

Banking and Finance News

The BCP approves Guide on climate-related financial risks

Through Resolution No. 31, Minute No. 22 dated May 29, 2025, the Central Bank of Paraguay ("BCP") approved the Guidance on the Management of Climate-Related Financial Risks for Supervised and Regulated Financial Intermediation Entities ("Risk Management Guide"). This regulation, which becomes mandatory as of January 1, 2026, sets forth guidelines aimed at strengthening the national financial system's capacity to address the challenges arising from climate change.

The Risk Management Guide explicitly recognizes that climate risks, both physical and transitional, can translate into traditional financial risks such as credit, market, liquidity, operational, strategic, and reputational risks. In this regard, the BCP has adopted a macro and microprudential approach aligned with best international practices, particularly those established by the Basel Committee on Banking Supervision.

Regulated entities must integrate climate-related financial risks into their policies, governance structures, internal control frameworks, and comprehensive risk management systems. Among the most relevant aspects of the Risk Management Guide are:

- i. **Climate Governance:** The board of directors of each entity must be actively involved in the management of these risks, approving specific policies, assigning responsibilities, and ensuring continuous training on climate risks.
- ii. **Climate Risk Management:** Entities are required to identify, measure, mitigate, and monitor their exposure to climate risks, incorporating these aspects into the credit cycle, portfolio management, risk concentration analysis, and strategic decision making.
- iii. **Climate Stress Testing:** Entities must develop internal capabilities to design and conduct climate scenario analyses and stress tests, considering their business model, complexity, and operational scale.
- iv. **Data Infrastructure:** Entities will be required to collect and use accurate, detailed, and up to date data to properly assess the potential impacts of climate change on financial operations.
- v. **Disclosure:** Entities must adopt a formal climate-related disclosure policy, approved by the board, which includes governance, strategy, and risk management components.

With this guide, the BCP establishes a milestone in the integration of environmental sustainability into the country's financial regulation. The regulation is expected not only to enhance the resilience of supervised entities to extreme climate events, but also to promote responsible financing practices aligned with global climate change commitments.

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