



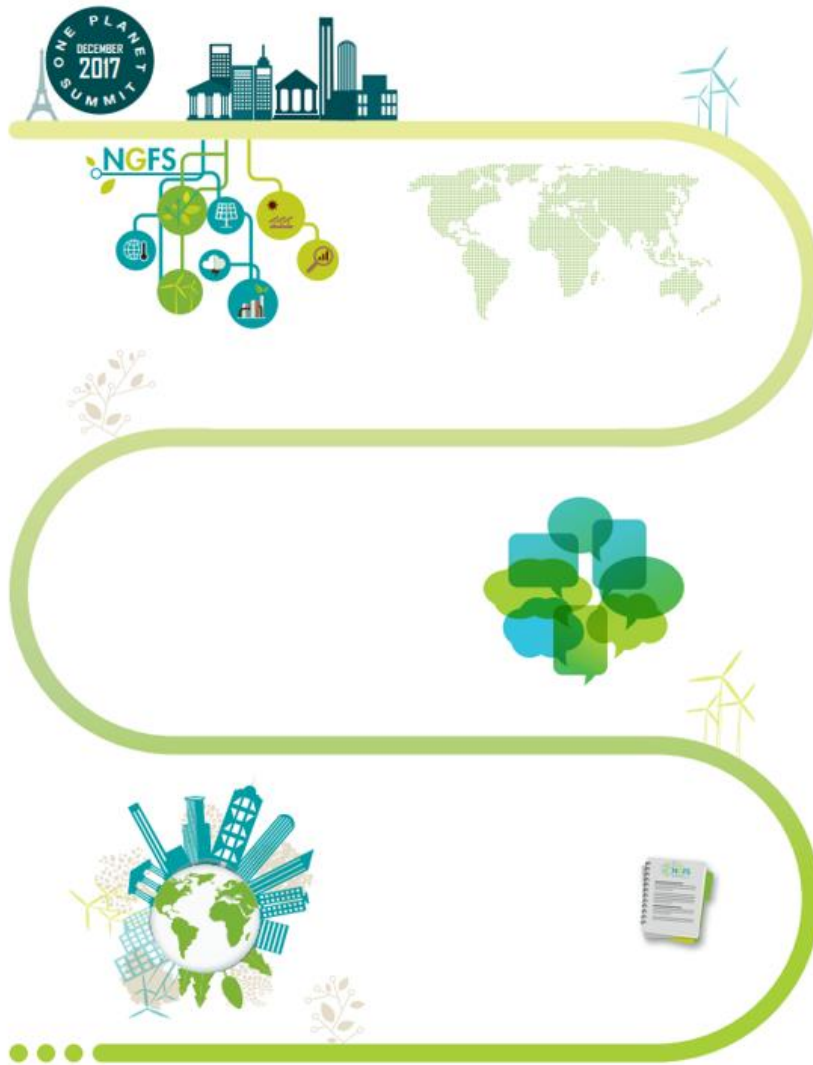
Central Banks and Supervisors Mobilized Against Climate Change

The Network for Greening the Financial System (NGFS)

THE NGFS: AN ANSWER TO CLIMATE URGENCY

- Climate change is a source of structural changes in the economy/financial system with a number of specificities:
 - Far-reaching impact in breadth and magnitude;
 - Foreseeable nature;
 - Irreversibility;
 - Dependency on short-term actions for medium/long term impacts;
 - Non linearity and tipping points.
- Climate-related risks are a source of financial risk (in particular physical risks and transition risks). It is therefore within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks.

THE NETWORK FOR GREENING THE FINANCIAL SYSTEM



- Paris Dec. 2017 One Planet Summit: **8 Central banks and Supervisors** established the NGFS.
- Today: **83 members** and **13 observers**. Covering 5 continents.
- **Coalition of the willing**. Not a Standard Setting Body.
- **NGFS members' jurisdictions cover:**
 - Supervision of **100%** of the global systemically important banks and **2/3** of the global systemically important insurers;
 - Around **75%** of global greenhouse gas emissions.

THE FIRST NGFS COMPREHENSIVE REPORT (APRIL 2019) SETS OUT 6 RECOMMENDATIONS (INCLUD. 4 FOR CENTRAL BANKS AND SUPERVISORS)



Central banks and supervisors

1.



Integrating climate-related risks into financial stability monitoring and micro-supervision.

2.



Integrating sustainability factors into own-portfolio management.

3.



Bridging the data gaps.

4.



Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing.

Policy makers

5.



Achieving robust and internationally consistent climate- and environment-related disclosure.

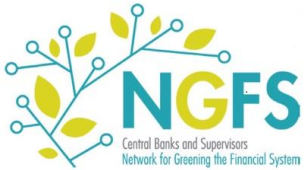
6.



Supporting the development of a taxonomy of economic activities.

NGFS PRACTICAL GUIDES

- Since April 2019, the NGFS has been working on practical guides to better equip the community of central banks and supervisors (as a follow-up of the recommendations 1 and 2):
 - **Sustainable and Responsible Investment Guide for Central Banks' portfolio management** (October 2019);
 - **Guide for Supervisors: Integrating climate-related and environmental risks into prudential supervision** (May 2020);
 - **Guide on climate scenario analysis for Central Banks and Supervisors, along with the NGFS climate scenarios** (June 2020).
- These guides are valuable tools for learning more about what central banks and supervisors do around the world and encourage knowledge sharing (follow-up of the recommendation 4).



Guide for Supervisors

Integrating climate-related and environmental risks into prudential supervision

- Based on a **survey amongst 34 NGFS members**, further input received from NGFS members and other work done by supervisors outside the network.
- The Guide sets out **five recommendations** for prudential supervisors to integrate climate-related and environmental risks into their work
- The recommendations are **illustrated with practices from supervisors from all over the world**
- Focuses on **banks and/or insurers supervisors**. Its content could also be relevant to the supervision of other financial players.
- The **recommendations are non binding**. Aim is to offer supervisors the **inspiration needed to accelerate their own efforts** in this area, while giving them the flexibility to accommodate their own specific needs, tailor actions to their mandates and make progress at their own pace.

5 recommendations

1.



Supervisors are recommended to **determine how climate-related and environmental risks transmit** to the economies and financial sectors in their jurisdictions and **identify** how these risks are likely to be material for the supervised entities.

2.



Develop a clear **strategy**, establish an **internal organisation** and allocate adequate **resources** to address climate-related and environmental risks.

3.



Identify the exposures of supervised entities that are vulnerable to climate-related and environmental risks and **assess the potential losses** should these risks materialise.

4.



Set supervisory expectations to create transparency for financial institutions regarding the supervisors' understanding of a prudent approach to climate-related and environmental risks.

5.



Ensure adequate management of climate-related and environmental risks by financial institutions and **take mitigating action** where appropriate.

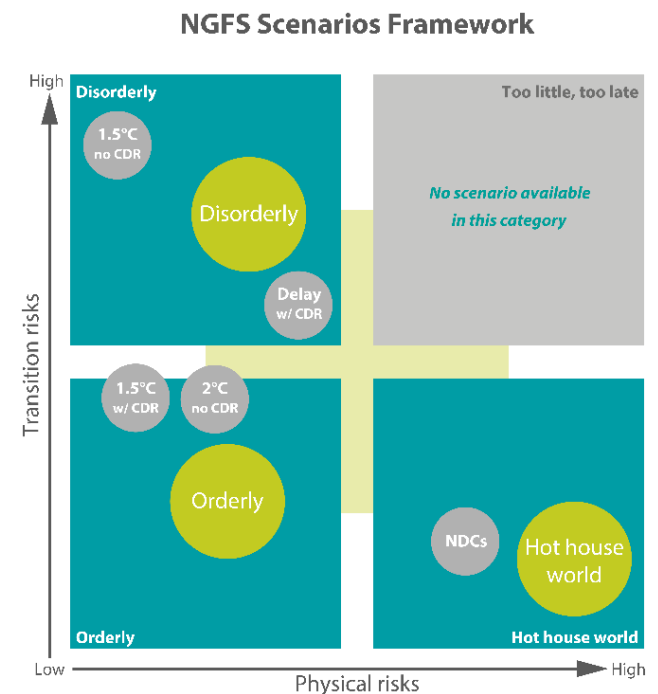
TAKE AWAY

- Examples show that **supervisors have stepped up** - A lot of progress has been made worldwide
- **Journey** has been as important as **the destination**

- **Main challenges**
 - **lack of data and methodologies** for quantifying risks and calibrating prudential requirements
 - **lack of a risk-oriented taxonomy** or common definition of “green” and “brown” assets and, as a result, lack of evidence of a risk differential between “green”, “non-green” and “brown” assets.
 - The insignificance of risks stemming from climate change and the energy transition in the available **historical data**, as well as the **reliance on backward-looking models** pose significant analytical challenges.

THE NGFS REFERENCE SCENARIOS PROVIDE US WITH A COMMON STARTING POINT

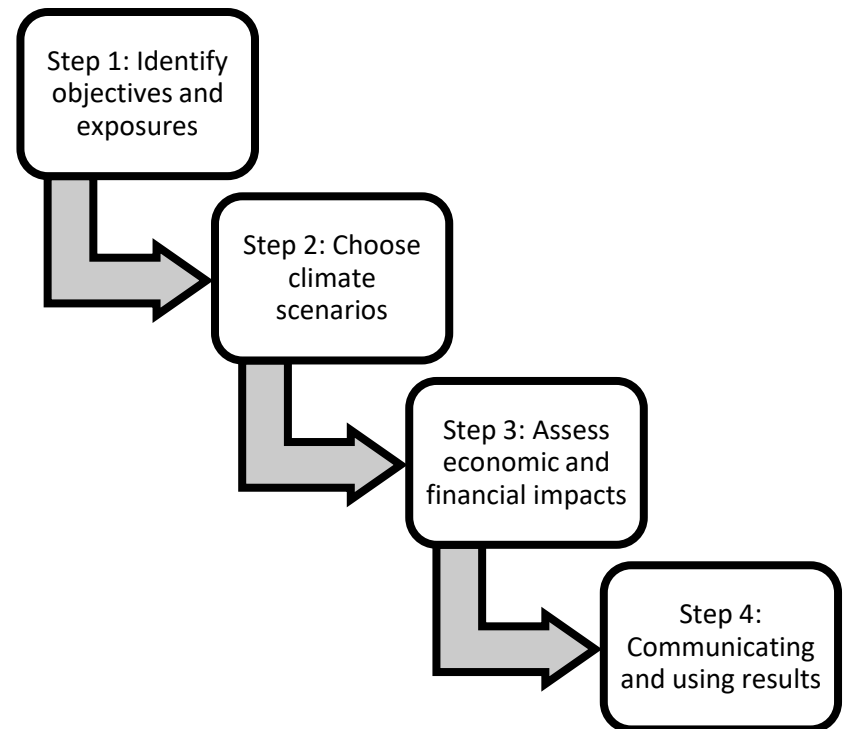
- NGFS scenarios were produced jointly with a consortium of leading research institutions
- The first phase explores **8 scenarios** consistent with the NGFS framework
- They explore futures in which:
 - Different **temperature outcomes** are reached (e.g. 1.5°C, > 2°C, 3°C+)
 - Emissions reductions commence soon or are **delayed** (to 2030)
 - All **technologies** are available or not



A FOUR STEP PROCESS TO CLIMATE SCENARIO ANALYSIS

The Guide provides practical advice on using scenario analysis to assess climate risks to the economy and financial system, highlighting four key steps:

- **Identifying objectives and exposures:** Scenario analysis is relevant to many objectives of central banks and supervisors, including monetary policy and stress testing
- **Choosing climate scenarios:** It's not only about choosing high-level scenario narratives, but also e.g. the number of scenarios and the time horizon
- **Assessing economic and financial impacts:** Central banks and supervisors care about a wide-ranging set of economic and financial variables; a key challenge is obtaining granular enough information for in-depth analysis
- **Communicating and using results:** Communicating results will help improve awareness and may provide a basis for follow-up actions from central banks and supervisors



NGFS: LOOKING AHEAD

- **The NGFS will update several reports published in 2019/2020**, to keep track of the initiatives/best practices among its membership.
- **The NGFS will also continue to work with a consortium of academic partners to refine and expand the scope of the scenarios** and share best practice.
- **The NGFS will review and assess potential options to integrate climate-related risks into monetary policy operational framework.**
- **The NGFS will work on the data and metrics needs** (as a follow-up of the recommendation 3):
 - Identifying data items needed for the purpose of climate-related risks' analysis and the scaling up of green finance;
 - Determining whether the listed data items are available and if so, what are the data sources, and limitations for accessing them.
- **The NGFS will further develop its research agenda.**