# Republic of Panama
# Superintendency of Banks

**RULE No. 11-2022**
(Dated 1 November 2022)

**"Whereby number 13 is added to Article 4 of Rule 8-2010 on Comprehensive Risk Management"**

**THE BOARD OF DIRECTORS**
in use of its legal powers and,

**WHEREAS:**

Pursuant to the issuance of Decree Law 2 dated 22 February 2008, the Executive Branch re-edited Decree Law 9 dated 26 February 1998 and all its amendments as a consolidated text, and approved it by means of Executive Decree 52 dated 30 April 2008, hereinafter referred to as the Banking Law,

Pursuant to Article 5 (1) and (3) of the Banking Law, safeguarding the soundness and efficiency of the banking system and strengthening and promoting public trust in the banking system are objectives of the Superintendency of Banks,

Pursuant to Article 11 (5) and (11) of the Banking Law, establishing the administrative interpretation and scope of the legal provisions and regulations on banking matters and issuing the technical standards required for compliance with the Law are among the technical duties of the Board of Directors,

Rule 8-2010, dated 1 December 2010, established the provisions on comprehensive risk management for banks and banking groups to apply a comprehensive risk management process that allows them to identify, assess, oversee, and control or mitigate the distinct types of risks to which they are exposed depending on the size and sophistication of their operations, products, and services,

Rule 9-2017, dated 7 November 2017, amended Article 4 of Rule 8-2010 to include the "social and environmental risk" definition, which is the possibility that any bank incur in loses due to negative environmental and social effects resulting from granting loans to fund projects, as well as from environmental activities in which the projects are conducted, significantly affecting the economic, social, or environmental system,

Since 2017, the Superintendency of Banks has deemed the importance and necessity of social and environmental risk within the types of risks that banks must take into consideration to conduct an appropriate credit risk management and administration,

Since 2020, the Basel Committee on Banking Supervision has published reports and guides that highlight the importance of mitigating climate-related financial risks as a potential source of risk that, if materialized, could have negative consequences for financial institutions and the proper functioning of the financial system,

International best practices and standards on climate-related financial risks guide the processes and measures banks must consider for proper climate risk management and administration,

During its working sessions, the Board of Directors determined it was necessary and advisable to amend Rule 8-2010 to include "climate-related financial risks" definition.

**RESOLVES:**

**ARTICLE 1. ADDITION.** To add number 13 to Article 4 of Rule 8-2010, dated 1 December 2010, as follows:

> **"ARTICLE 4. TYPES OF RISK.** For the purposes of this Rule, without prejudice to what have been provided for in other rules, these terms are defined as follows:
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> …

13. **Climate-related risks**. The current or potential risks that may arise from climate change or from efforts to mitigate climate change. These effects include the economic and financial consequences on an entity or organization. These risks may be classified in physical, transition, or liability risks.

13.1. **Physical risks.** The risks derived from potential losses resulting from extreme climate change-related weather events or from longer-term gradual shifts of the climate.

Physical risks may be **acute**, when resulting from a specific natural disaster or by extreme weather events; or may be **chronic** when resulting from longer-term gradual shifts of the climate, such as changes in precipitation, extreme weather variability, rising sea levels and average temperatures.

13.2. **Transition risks.** The risks related to the process towards a low-carbon economy that could generate political, technological, and market changes to address mitigation and adaptation measures related to climate change. Depending on the nature, speed, and focus of these changes, transition risks can pose different risk levels to organizations. Within transition risks are:

a. **Climate-related political and legal risks.** Those arising from the measures that seek to limit actions that contribute to the negative effects of climate change or that seek to promote adaptation to climate change, such as the establishment of a carbon price to reduce greenhouse gas (GHG) emissions, the implementation of energy, water, or land efficiency measures.

b. **Climate-related technology risk.** That resulting from technological improvements or innovations supporting the transition to low-carbon economy, such as new emerging technologies that are more efficient and less polluting, [including] energy storage and carbon capture mechanisms that could affect certain companies' or economic activities' competitiveness, their production and distribution costs, and the demand for their products and services.

c. **Climate-related market risk.** That arising from changes in demand and supply of many raw materials, products, and services, because of changes in customer, investor or consumer behavior and preferences.

d. **Climate-related reputational risk.** That resulting from the clients' or community's changing perceptions about the contribution of certain companies or traditional economic sectors to the transition towards a low-carbon economy.

13.3. **Climate-related legal liability risks.** That arising from the potential losses that can result from actions or omission that cause losses or damages associated with climate change and that through judicial processes seek compensation by repairing the damage caused, applying preventive and mitigating measures, and assuming the corresponding costs."

**ARTICLE 2. EFFECTIVE DATE.** The provisions herein shall become effective upon its enactment.

Given at Panama City this first (1st) day of November, two thousand twenty-two (2022).

**FOR COMMUNICATION, PUBLICATION AND ENFORCEMENT.**

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| **THE CHAIRMAN,** | **THE SECRETARY,** |
| Rafael Guardia Pérez | Felipe Echandi Lacayo |