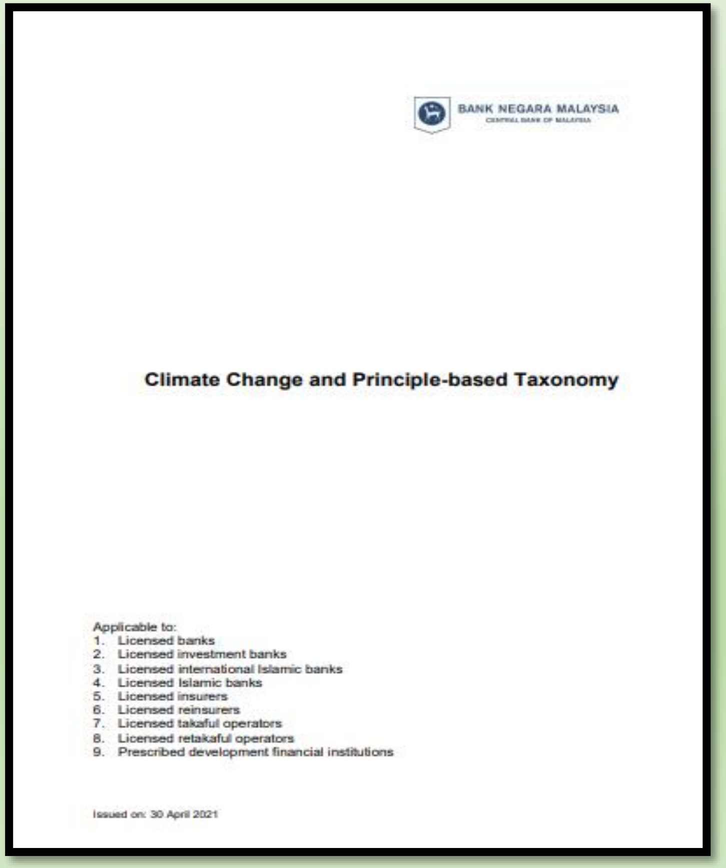

# Part 2 - Operational Risk Meets CCPT :

## Embedding Climate Taxonomy into Risk and Controls

***A guide for risk managers and bankers who want to make climate frameworks real***

BANK NEGARA MALAYSIA

Climate Change and Principle-based Taxonomy

Applicable to:
1. Licensed banks
2. Licensed investment banks
3. Licensed international Islamic banks
4. Licensed Islamic banks
5. Licensed insurers
6. Licensed reinsurers
7. Licensed takaful operators
8. Licensed retakaful operators
9. Prescribed development financial institutions

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# Why CCPT Matters to Operational Risk ?

Each CCPT classification — Green, Amber, or Red reflects underlying :

- Governance,
- Process,
- Controls

These are the heart of Operational Risk

## CCPT reveals:

i. **Poor ESG governance** → higher conduct risk

ii. **Weak data quality** → unreliable reporting

iii. **Inefficient processes** → transition failure risk

iv. **Lack of oversight** → compliance gaps

# 1. Embed CCPT into RCSA (Risk & Control Self-Assessment)

Example: **Food Manufacturer (Amber)**

- **Situation**: No climate-related procurement policy; relies on non-energy efficient logistics
- **CCPT Status: Amber** — early transition
- **Operational Risk Actions:**
  1. **Add *risks***: “carbon-linked supply chain exposure,” “ESG vendor non-compliance”
  2. ***Controls***: Mandatory green sourcing checks; supplier audits
  3. ***Owner***: Procurement & Compliance jointly accountable


✓ **Outcom**


Transition risks are now formally assessed and managed in RCSA.

# 2. Revise Operational Loss Categories to Capture Climate-Linked Incidents (LER)

Example: **General Goods Trader** (**Red**)

- **Situation:** Goods seized by authorities due to non-compliance with plastic import regulations
- **CCPT Status:** **Red** — no climate alignment
- **Operational Loss Update:**
    1. Add category: “Environmental Compliance Failures”
    2. Track losses linked to ESG regulation breaches
    3. Train trade teams to screen HS codes with environmental risk

✓ **Outcome**:

Climate-linked losses are measured, not hidden under generic “external” events.

# 3. Use CCPT to Drive Climate-Aligned KRIs (Key Risk Indicators)

Example: **Furniture Exporter (Amber)**

➢ **New KRIs:**

- % of suppliers with certified sustainable sourcing (e.g., FSC, PEFC)
- ESG non-compliance cases per quarter
- % of procurement spend with Green/Amber vendors

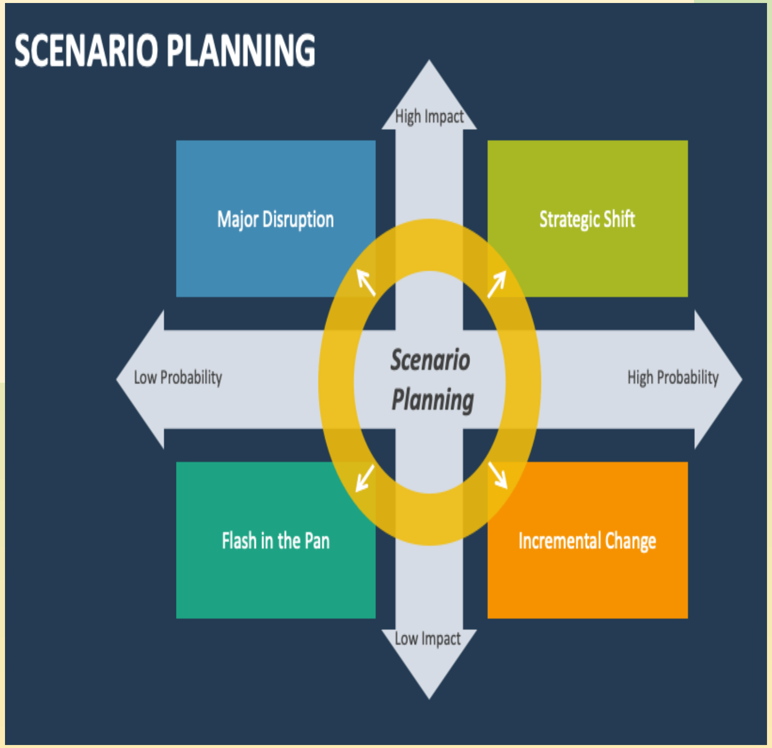
✓ **Outcome**:

Climate metrics become part of operational risk reporting — not just sustainability reports.

# 4. Apply CCPT in Operational Risk Controls and Scenario Planning

Example: **<u>Automotive Parts Manufacturer </u>(GP2)**

- **Activity:** Produces EV components; ISO 14001 certified; solar-powered operations
- **Risk Issues Identified:**
    - Supplier concentration risk for raw materials
    - Exposure to EU regulations on carbon-intensive exports
    - New customer audits requiring ESG disclosures



# 5. Integrate CCPT into Risk Appetite Statements (RAS)

Example: **Palm Oil Refinery (Red)**

- **Current Tolerance:** Allows high-emission sectors with conditions
- **Updated RAS:**
  - Limit “Red” exposure to <5% of overall portfolio
  - Mandate transition action plans for continuation
  - Flag such exposures in Board-level risk dashboards

✓ **Outcome**:

The bank’s environmental risk tolerance is now visible and enforced.

## Summary Table: CCPT Tools for Operational Risk Teams

| Operational Risk Tool | CCPT Integration Example |
|---|---|
| **RCSA** | ESG-related risk scenarios, control assessments |
| **Loss Event Reporting** | New category: climate/regulatory non-compliance |
| **Risk Appetite** | Limits by CCPT band; Red flagged for action plans |
| **KRIs** | ESG certification rates, climate incident reports |
| **Scenario Analysis** | Emerging risk simulations (e.g., regulation, supply chain) |

✓ **Outcome**:

Risk teams are now proactively managing climate-linked operational disruptions

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## Key Takeaways

- CCPT reveals **systemic non-financial risks** that operational risk teams must manage.
- "**Red**" borrowers often lack control maturity and process integrity — increasing reputational and compliance risks.
- "**Amber**" borrowers offer opportunity to co-create improved controls and risk indicators.
- Embedding CCPT into the operational risk framework improves decision-making and risk governance.