NGFS calls for action by central banks, supervisors and all relevant stakeholders for greening the financial system

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Members of the NGFS call for collective climate action

The Network for Greening the Financial System collectively acknowledges that climate-related risks are a source of financial risk. Some members have extended this analysis to broader environmental risks finding that these are a source of financial risk as well. The members of the NGFS therefore call for collective action and have issued recommendations which have today been published in its first comprehensive report (/cs/Satellite?c=Content&cid=1395281881639&d=&pagename=EBRD%2FContent%2FDownloadDocument)
Taken together, these recommendations (see annex on page 2) reflect the best practices identified by NGFS members to facilitate the role of the financial sector in achieving the objectives of the Paris agreement.

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Frank Elderson, chairman of the NGFS: “The financial risks we face through climate change are analytically difficult, unprecedented and yet very urgent. By issuing these recommendations, the NGFS members demonstrate collective leadership which will result in action to foster a greener financial system across countries and continents. As long as the temperatures and sea levels continue to rise and with them the climate-related financial risks, central banks, supervisors and financial institutions will continue to raise the bar to address these risks and to green the financial system.”

There is still a significant amount of analytical work to be done in order to equip central banks and supervisors with appropriate tools and methodologies to identify, quantify and mitigate climate risks in the financial system. Therefore, over the next year, the NGFS has decided to prepare a number of technical documents, on (i) climate and environment-related risk management for supervisory authorities and financial institutions, (ii) scenario-based climate risk analysis and (iii) incorporating sustainability criteria into central banks’ portfolio management. To discuss the report and next steps, NGFS members gathered on Tuesday 16 April at Banque de France in Paris for a NGFS Plenary meeting and today for a high level conference.

Today, three new institutions joined the NGFS: the Swiss National Bank and Swiss Financial Market Supervisory Authority (FINMA) joined as members while the European Investment Bank joined as an observer. This will boost total membership of the NGFS up from 34 members and 5 observers to 36 members and 6 observers. The NGFS is growing at a fast pace: eight members have joined since December 2018: Banca d’Italia, Bank of Canada, Bank of Greece, Bank of Thailand, Central Bank of Hungary, Central Bank of Ireland, Danmarks Nationalbank, the European Insurance and Occupational Pensions Authority (EIOPA), Finanstilsynet (FSA of Norway) and Superintendencia Financiera de Colombia (FSA of Colombia).

The four recommendations for central banks and supervisors are:

1. **Integrating climate-related risks into financial stability monitoring and micro-supervision.** This includes assessing climate-related financial risks in the financial system and integrating them into prudential supervision.

2. **Integrating sustainability factors into own-portfolio management.** Acknowledging the different institutional arrangements in each jurisdiction, the NGFS encourages central banks to lead by example in their own operations.

3. **Bridging data gaps.** The NGFS recommends that public authorities share data that is relevant to Climate Risk Assessment (CRA) and, whenever possible, make this publicly available in a data repository. In that respect, the NGFS sees merit in setting up a joint working group with interested parties to bridge existing data gaps.
4. Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing. The NGFS encourages central banks, supervisors and financial institutions to build in-house capacity and to collaborate to improve their understanding of how climate-related factors translate into financial risks and opportunities.

The NGFS also issues two recommendations for policymakers to facilitate the work of central banks and supervisors:

5. Achieving robust and internationally consistent climate and environment-related disclosure. The NGFS emphasises the importance of a robust and internationally consistent climate and environmental disclosure framework. NGFS members collectively pledge their support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

6. Supporting the development of a taxonomy of economic activities. The NGFS encourages policymakers to bring together the relevant stakeholders and experts to develop a taxonomy that enhances the transparency around which economic activities (i) contribute to the transition to a green and low-carbon economy and (ii) are more exposed to climate and environment-related risks (both physical and transitional risks).

About the NGFS

The NGFS, launched at the Paris One Planet Summit on 12 December 2017, is a group of Central Banks and Supervisors willing, on a voluntary basis, to share best practices and contribute to the development of environment and climate risk management in the financial sector and to mobilize mainstream finance to support the transition toward a sustainable economy. The NGFS is chaired by Frank Elderson, board member of De Nederlandsche Bank. The Secretariat is provided by Banque de France. The NGFS brings together 34 central banks and supervisors - representing five continents, half of global greenhouse gas emissions and the supervision of two thirds of the global systemically important banks and insurers.