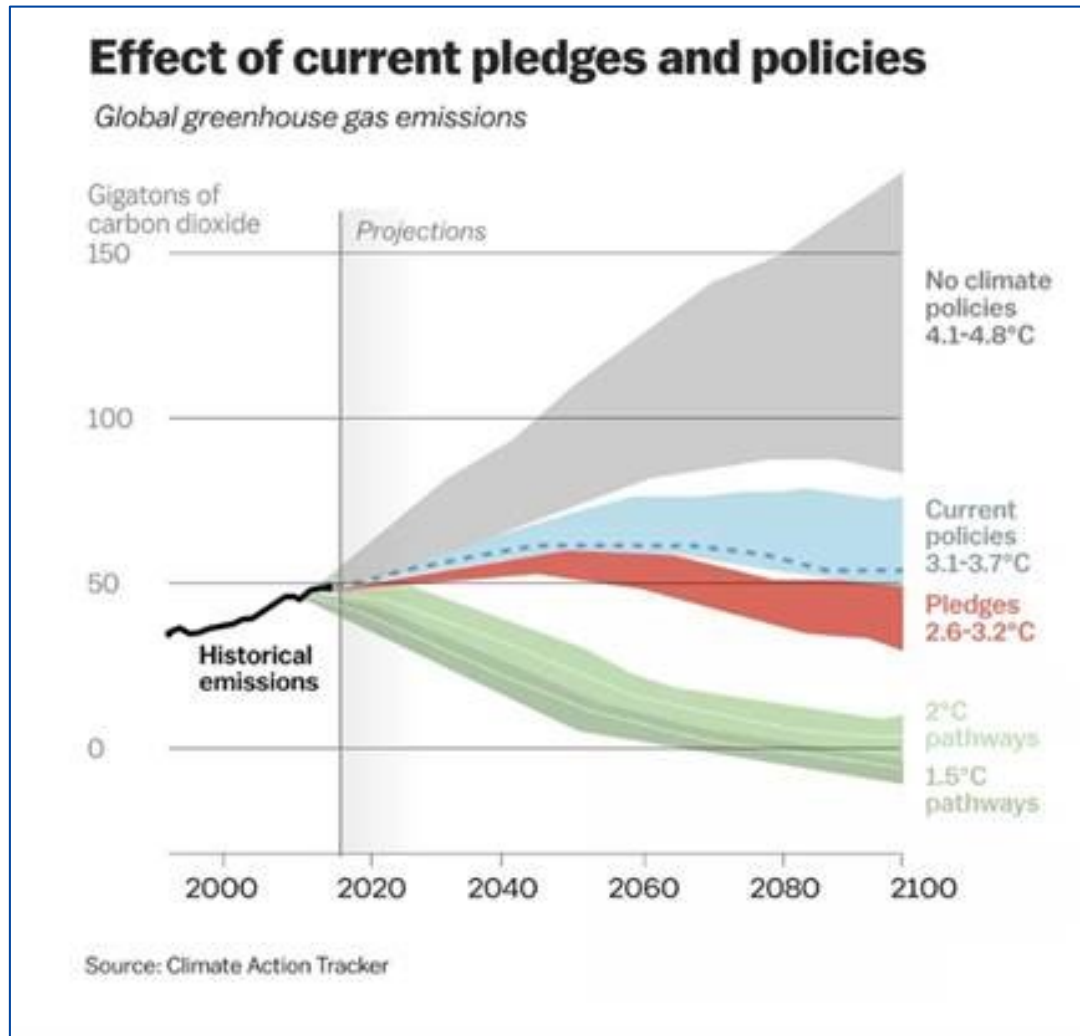




**CLIMATE-RELATED RISKS:  
WHY CENTRAL BANKS AND  
SUPERVISORS ACT?**

# CLIMATE CHANGE: A GLOBAL THREAT





## CLIMATE-RELATED RISKS ARE FORESEEABLE AND IRREVERSIBLE.

- **Policy-makers** are the ones in charge to take proper policy actions in several fields: science, health and economy / finance.
- **Central banks and supervisors** have to take their responsibilities within the framework of their mandates: they can deal with climate related financial risks



## CLIMATE-RELATED RISKS ARE A SOURCE OF FINANCIAL RISK

- Climate change: source of structural change in the economy/financial system with a number of specificities.
- **Climate-related risks are a source of financial risk:** both physical 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 (NGFS)



- Paris Dec. 2017 One Planet Summit: **8 Central banks and Supervisors established the NGFS.**
- Today: **66 members** and **12 observers.** Covering 5 continents.
- **Coalition of the willing.** Not a Standard Setting Body.
- NGFS members' jurisdictions cover:
  - Supervision of over **3/4** of the global systemically important banks and **2/3** of the global systemically important insurers;
  - Around **60%** of global greenhouse gas emissions.



# FIRST NGFS COMPREHENSIVE REPORT (APRIL 2019)

Network for Greening the Financial System  
First comprehensive report

## A call for action Climate change as a source of financial risk

April 2019



### 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.



- 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):
  - **Sustainable and Responsible Investment Guide for Central Banks' own 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** (to be published end-June 2020).
- Not binding but useful exchange of best practices / sharing of knowledge - very specific and practical, including,<sup>7</sup>



## NGFS: LOOKING AHEAD

- **The NGFS will update the guides** to keep track of the initiatives/best practices among its membership.
- **The NGFS will also continue to develop the reference scenarios** to make them more comprehensive.
- **The NGFS will work on the data and metrics needs:**
  - 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.

=> Key role of central banks and supervisory authorities that are a receptacle of a significant amount of financial data and are involved in designing supervisory reporting frameworks applicable to financial institutions.





# BANQUE DE FRANCE/ACPR: HOW WE WALK THE TALK (1/4)

- **Banque de France's Responsible Investment Charter** (since 2018): applicable to portfolios backed to own funds and to the pension liability (around €20 billion).

## The Banque de France responsible investment strategy: three pillars and five objectives

Pillar 1: Align investments with France's climate commitments

Objective 1: Get aligned with a 2°C trajectory. Horizon set for 2020 for the own funds portfolio

Objective 2: Contribute to financing the energy and ecological transition by increasing from 2019 investment in green bonds and funds dedicated to the energy and ecological transition

Pillar 2: Include ESG criteria in asset management

Objective 3: Equity portfolios meeting the requirements of pillar III of the French SRI label in 2019

Pillar 3: Exercise its right to vote and influence issuers

Objective 4: Adopt a voting policy which includes provisions on non-financial transparency in 2019

Objective 5: Reach a general meeting attendance rate over 40% in 2019 and 80% by 2020

- **Banque de France's Young Researchers' scholarship for Green Finance** (since 2018).

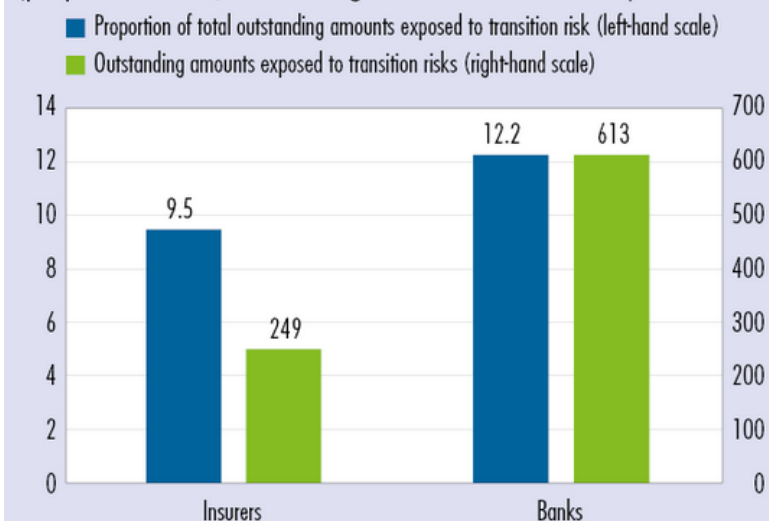


# BANQUE DE FRANCE/ACPR: HOW WE WALK THE TALK (2/4)

- In April 2019, the ACPR published two surveys on French financial institutions (banks and insurers) facing climate-related risks.
- Main lessons:
  - Significant progress in the governance of climate change risks;
  - Modest progress in the apprehension of the physical risk;
  - Significant progress in analysing transition risk.

## The exposure of French banks and insurers to transition risk

(proportions in %, outstanding amounts in EUR billion)



Source: ACPR, data at 31 December 2017.

Note: See note to Chart 3 for methodological details.

EUR 862 billion

the exposure of French banks and insurers to the most carbon-intensive sectors

Less than 2.5%

the proportion of institutions' assets located in geographical areas that are moderately or highly vulnerable to climate change



## BANQUE DE FRANCE/ACPR: HOW WE WALK THE TALK (3/4)

- In May 2020, the ACPR published a **report on good practices relating to governance and management of climate-related risks by French banks.**
  
- Four principles:
  - The strategy of financial institutions should fully integrate the risks associated to climate change;
  - The internal organization of financial institutions is critical to ensure their effective management, in line with the strategic orientations;
  - The material risks induced by climate change justify their full integration into the financial risk management framework of institutions;
  - In order to ensure both a better understanding and a better integration of climate-related risks, banks should disclose their strategy, their organization, and their risk management mechanisms with regard to climate change



## BANQUE DE FRANCE/ACPR: HOW WE WALK THE TALK (4/4)

- By end 2020, the Banque de France/ACPR will conduct a **first climatic “pilot exercise” with banks and insurers** (scenarios aligned with the NGFS):
  - Need to have a forward-looking vision of the impacts of climate-related risks (the “video of risks”)
  - The aim of this exercise is twofold:
    - To better identify the resilience of banks and insurers to climate risks;
    - To speed up the methodological work in order to have quality assessments.
  - The final version of the scenarios to be used will be published in the coming weeks (currently under public consultation).