entities (“REs”).

### Scope of Application

The Disclosure Framework applies to REs i.e., scheduled commercial banks (“SCBs”)<sup>1</sup>, Tier-IV Primary (Urban) Co-operative Banks (“UCBs”), All-India Financial Institutions (“AIFIs”)<sup>2</sup>, and top and upper layer Non-Banking Financial Companies (“NBFCs”).

These entities, collectively referred to as 'RE' in the Disclosure Framework, are required to disclose information specified in the Disclosure Framework on a standalone basis.

Adoption of the disclosure framework is voluntary for REs not listed above.

Foreign banks operating in India are also required to make disclosures specific to their operations in India.

### Key Areas of Disclosure

The Disclosure Framework is structured around 4 (four) thematic pillars of disclosure:

1. **Governance:** REs are required to detail governance processes, controls, and procedures for identifying, assessing, managing, and overseeing climate-related financial risks and opportunities. This includes disclosing the board of director's oversight and senior management's role in addressing these risks.<sup>3</sup>
2. **Strategy:** REs must outline their strategy for managing climate-related financial risks and opportunities, including identifying risks over different time horizons, assessing impacts on business and financial planning, and ensuring strategy resilience across various climate scenarios.<sup>4</sup>

<sup>1</sup> The Disclosure Framework excludes Local Area Banks, Payments Banks and Regional Rural Banks from the category of SCBs.

<sup>2</sup> The Disclosure Framework includes EXIM Bank, NABARD, NaBFID, NHB and SIDBI in the category of AIFIs.

<sup>3</sup> Para 7.1 of the Disclosure Framework.

<sup>4</sup> Para 7.2 of the Disclosure Framework.

3. **Risk Management:** The framework emphasizes detailing processes to identify, assess, prioritize, and monitor climate-related financial risks and opportunities. REs should disclose how these processes integrate into the overall risk management framework.<sup>5</sup>
4. **Metrics and Targets:** REs are expected to disclose performance metrics related to climate-related financial risks and opportunities, such as greenhouse gas emissions and associated risks, targets set to manage these risks, and progress against those targets.<sup>6</sup>

REs are required to disclose, at a minimum, the detailed key disclosures as provided in Annexure – I to the Disclosure Framework. Key disclosures are categorised into 2 (two) sections: baseline disclosure and enhanced disclosures. While SCBs, AIFIs, and NBFCs are mandated to report both baseline and enhanced disclosures, UCBs are only obligated to report baseline disclosures. However, UCBs have the option to voluntarily provide enhanced disclosures, if they choose to do so.

## Implementation Timeline

The commencement timeline for disclosures is staggered and varies for different types of entities, with SCBs, AIFIs, and NBFCs starting from FY 2025-26 for Governance, Strategy, and Risk Management, and FY 2027-28 for Metrics and Targets. UCBs are required to begin disclosures from FY 2026-27 onwards for Governance, Strategy, and Risk Management, and FY 2028-29 for Metrics and Targets.<sup>7</sup>

## Oversight and Validation

Furthermore, the disclosed information will undergo internal control assessments and review by the board of directors or a board committee. It is mandatory for REs to include these disclosures as part of their financial results/statements on their websites to ensure transparency and accountability.<sup>8</sup>

## Analysis

The Disclosure Framework underscores the growing need to address climate-related financial risks within the financial sector. However, it's worth noting that currently, there is no singular law consolidating Environmental, Social, and Governance (“**ESG**”) compliances. For instance, the Securities and Exchange Board of India (“**SEBI**”) has implemented reporting requirements for top 1000 (one thousand) listed entities through the Business Responsibility and Sustainability Report (“**BRSR**”) as part of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

While the BRSR primarily targets listed entities, the Disclosure Framework extends their purview to a banks and financial institutions. Unlike the BRSR, which focuses on the disclosure of various ESG-related aspects, the Disclosure Framework specifically emphasizes the disclosure of potential climate-related challenges. Moreover, the Disclosure Framework provides REs the opportunity to identify and integrate potential climate-related risks into their credit decisions.

This focused approach of the Disclosure Framework reflects the urgent need to mitigate the impact of climate change on the Indian financial sector.

<sup>5</sup> Para 7.3 of the Disclosure Framework.

<sup>6</sup> Para 7.4 of the Disclosure Framework.

<sup>7</sup> Para 8 of the Disclosure Framework.

<sup>8</sup> Para 9 of the Disclosure Framework.

## Energy (Clean Energy & Climate Change) Practice

We are known for our specialist domain-focused Energy practice - acknowledged for strengths in grappling with complex legal issues involving public policy, market economics, technology, finance, project management. Our practice has contributed to several landmark and precedent-setting work related to legislative and policy framework governing the industry, commercial strategies for regulated industry, presenting cases before various regulatory and judicial fora in the country, advice on tariff, licensing, market development and design, de-regulation and dispute resolution.

As part of our Energy practice, we are also involved in advising clients in the renewable energy and cleantech space. Our team's climate change and sustainability practice is regarded as a leading specialized practice acknowledged for its domain knowledge, multi-dimensional expertise and strengths in grappling with complex issues involving public policy, economics, technology, finance, project management besides law.

## Finance Practice

JSA has a widely recognised market leading banking & finance practice in India. Our practice is partner led and is committed to providing quality professional service combining domain knowledge with a constructive, consistent, comprehensive and commercial approach to issues. Clients trust our banking lawyers to take a practical and business-oriented approach to achieving their objectives. Our lawyers have a clear understanding of the expectations and requirements of both sides to a financing transaction and provide tailored advice to each client's needs. The practice is especially praised for its accessibility and responsiveness and its ability to work well with international firms and clients. We represent a variety of clients including domestic and global banks, non-banking finance companies, institutional lenders, multi-lateral, developmental finance and export credit institutions, asset managers, funds, arrangers and corporate borrowers in different sectors on a wide range of financing transactions.

Our full spectrum of services includes advising clients on corporate debt transactions (including term and working capital debt), acquisition finance, structured finance, project finance, asset finance, real estate finance, trade finance, securitisation, debt capital markets and restructuring and insolvency assignments.

Our practice has been consistently ranked in the top-tier for many years, and several of our partners are regarded highly, by international publications such as Chambers and Partners, IFLR, Asia Law, Legal 500, Asia Legal Business, IBLJ and Leaders League.

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