



NGFS conference on climate risks for the financial sector

On Friday the 6th of April, the Bank of England, the ACPR and De Nederlandsche Bank hosted the first high-level conference on climate risks for the financial sector under the auspices of the Central Banks and Supervisors Network for Greening the Financial System (NGFS).

The risks to the financial sector from climate change were discussed in different panel and workshop sessions, and attendees shared best practices to advance the integration of climate-related risks into prudential supervision.

Opening

Former environment correspondent, now columnist, for the Financial Times Pilita Clark moderated the day.

DNB's Governor Klaas Knot explained in his [opening statement](#) why it makes sense for supervisors to engage in risks related to climate change.

Dr. Emily Shuckburgh gave the first keynote speech '[The cold facts on climate change](#)'. As a climate scientist and mathematician based at the British Antarctic Survey, Dr. Schuckburgh was able to demonstrate the clear relation between the explosion of human activities and the rise in CO₂ far outside the natural cycle of millions of years. Her presentation also emphasized the urgent need to initiate the energy transition as the budget carbon is on the path of being exhausted within 20-30 years.

Keynote speaker **François Villeroy de Galhau** highlighted our '[New Frontier](#)': the challenges and opportunities to the financial sector from the energy transition. 'It is high time that we listen and act likewise', he stated. In particular, he underlined the need to progress towards dynamic risk analysis (incl. stress-testing tools) and compulsory transparency requirements in Europe under certain conditions. The Governor of the Banque de France also made suggestions to improve the market for green financial products from a quantitative and qualitative point of view.

Three plenary panels followed, and two rounds of smaller workshops.

What are the risks for pension funds, insurers and banks?

This panel discussed how for banks, insurers and pension funds, climate change is a priority. Stress tests are being developed and climate change related risks are being embedded into risk policies and procedures. To be successful, this requires all parties in the financial sector to be prepared to do new things. Two suggestions were broadly supported by panel members: we should not focus on just one technique for assessing climate risks, but should be open to different approaches. And secondly, we should be careful not to simply cross out 'brown' industries and companies, because we may need them for the transition.

Panel members all agreed that change is necessary in the productive sector and in consumption habits for a sustainable economic development. However, it will be difficult as there is no uniform approach, for example, for scenario analysis. Everyone agreed that a first step should be developing a clear taxonomy that defines what is green, what is brown and what is neutral.



What should be the role for supervisors?

It is widely recognized that supervisors and central banks must act on climate related risks for the financial sector.

Panel members elaborated on research conducted by Central Banks and Supervisors and several panelists highlighted the need for an international approach to research.

To mobilize green finance, China has for instance undertaken three steps:

- 1) Mandatory disclosure building in three steps over a number of years.
- 2) Taxonomy was established in 6 months (with support from 40 specialists and 100 institutions who could read and amend). A second version will be published in 2018.
- 3) Banks can earn green 'points' that contribute to the PBoC's risk assessments. Risk weights can be lowered for 'green' assets based on empirical evidence of lower risk e.g. lower NPL ratios for green loans.

As a result, China is now the world's largest green bond issuer and 100% of green bonds are verified.

The panel agreed that within the EU, cooperation between the ESAs will be needed to accomplish something similar.

European supervising authorities

Panelists all welcomed the EU action plan on sustainable finance. It was agreed that a clear taxonomy should be the first task. Furthermore, panelists discussed the fiduciary role and the stewardship role of institutional investors, asset owners, and asset managers. This could help to reduce short-termism common in investors' decisions. The panelists all agreed that prudential rules and regulation should not be used to achieve action on climate change. Instead, they should complement sound political decisions and measures along the gradual collection of evidences about the relative risks of green/brown/neutral investments (as defined by a commonly agreed taxonomy).

Closing key note by Mark Carney

In his closing key note speech, BoE Governor Mark Carney warned that an abrupt success can become a failure, referring to the risk of not achieving an orderly transition to a low carbon economy. He outlined how green finance is moving from niche to mainstream, and regulators and supervisors should facilitate this move so the financial system can adjust. Therefore, first and foremost a taxonomy is needed, supporting the request for defining: what is green, what is brown and what is neutral.

Carney went on to clarify that there is a heavy agenda waiting, but that several highly supportive institutions are there to help. Carney re-affirmed that prudential rules and regulations can never substitute governments' policies.

Frank Elderson, Chair of the NGFS and host for the day, closed the conference.