

**BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

June 12, 2023

Press Release:

**The Banking Supervision Department publishes a directive dealing with principles for effective management of climate-related financial risks**

The Banking Supervision Department today distributed to the banking system a Proper Conduct of Banking Business Directive on “Principles for effective management of climate-related financial risks”. This follows a prolonged process by the Banking Supervision Department vis-à-vis the supervised entities, intended, among other things, to increase the awareness of banks’ management and boards of directors about the existence of climate risks, in order to manage these risks, and about their potential impact on the banking system and the economy overall. The urgency of dealing with climate risks arose in view of climate-related phenomena occurring around the world, and scientific data illustrating the scope of climate risks.

**The Supervisor of Banks** said, “Together with maintaining the stability of the banking system, the Banking Supervision Department also sees great importance in dealing with the environmental and social areas, as part of overall ESG[[1]](#footnote-1) aspects. In publishing the Directive, we achieve two goals. The first is strengthening the financial stability of the banking system with regard to climate risks. The second is social-environmental, as the banking system is an integral part of the socioeconomic fabric in Israel and it has to assist in carrying out the policy led by the government, and in this case complying with targets of reducing greenhouse gas emissions derived from the Paris Agreement and financing the development of new technologies.”

The abovementioned directive is intended to promote a principles-based approach to improving climate risk management, and is adjusted to, and based on, the document published by the Basel Committee in June 2022. The Basel document was formulated after examining supervisory initiatives implemented by various authorities charged with financial stability and other international entities, and after analyzing the relevant climate risks.

The Directive includes 12 principles providing guidelines to banks on issues regarding corporate governance, internal audit, capital adequacy and liquidity, risk management, monitoring and reporting, the combination of management of traditional risks (credit, market, and liquidity risks, operating risks, and other risks) and scenario analysis.

1. Environmental, Social, and Corporate Governance. [↑](#footnote-ref-1)