

CLIMATE FINANCIAL RISK FORUM GUIDE 2024

RESILIENCE WORKING GROUP: SHORT-TERM SCENARIOS CHAPTER SUMMARY DOCUMENT

October 2024



What is this?

A 40-page document in pdf form proposing a framework for use in evolving climate-related risk modelling for short-term use cases.

Who is this for?

The paper will be useful for **those working in banks, insurers, and asset managers who are working on strategy and business planning, risk appetite framework, stress testing and capital adequacy, and climate-related disclosures, particularly across jurisdictions.**

What does it contain?

There is a high level of uncertainty around the speed and scale of the transition. For financial institutions, this short-term uncertainty on both physical and transition aspects represents risks to be managed.

This paper showcases how short-term scenarios can be used to assess the impact of climate-related economic risks. It offers a framework enabling practitioners to better understand their exposures and reflect outcomes of short-term scenarios in their strategy and business models.

The proposed framework considers the following eight areas:

- **Define use case:** What is the purpose of the short-term scenario analysis and what is the associated time horizon?
- **Scenario narrative:** What are the risk events and socio-economic context to be considered?
- **Risk assessment:** Which locations, industry sectors and counterparties are at high risk?
- **Transmission channels:** What are the first and second order transmission channels and associated variables?
- **Financial impact:** How do we model the financial impact of the short-term scenario?
- **Review and challenge:** How do we validate the results and address limitations?
- **Management actions:** What are the resulting management actions?
- **Likelihoods:** How do we assess likelihoods?

Additionally, the paper examines some of the challenges, limitations, and current best practices in short-term climate scenario analysis. It also highlights differences compared to long-term climate scenario analysis that the industry has been focusing.

When was it published/updated?

October 2024

What does it reference?

The framework in the guide is an evolution of previous frameworks proposed by the CFRF in its scenario analysis chapters developed in the 2020 and 2021 sessions. It also builds on content from the 2022-2023 chapters for banks, insurers, asset managers and other financial firms.

The document references a range of industry and scientific papers, a complete list of which can be found in the paper's bibliography.