



# Climate Risks in Financial Systems of Latin America

Regulatory, Supervisory, and Industry Practices in the Region and Beyond

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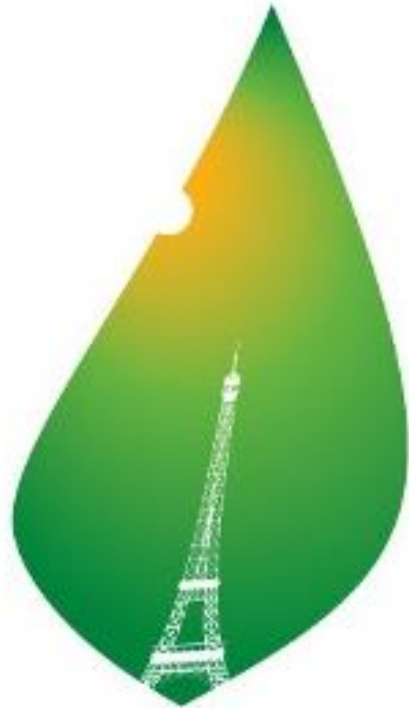
**Before we begin**

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**On the role of MDBs in  
supporting the coalition and  
Principle 5**

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# MDBs and the Paris Agreement – the role of MDBs



PARIS2015



Paris Agreement signatories are countries, who are our clients and shareholders.



MDBs support countries and clients in these countries to achieve the objectives of the Paris Agreement.



MDBs deliver on both the SDGs and the Paris Agreement goals.



MDBs are enablers of transformative climate action, underpinned by the Paris Agreement.

# A multitude of emerging approaches to Paris Alignment and climate governance

## Financial Flows: Criteria for New Operations



**MDBs**

## Complete Portfolio



## Wider Financial Activities, Advisory Services and Policy Support

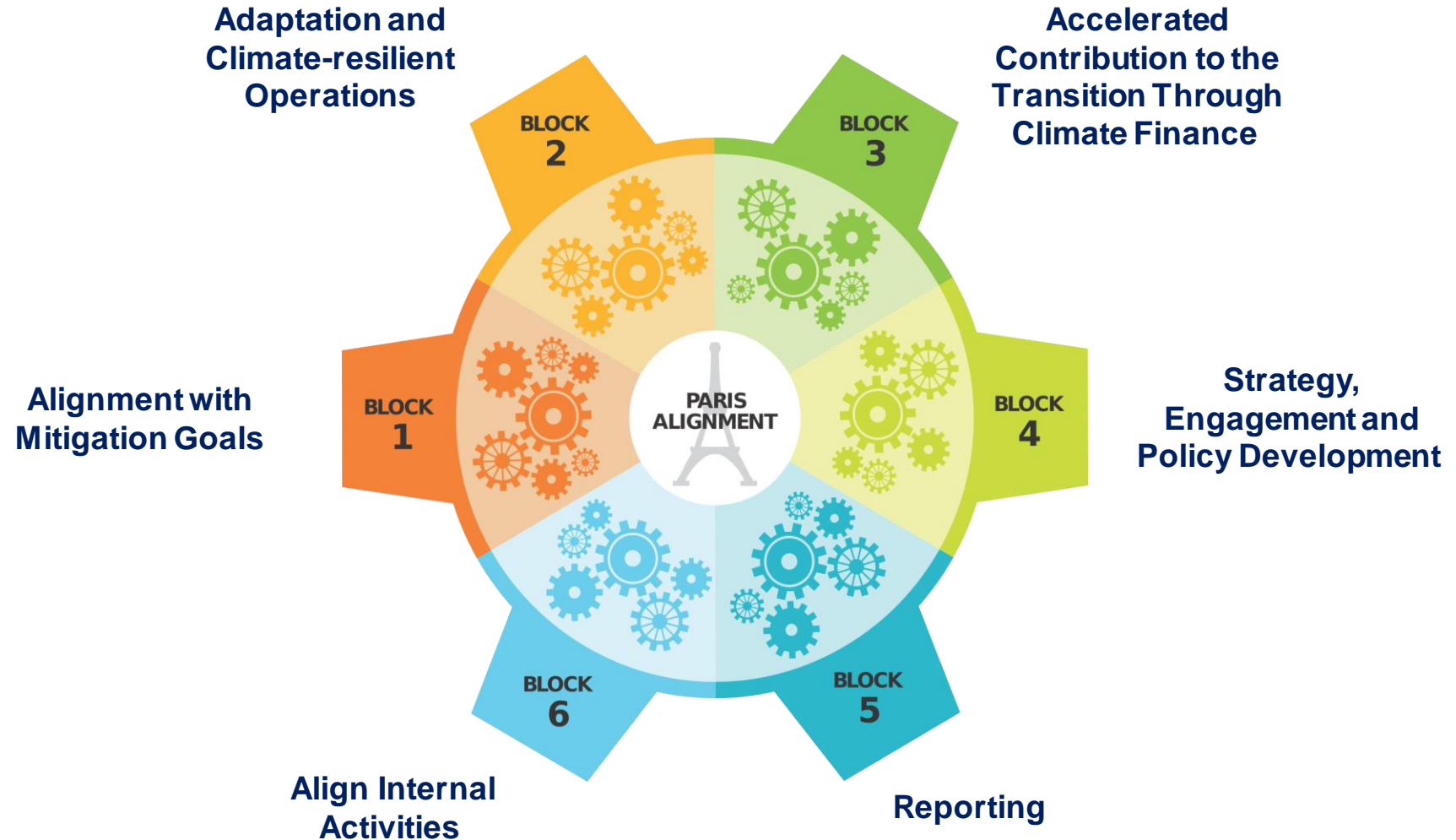


**MDBs**

## Whole Organization



# An MDB approach to Paris Alignment – 6 building blocks



## Key Design Principles



- Ensure consistency with the long term goals of PA, based economy-wide transitions.
- Manage uncertainty.
- Support Just Transition.
- Facilitate classification consistency.
- Ensure country / context specificity.
- Consolidate MDBs decade plus experience in climate finance tracking, including through expert judgment.
- Test and pilot by each MDB to ensure efficient application and continuous adjustment through learning by doing.
- Ensure consistency with emerging climate risk FWs to facilitate wider dissemination / adoption.

**A view from the LAC region**

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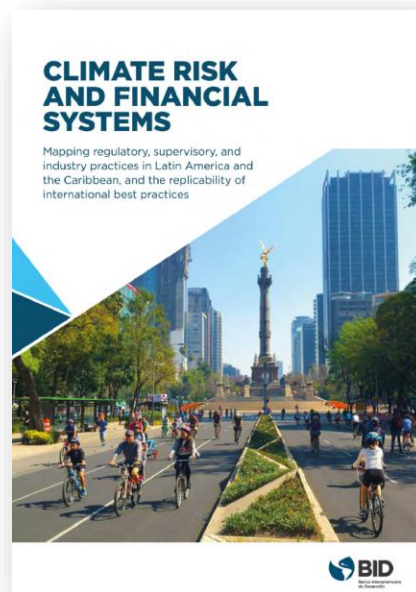
**Climate risk in financial  
systems**

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## Climate Risk and Financial Systems (December 2019)

Regulatory, Supervisory, and Industry Practices in the Region and Beyond



### Part 1

Regulating climate-related risks in financial systems: a map of regulatory, supervisory, and industry practices in Latin America and the Caribbean

### Part 2

Financial system resilience to climate-related risks: International practices in using supervisory and regulatory instruments

Gianleo Frisari, Matias Gallardo, Pierre Monnin, Chiemi Nakano, Victor Cardenas. December 2019

<https://publications.iadb.org/en/climate-risk-and-financial-systems-latin-america-regulatory-supervisory-and-industry-practices>



# Climate Change: a Threat to the Financial System



*“The combination of the weight of scientific evidence and the dynamics of the financial system suggest that, in the fullness of time, climate change will threaten financial resilience and longer-term prosperity”*

[Tragedy of Horizon, BoE Governor Mark Carney – 2015](#)

## Physical risks

Direct losses in bank assets and insurances due to extreme weather events

## Transition risks

Losses arising from abrupt transitions due to technological and/or regulatory changes

## Liability risks

Potential risks associated with responsibilities due to compensation for financed activities

## **PART 1**

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**Does Financial Regulation in LAC  
take into account Climate Risk  
and Opportunities?**

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# Financial regulation and progress in LAC

## Not yet explicitly included or addressed

Regulators in LAC countries have not yet explicitly included or addressed climate-related risk as defined by the FSB-TCFD.

## Capacity building activities on climate risk management

However, a few supervisors and regulators are supporting capacity building activities in the financial sector on climate-related risk management and disclosure practices. A few have also joined as members the NGFS Network.

## Three categories of Climate-Relevant Regulatory efforts in LAC

- Countries with formal regulation in place;
- Countries where supervisory measures have been implemented or initiated;
- Countries where private sector initiatives (or self-regulatory) practices are implemented

# Financial regulation and progress in LAC

## Regulation



## 1 Countries with regulation in place

- **Brazil** | Resolution 4327 from the Central Bank enacted in 2014
- **Peru** | Resolution 1928-2015 from the Superintendent, enacted in 2015
- **Paraguay** | Resolution 8 from the Central Bank enacted in 2018

# Financial regulation and progress in LAC

## Supervisory Measures



## 2 Countries where supervisory measures have been implemented or initiated

- **Brazil · Peru · Paraguay** | Actions emerging from their regulations
- **Chile · Mexico** | Performing a survey of the financial sector on ESG and climate risk practices
- **Colombia** | Supervisory statement following the implementation of a survey
- **Panama** | Included environment and social risk within the list of 13 risk that banks need to provision against
- **Ecuador · Honduras** | Considering and discussing potential regulation
- **Costa Rica** | Central Bank publishing climate impact reports for the financial system
- **Colombia, Costa Rica Mexico** | Member of the NGFS

# Financial regulation and progress in LAC

## **3** Countries where private sector initiatives practices have been implemented

### Private Sector Initiatives



- **Argentina** | Sustainability Protocol for Public Banks from 2018
- **Brazil** | Protocolo Verde dated back to 2009
- **Colombia** | Protocolo Verde from 2012 and Protocolo Verde Ampliado from 2016
- **Costa Rica** | Commitment to elaborate a Roadmap for Sustainable Insurance in 2018
- **El Salvador** | Sustainability Protocol for Public Banks dated from 2018
- **Mexico** | Sustainability Protocol dated from 2016 (Banks)
- **Panama** | Sustainability Protocol from 2018 (Banks)
- **Paraguay** | Mesa de Finanzas Sostenibles from 2012 (Banks)
- **Peru** | Programa de Inversión Responsable (PIR) and the Green Protocol

# Case Study Brazil

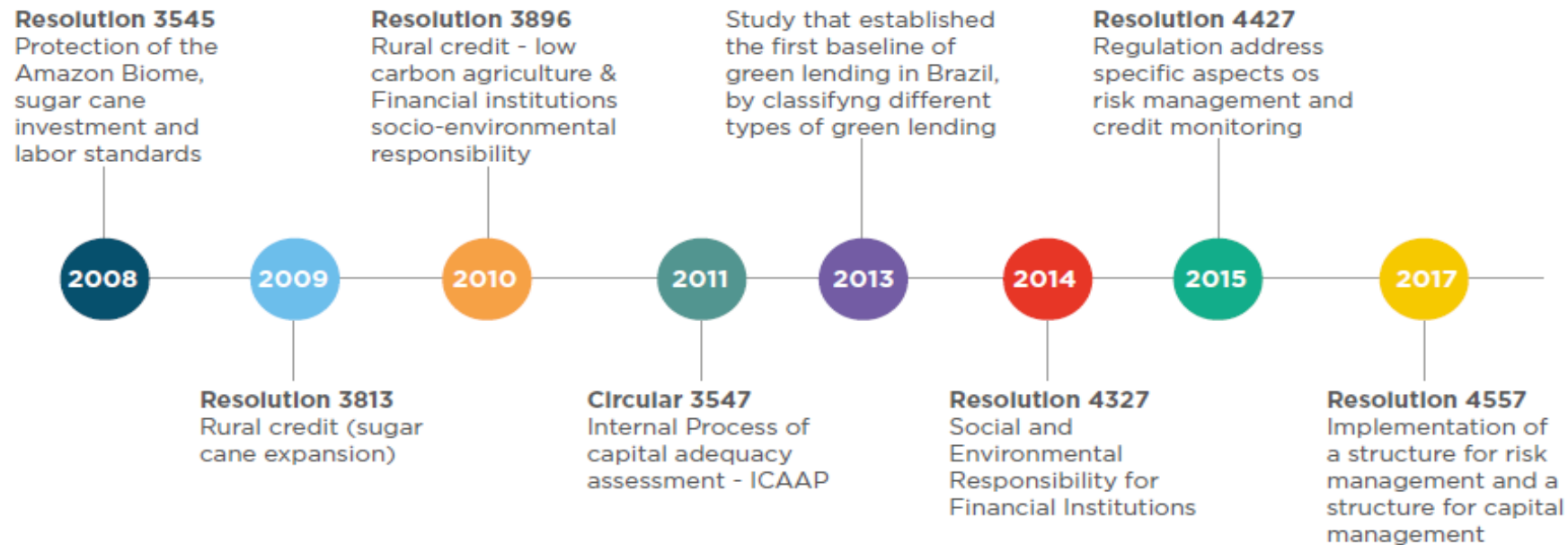


## Regulation on Climate-related risks

One of the more advanced in LAC in tackling climate-related risks

Although there is no formal regulation explicitly addressing climate-related risks, Brazilian financial regulation has long incorporated socio-environmental principles and is one of the more advanced in LAC in tackling these risks.

### Timeline of Regulatory Actions issued by BCB



# Case Study Brazil



## Self-regulatory bodies and private sector initiatives

### **The Brazilian Federation of Banks (FEBRABAN)'s a crucial role in encouraging self-regulatory efforts**

FEBRABAN published a Self-Regulation Framework called SARB 14, which provides guidelines and procedures for the socio-environmental practices.

#### **Green Protocol**

Signed by several state-owned banks, this is the first effort of integration of sustainability concerns in the banking industry. The Protocol aimed to create banking policies and practices with socio-environmental responsibility and in harmony with sustainable development.

### **The Brazilian Business Council for Sustainable Development (CEBDS)**

CEBDS is a non-profit civil association that promotes sustainable development for companies operating in Brazil. Currently, CEBDS and FEBRABAN have initiated a process in which they have established a roadmap for adoption of TCFD recommendations by the banks in Brazil.



## **PART 2**

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**What are the emerging practices  
and how they can be implemented  
in LAC?**

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# Identified Action Areas

Survey of ESG &  
Climate Risk Practices

National Dialogues  
for “Sustainable Finance”



# STEP 1

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Participation to International FOR A

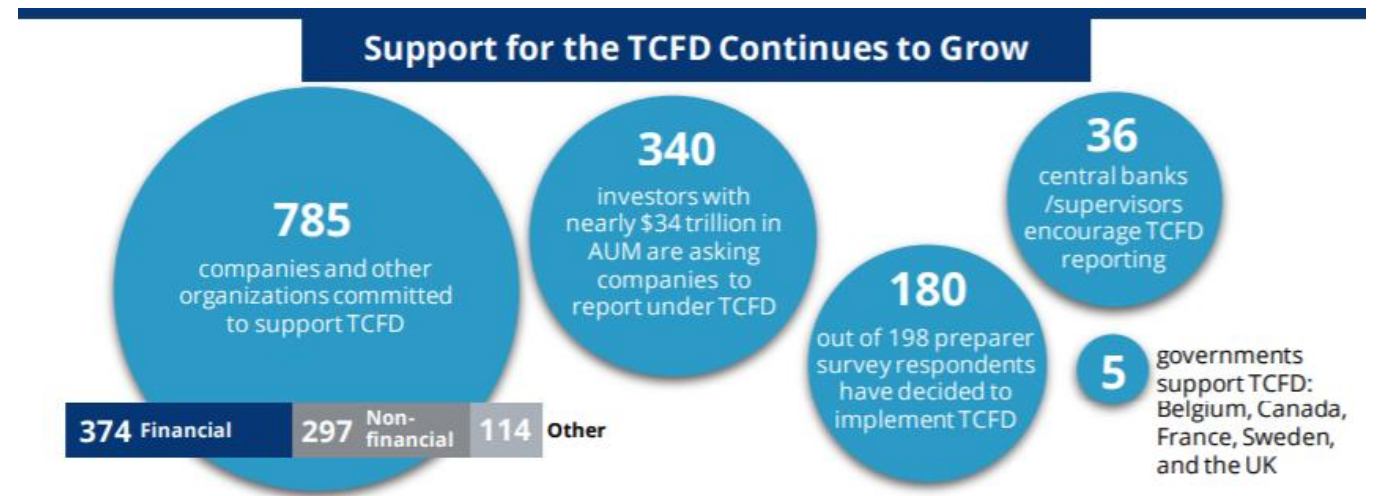
TCFD

NFGS

# INTRODUCTION TO THE INTERNATIONAL FORA



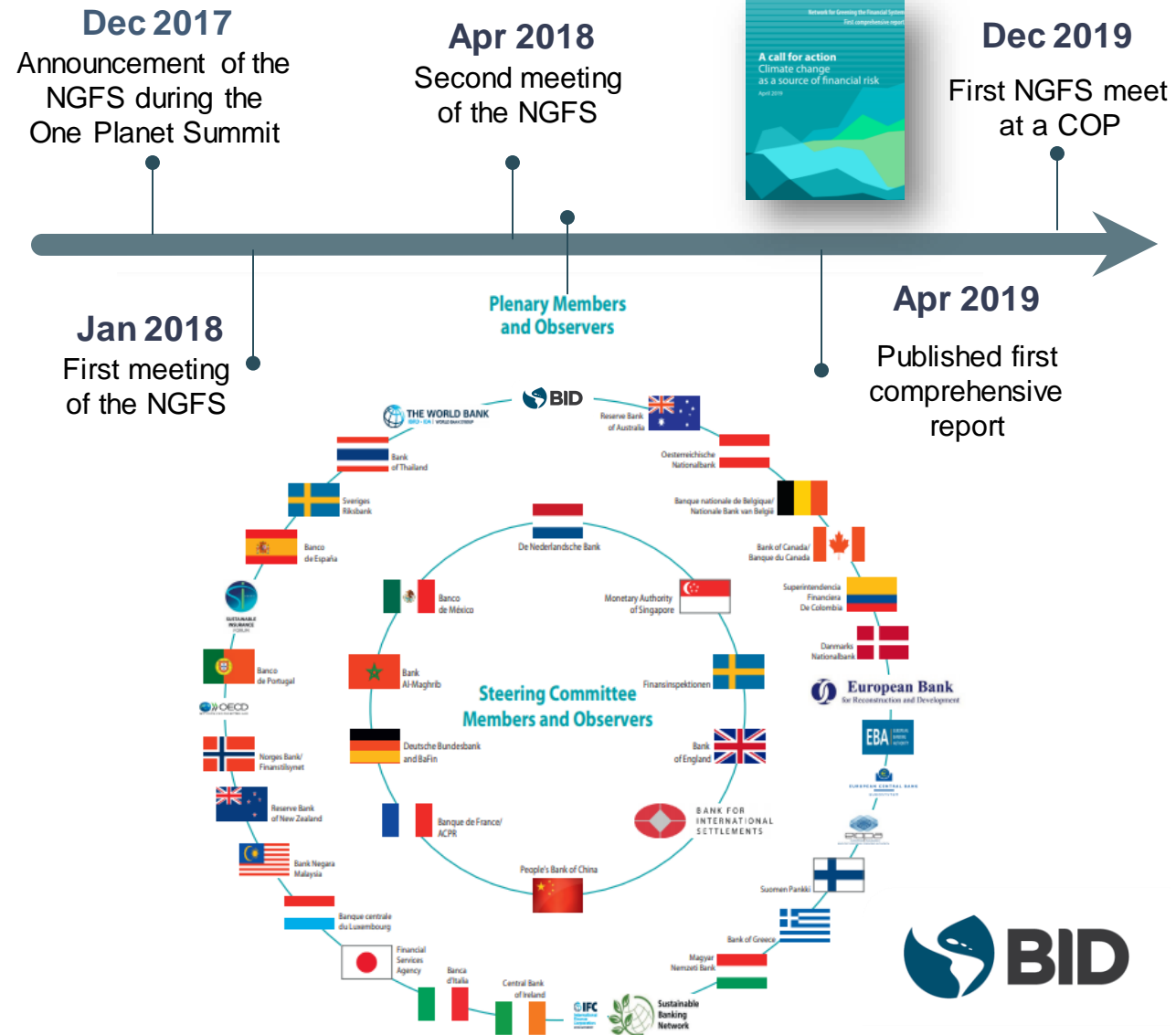
- Established by the Financial Stability Board (FSB) in December 2015, following request by G20 Finance Ministers and Central Bank Governors
- Developed a climate risk taxonomy and recommendations for climate risk management and disclosure
- Nearly 800 supporters worldwide (as of June 2019)



# INTRODUCTION TO THE INTERNATIONAL FORA



- Established in December 2017, by 8 central banks and regulators
- 54 members and 12 observers (as of Dec. 2019).
- 5 members in LAC (Mexico, Colombia, Costa Rica, Chile - CMF)
- Contributes to
  - analysis and management of climate and environmental risks in the financial sector;
  - mobilizing mainstream finance to support the transition toward a sustainable economy.



# STEP 2

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**Survey of ESG and Climate Risk practices**

# SURVEY OF ESG & CLIMATE RISK PRACTICES



# SURVEY OF ESG & CLIMATE RISK PRACTICES - CHILE

**Main barriers to the integration of environmental and climate risk management in the decision process for credit and investment operations**

	Lack of Internal Awareness	Lack of Understanding of Implications for clients and Business	Lack of Awareness from Clients on risk and mitigants
Banks	77%	31%	31%
Investment Funds	92%	42%	33%
Insurance	27%	9%	
AFP	33%	33%	





# STEP 3

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## 3.1 Supervisory Statement

- Prudential Regulation Authority
  - Taxonomy
  - ESG Criteria
  - Transparency (TCFD)
  - Capacity building (NGFS)

## 3.2 Climate Risk Assessment

- De Nederlandsche Bank
- Banco Central do Brasil
  - Scenario shock
  - Macro simulations
  - Meso level disaggregation
  - Financial impact

## 3.2 Creating Green Markets

- PBoC, CBRC and MEP

# 3.1 SUPERVISORY STATEMENT



□ **Following the survey, the Prudential Regulation Authority (PRA) prepared the regulatory statement establishing a strategic approach in four areas.**

1. Governance
2. Risk management
  - Risk identification and measurement
  - Risk monitoring
  - Risk management and mitigation
  - Risk reporting and management information
3. Scenario analysis
4. Disclosure

## 3.1 SUPERVISORY STATEMENT - SFC

### 3. Transparency

According to the TCFD, there is currently an asymmetry of information on the associated risks to climate change to be used as an input in decision making.

**The SFC will focus on:**

- (i) supporting the TCFD and other international and local initiatives that allow the construction of greater transparency and the reduction of information asymmetries in relation to climate change;
- (ii) beginning to lay the foundations to facilitate the use of climate information for the identification of risks by the entities of the sector.

### 4. Capacity building

The SFC will

- (i) continue to participate in international discussions through networks such as SBN and will seek to join the NGFS;
- (ii) facilitate the creation of platforms that allow coordination with interest groups as well as the development of capacities of all the actors involved.

# 3.2 CLIMATE RISK ASSESSMENT

Figure 4.2 Impact on assets as a percentage of total stressed assets per sector, disaggregated by risk driver

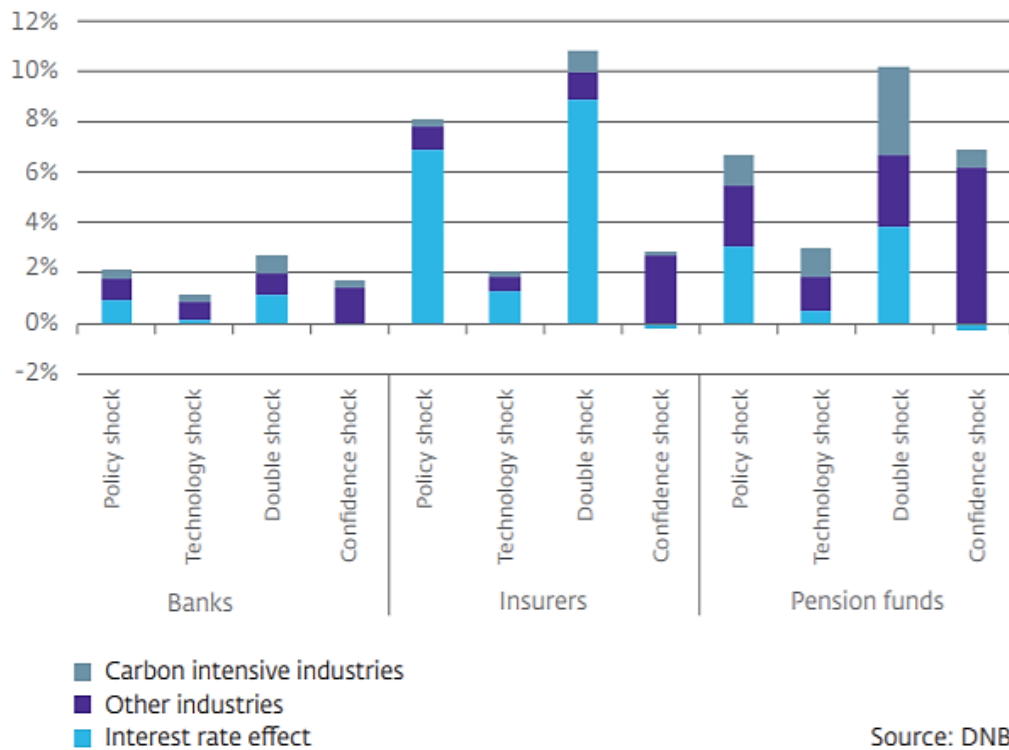
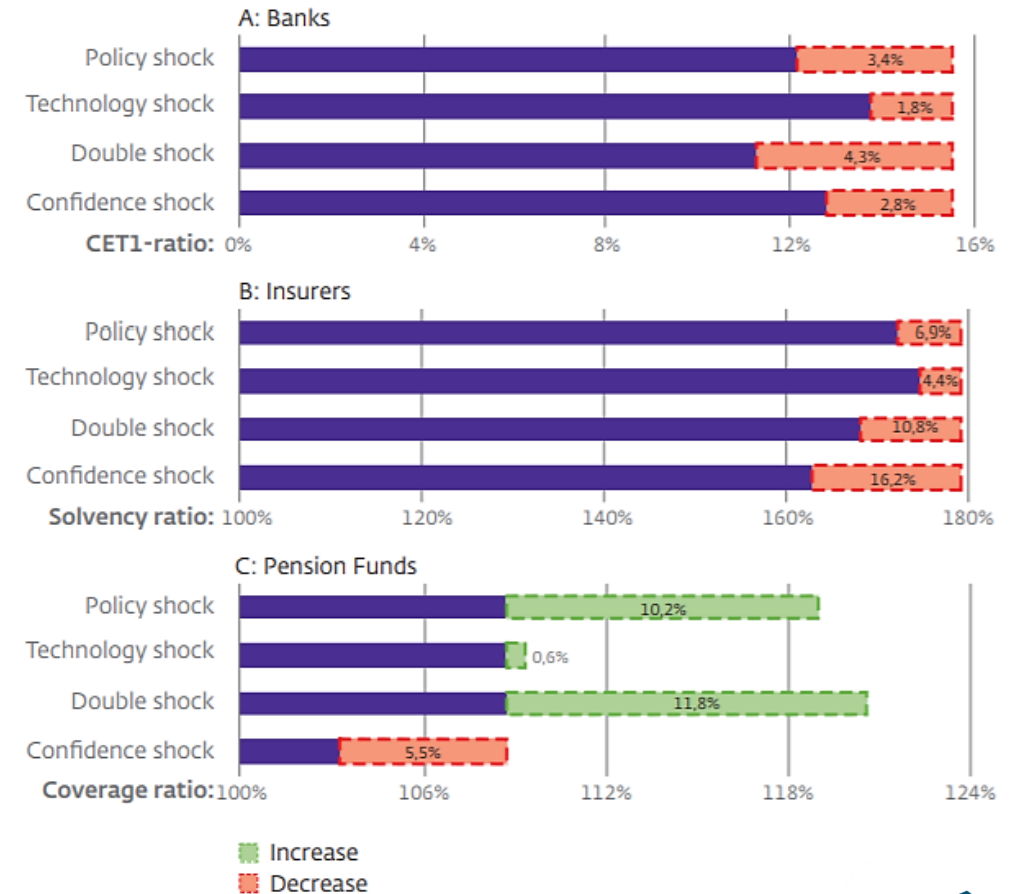
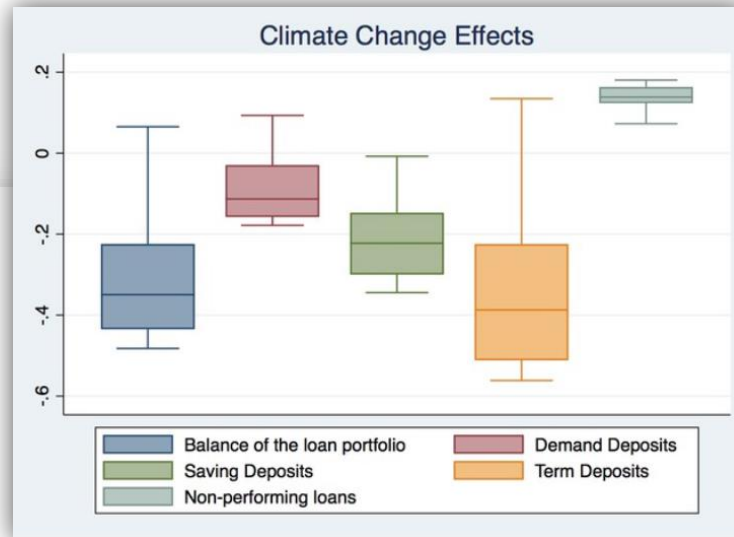


Figure 4.3 Impact on supervisory ratios by sector



## 3.2 CLIMATE RISK ASSESSMENT



Another boiling frog:  
the impact of climate-related events on financial  
outcomes in Brazil

Juliano Assunção (Department of Economics, PUC-Rio)  
Flávia Chein (Department of Economics, Federal University of Juiz de Fora)  
Sergio Mikio Koyama (Brazilian Central Bank)

**Another boiling frog:**  
the impact of climate-related events on financial outcomes in Brazil

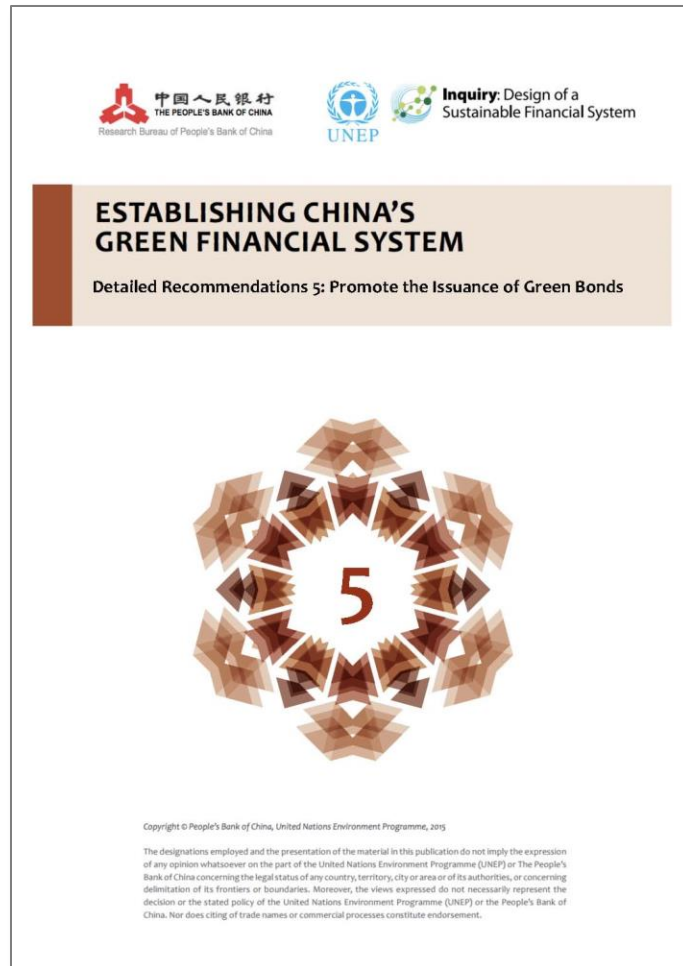
### The Impact of Climate Change on Deposit and Credit

A structural change in temperature and rainfall is expected to create substantial impact on financial outcomes, with large state-level variation.

Under the IPCC scenario,

- Deposits are expected to fall with higher impacts for longer run deposits.
- Credit amount is expected to reduce and delinquency rates are expected to rise.

## 3.3 CREATING GREEN MARKETS



- **Green Credit Policy (2007, PBoC, CBRC and MEP)**  
Calling Banks to start channelling more resources away from polluting and towards green activities
- **Green Credit Guidelines (2012, CBRC)**  
Guidelines to banks to identify key green economic areas
- **Green Credit Statistics System (2014, CBRC)**  
First example of national taxonomy for green credit instruments
- **Green Bond Endorsed Project Catalogue (2015, PBoC)**  
Mandatory criteria for the use and management of proceeds of green bonds
- **Guidelines for Establishing the Green Financial System (2016)**  
Define the scope of investment for green bonds, create incentivizing policies, create tracking and evaluation system
- **Expansion of collateral framework (2018, PBOC)**  
Expand its collateral framework to include AA (and above) green bonds in its Medium-term Lending Facility (MLF)

# STEP 4

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National dialogues of Sustainable finance

# ACTIONS IN LATIN AMERICA – RELEVANT INITIATIVES

## LABORATÓRIO DE INOVAÇÃO FINANCEIRA



GT FINANÇAS VERDES



GT FINTECH

## GRUPOS DE TRABALHO



GT INSTRUMENTOS FINANCEIROS E INVESTIMENTOS DE IMPACTO



GT GESTÃO DE RISCO ASG E TRANSPARÊNCIA.

Uma iniciativa  
ABDE, BID e CVM

- Public-Private dialogue on Sustainable Finance and Financial Innovation
- Led by the Capital Market Regulator, with support from IDB
- First recommendation produced in 2019 to encourage the placement of green bonds for infrastructure
- Formalization of a Working Group on Climate and environmental risks and Transparency



# ACTIONS IN LATIN AMERICA – RELEVANT INITIATIVES

- Public-Private dialogue on Green Finance and Climate Risks for financial system
- Led by the Ministry of Finance, with support from IDB, UNEP FI and UK
- Participated by all financial regulators and associations
- **Targets**
  - Survey and Roadmap Proposal
  - Declaration of Supervision and Green Protocol



# STEP 5

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**Observatories of  
Social and Environmental conflicts**

# OBSERVATORIES OF SUSTAINABILITY

- As we have seen before, these processes **require a strong and constant flow of data**. Data collecting processes are complex and slow.
- **This observatory** is a proposal from IDB to **start gathering experiences at the national level** that can help inform, national, regional and international process, while at the same time can help verify if the data collected is adequate for the purpose of measuring climate risk.
- The observatories would **collect and systemically prepare study cases of good or bad practices** happening at the national level.



Strong and constant  
**Flow of Data**



National level  
**Observatories**

**Merci!**

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