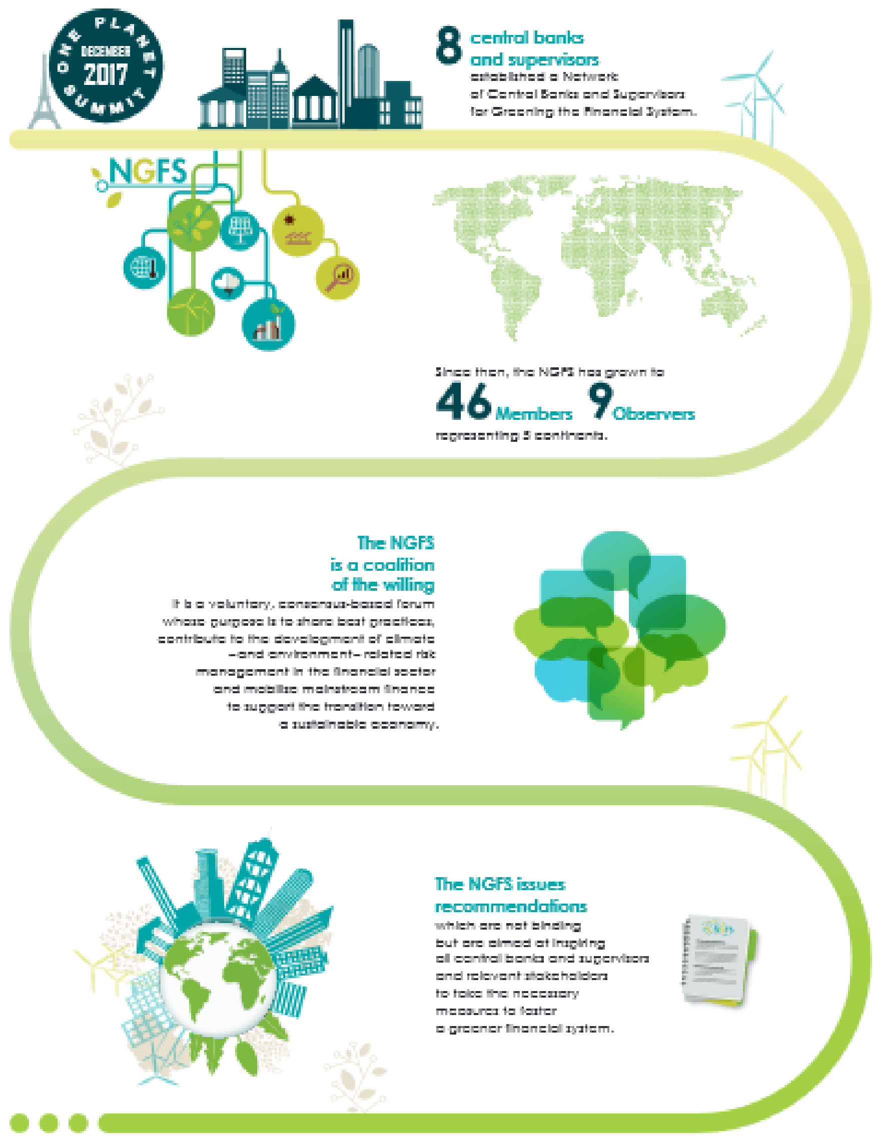
Central Banks and Supervisors

Network for Greening the Financial System

NGFS: ORIGINS AND MANDATE



NGFS: HIGH LEVEL OF COMMITMENT

"The continuously increasing number of contributors to the NGFS shows that more and more supervisors and regulators worldwide recognize the need to combat climate change and are convinced of the vital role the financial sector must play"
F. Elderson (Chair of the NGFS and Executive Board Member, DNB)

"Through the NGFS, we are working with more than 45 other central banks and supervisors to enhance our role in the greening of the financial system, and the managing of environment and climate related risks"
A. Orr (Governor, Reserve Bank of New Zealand)

"Since the NGFS' inception, the momentum of joining this network has been accelerating, reflecting a growing awareness among financial authorities to take urgent action"
A. Jouahri (Govenor, Bank Al Maghrib)

"The recent recommendations of the NGFS provide a good basis for climate action by all central banks globally"
O. Rehn (Governor, Bank of Finland)

"In this regard, the Bank is actively involved in working together with the NGFS to develop an analytical framework to assess such risks"
Datuk Nor Shamsiah (Governor, Bank Negara Malaysia)

"Today, the NGFS has nearly 50 members: it works concretely -and with great enthusiasm- to ensure that banks and insurers better integrate climate change risks and promote green financing"
F. Villeroy de Galhau (Governor, Banque de France)

"Last but not least, last teay the RBA joined the NGFS, a group of central banks that are examining climate issues"
G. Debelle (Deputy Governor, Reserve Bank of Australia)

NGFS: AN ANSWER TO CLIMATE URGENCY

- **Climate change source of structural change** 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.
- **Highly likely that climate-related risks are not properly reflected in asset valuations**.
- Ultimately, **mobilize mainstream finance to support the transition toward a sustainable economy**.

NGFS: ORGANISATION OF THE WORK

WS1: Ma Jun
(People's Bank of China)

Microprudential/supervisory

- Mapping of current supervisory practices
- Encouraging climate-related risks disclosure
- Considering the extent to which a financial risk differential exists between 'green' and 'brown' assets

WS2: S. Breeden
(Bank of England)

Macrofinancial

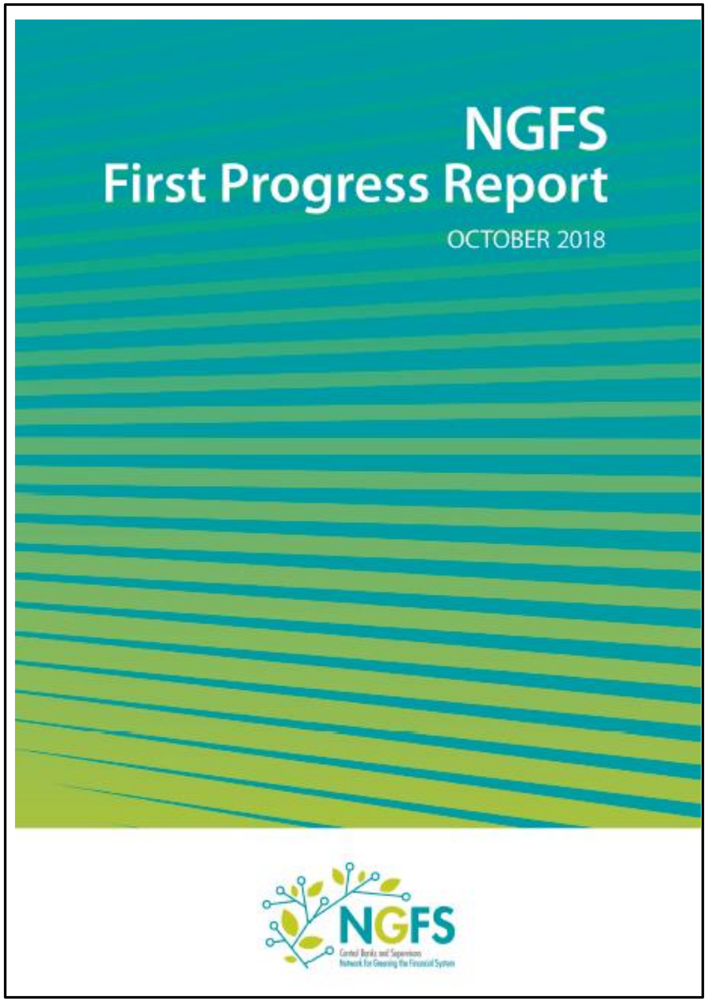
- Sizing the impact of climate related risks on the economy both in the central case and in the event of tail scenarios
- Transmission channels of climate-related risks to the economy and the financial system
- Identify areas where further research is needed

WS3: S. Mauderer
(Deutsche Bundesbank)

Scaling up green finance

- Leading by example and Greening the activities of Central Banks and supervisors
- Understanding/monitoring the market dynamics of green finance
- Being catalysts for a sound scaling up of green finance

NGFS: FIRST PROGRESS REPORT (OCTOBER 2018)



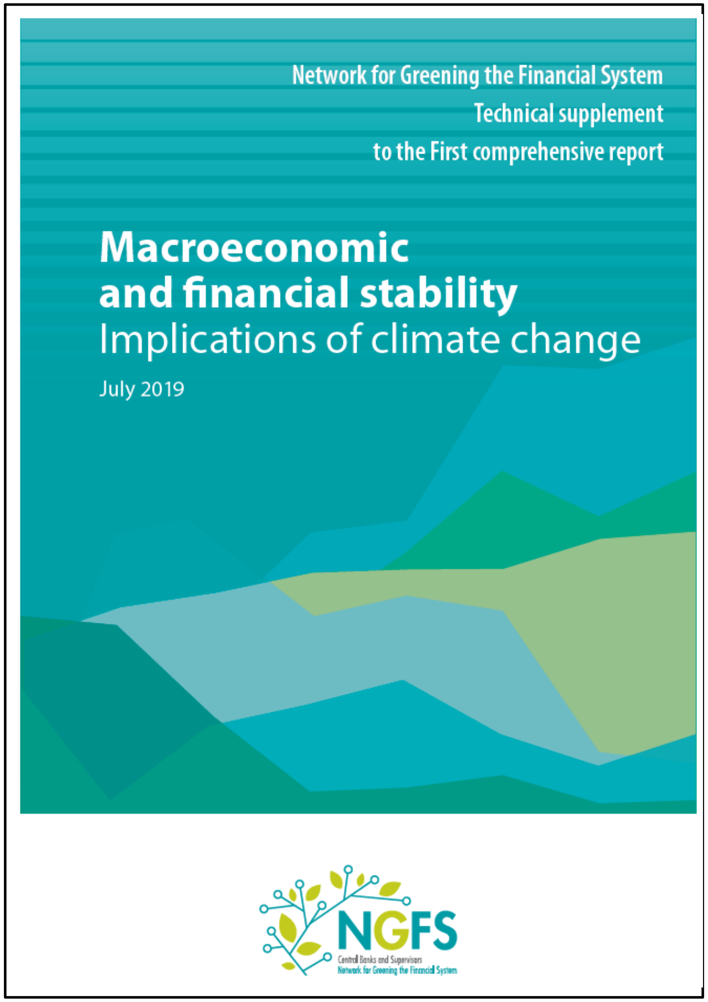
- Published on 11 October 2018, on the occasion of WB/IMF Annual meetings in Bali

NGFS: FIRST COMPREHENSIVE REPORT (APRIL 2019)

- Published on 17 April 2019, on the occasion of a high-level conference held at Banque de France

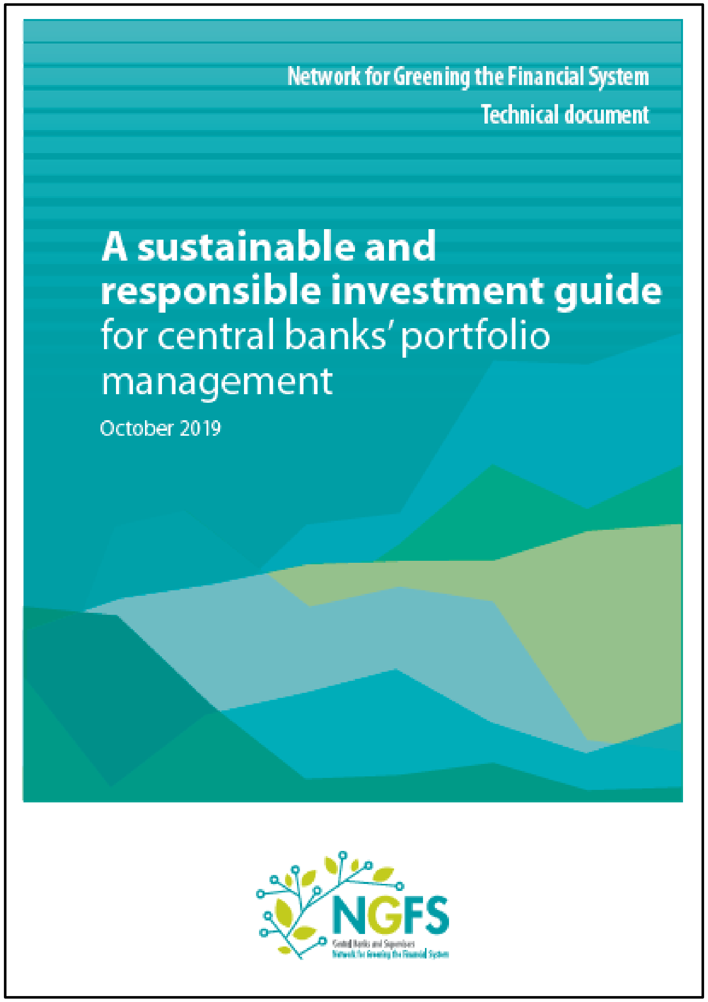
NGFS: FIRST COMPREHENSIVE REPORT (APRIL 2019)

NGFS: TECHNICAL SUPPLEMENT (JULY 2019)



- Published on 23 July 2019

NGFS: SRI GUIDE FOR CBs' PORTFOLIO MANAGEMENT (1/3)



- Published on 17 October 2019, on the occasion of WB/IMF Annual meetings in Washington

NGFS: SRI GUIDE FOR CBs' PORTFOLIO MANAGEMENT (2/3)

NGFS: SRI GUIDE FOR CBs' PORTFOLIO MANAGEMENT (3/3)

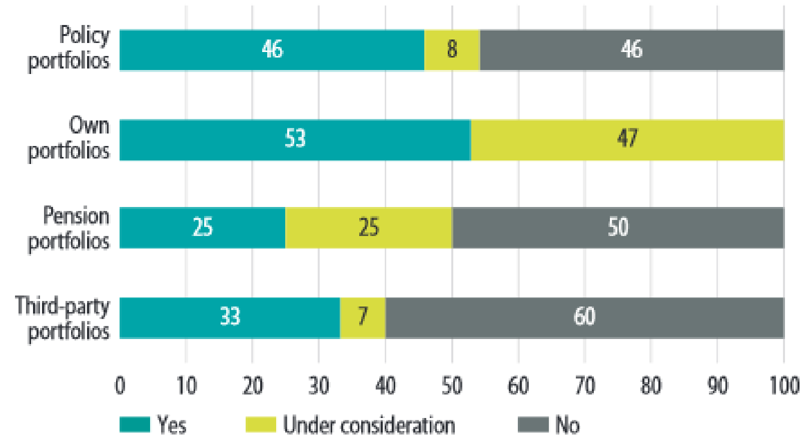
SRI in central banks' portfolios

The NGFS survey covers 27 central banks. In total 25 manage one or more portfolios for which SRI is already included or under consideration. Of these 25, all have adopted, or are considering adopting, SRI principles in their own portfolios. For the policy portfolios, pension portfolios and third-party portfolios, the survey results are more balanced, as roughly half of the respondents indicate that they have adopted, or are considering adopting, SRI principles in these portfolios.

These relatively high shares reflect the broad definition of "the incorporation of SRI principles", which covers varying strategies and may be applied only to specific parts (asset classes) of central banks' portfolios (see chapter 4). Moreover, as outlined in paragraph 2.1, policy portfolios can serve different functions across central banks. Most central banks that apply a form of SRI to their policy portfolio, indicate this refers to their foreign exchange portfolio.

C1 **SRI in central banks' portfolios**

(%)



Source: NGFS SRI portfolio management survey 2019.
Note: 27 respondents. In total, the surveyed central banks manage 68 portfolios: 24 policy portfolios, 12 pension portfolios, 15 third-party portfolios, and 17 own portfolios. Note that there are 17 own portfolios managed by 15 central banks (two respondents have 2 separate own portfolios). The survey only included pension portfolios that are part of central banks' balance sheets. This means central banks' pension portfolios managed by an independent entity are not represented.

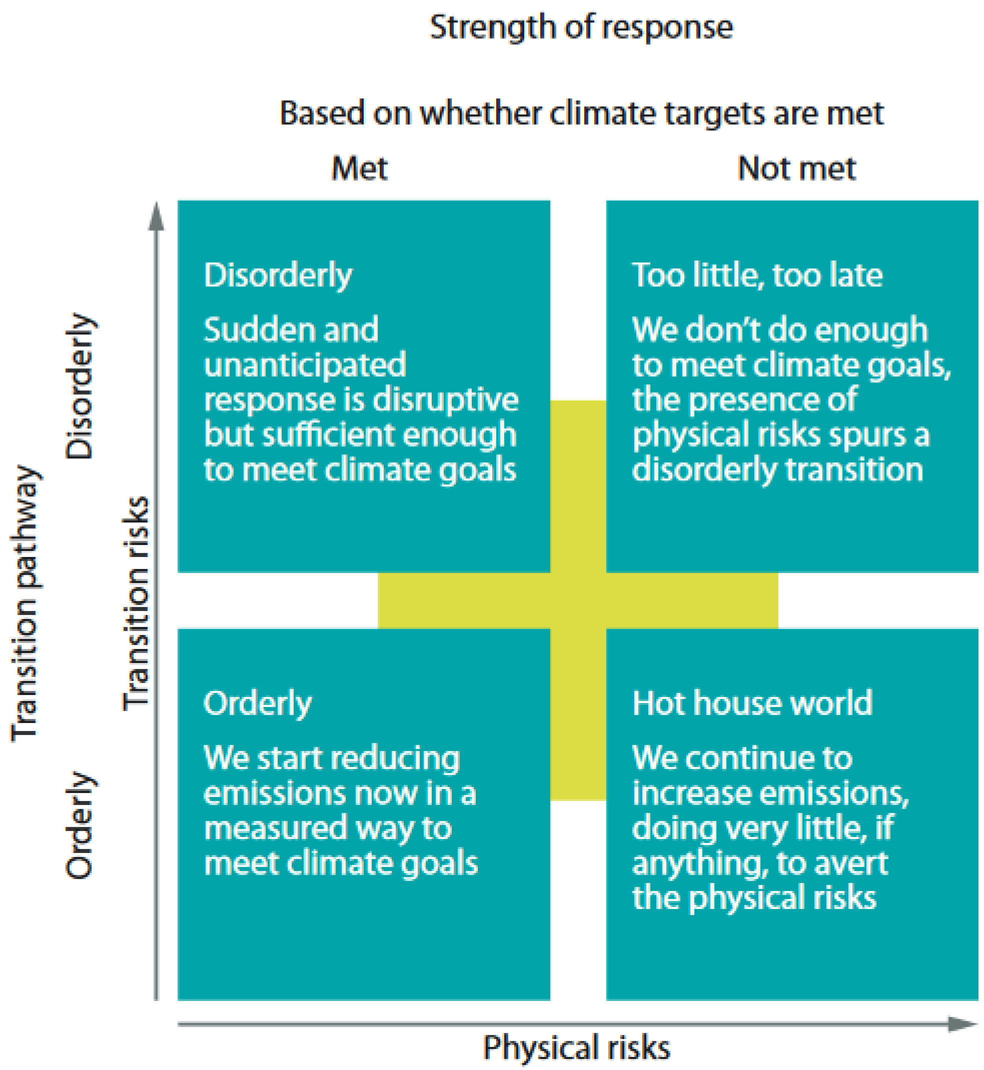
NGFS: COMING DELIVERABLES (1/3)

- In April 2019, the NGFS decided to prepare a number of technical documents (by mid-2020) on:
  - Climate and environment-related risk management for supervisory authorities
  - Climate and environment-related risk management for financial institutions
  - Scenario-based climate risk analysis
  - Incorporating sustainability criteria into central banks' portfolio management (October 2019)

NGFS: COMING DELIVERABLES (2/3)

Courses of action	Possible measures by supervisors
Raising awareness and building capacity among firms	• Raise awareness of the relevance of climate-related risks publicly and during bilateral meetings; survey firms on the impact of these risks; lay out a strategic roadmap for the handling of climate-related risks. • Build capacity by convening events to progress the translation of scientific findings to financial analysis; set up working groups with firms, for example, on incorporating climate issues into risk management or scenario analysis.
Assessing climate-related risks	• Develop analytical tools and methods for assessing physical and transition risks related to climate change both at a micro- (financial institutions) and macro-level (i.e. the financial system). • Conduct and publish an assessment of these risks at a macro- and micro-level. • Analyse potential underlying risk differentials of "green" and "brown" assets. This pre-supposes that the supervisor and/or jurisdiction have agreed on definitions and classifications for "green" and "brown" activities.
Setting supervisory expectations	• Issue guidance on the appropriate governance, strategy and risk management of climate-related risks by regulated firms. • Train supervisors to assess firms' management of these risks.
Requiring transparency to promote market discipline	• Set out expectations for firms' climate-related disclosures in line with the TCFD recommendations. • Consider integrating climate-related disclosures into Pillar 3.
Mitigating risk through financial resources	• Consider applying capital measures in Pillar 2 for firms that do not meet supervisory expectations or with concentrated exposures. • Based on the risk assessment outlined above, possibly consider integrating it into Pillar 1 capital requirements.

NGFS: COMING DELIVERABLES (3/3)



NGFS: USEFUL WEB LINKS

- NGFS « A Sustainable and Responsible Investment Guide for Central Banks' portfolio management » (October 2019)

https://www.ngfs.net/sites/default/files/medias/documents/ngfs-a-sustainable-and-responsible-investment-guide.pdf

- NGFS technical supplement to the comprehensive report (July 2019)

https://www.ngfs.net/sites/default/files/medias/documents/ngfs-report-technical-supplement_final_v2.pdf

- NGFS « A call for action » report (April 2019)

https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf

- NGFS first progress report (October 2018)

https://www.ngfs.net/sites/default/files/medias/documents/818366-ngfs-first-progress-report-20181011.pdf

- NGFS website (https://www.ngfs.net) and NGFS Twitter account: @NGFS_