

NGFS' work on supervisory practices and on climate scenarios

Supervisory challenges and green transition in post-pandemic environment

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Key features



- Paris Dec. 2017 One Planet Summit: **8 Central banks and Supervisors** established the NGFS.
- As of end 2021: **114 members** and **18 observers**. Covering 5 continents.
- **Coalition of the willing**. Not a Standard Setting Body.
- **NGFS members' jurisdictions cover:**
 - Supervision of **100%** of the global systemically important banks and **80%** of the internationally active insurance groups;
 - Over **85%** of global greenhouse gas emissions.

6 non mandatory recommendations released in Apr. 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.

A first Guide published in May 2020

5 recommendations

1.



Supervisors are recommended to **determine how climate-related and environmental risks transmit** to the economies and financial sectors in their jurisdictions and **identify** how these risks are likely to be material for the supervised entities.

2.



Develop a clear **strategy**, establish an **internal organisation** and allocate adequate **resources** to address climate-related and environmental risks.

3.



Identify the exposures of supervised entities that are vulnerable to climate-related and environmental risks and **assess the potential losses** should these risks materialise.

4.



Set supervisory expectations to create transparency for financial institutions regarding the supervisors' understanding of a prudent approach to climate-related and environmental risks.

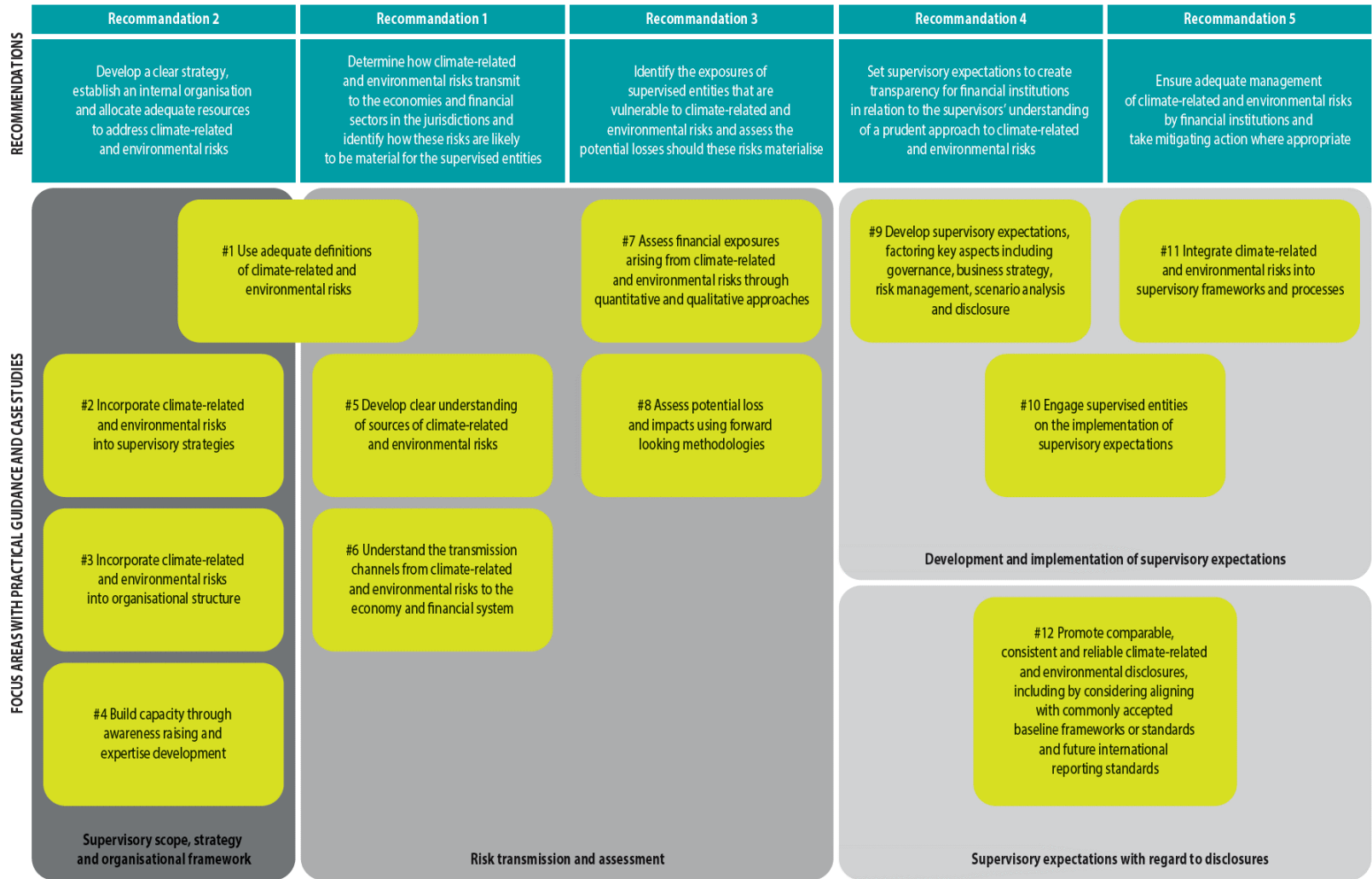
5.



Ensure adequate management of climate-related and environmental risks by financial institutions and **take mitigating action** where appropriate.

A “Progress report on the Guide for Supervisors” published in Nov. 2021

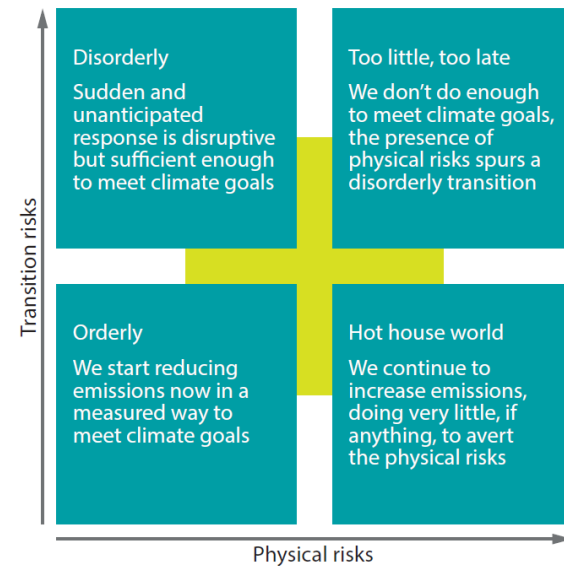
Mapping of the recommendations from the NGFS Guide with the Focus Areas and chapters of this Progress Report



Climate scenario analysis is crucial

- There is a high degree of certainty that some combination of physical and transition risks will materialise in the future
- However, the exact outcomes, time horizon and future pathway are uncertain, and dependent on short-term actions
- Scenario analysis offers a flexible ‘what-if’ methodological framework to explore the risks that could crystallise in different possible future states

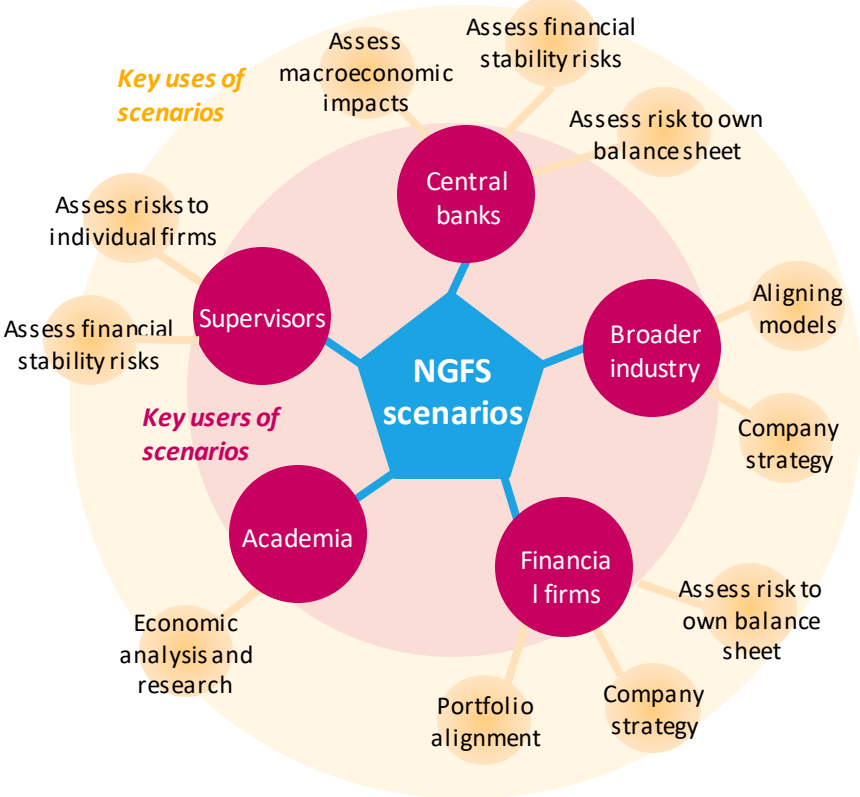
NGFS Scenarios Framework



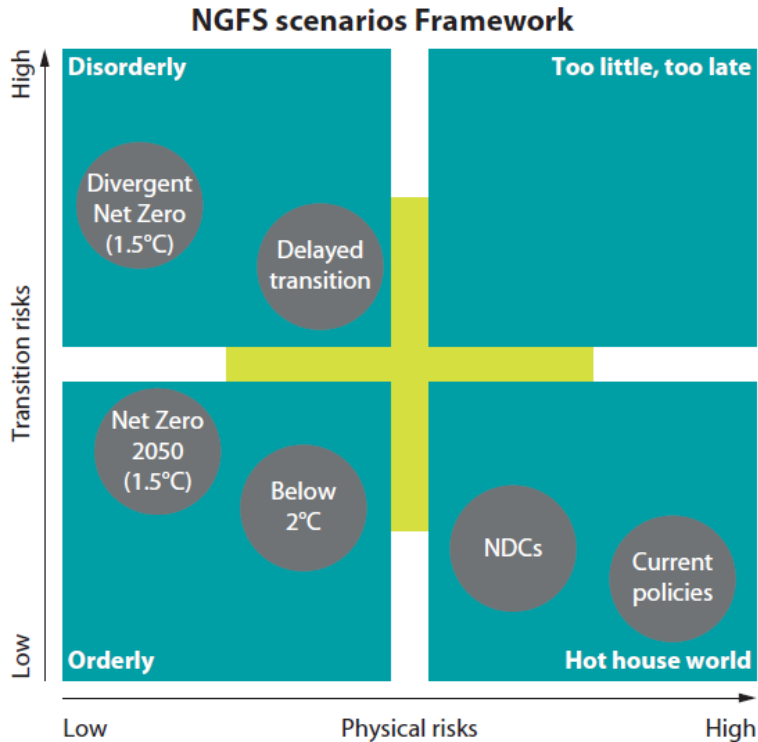
Climate scenario analysis is challenging

- Climate scenarios are:
 - Complex – they project a consistent set of pathways of climate policy, greenhouse gas emissions and mean global temperature trajectories
 - Interdisciplinary – relying on climate science as well as economics, with central banks acting as translators to the financial community
 - Difficult to compare – Many future scenarios are possible but ideally a common set of scenarios is used across institutions and firms to enhance comparability of results and disclosures

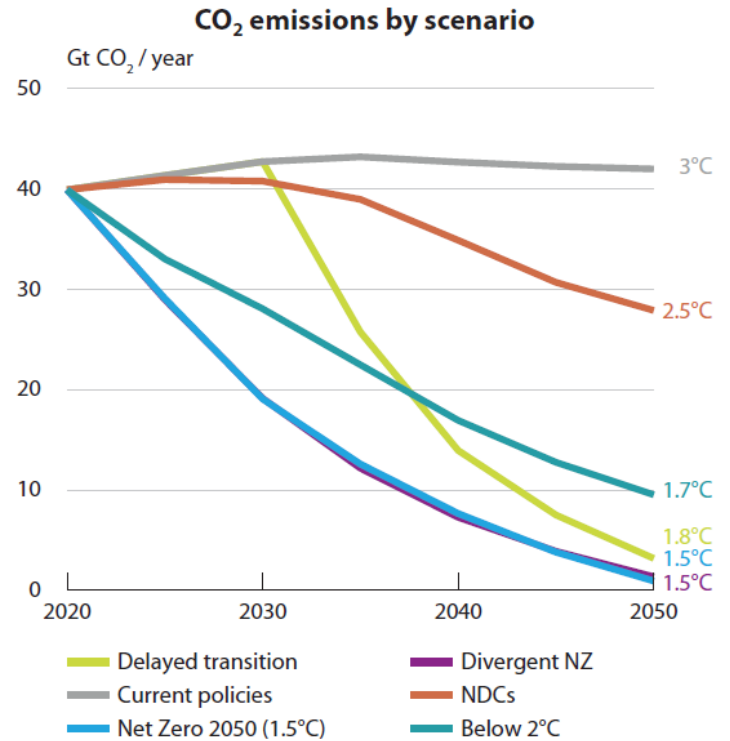
NGFS scenarios provide a common starting point



New scenario narratives



Positioning of scenarios is approximate, based on an assessment of physical and transition risks out to 2100.



Source: IIASA NGFS Climate Scenarios Database, REMIND model. End of century warming outcomes shown.

Accessible at <https://www.ngfs.net/ngfs-scenarios-portal/>



NGFS Glasgow Declaration (November 2021)

- On the occasion of the 2021 United Nations Climate Change Conference (COP26), the NGFS published the **NGFS Glasgow Declaration – Committed to Action** in which NGFS members reiterate their willingness to contribute to the global response required to meet the objectives of the Paris Agreement.



Glasgow, November 3rd 2021

NGFS Glasgow Declaration Committed to Action

In the coming years, the NGFS will then:

- further enhance and enrich its climate scenarios, thus providing on a regular basis an important public good for a broad range of stakeholders, both public and private;
- deepen its analysis on integrating climate change considerations into monetary policy strategies and frameworks, in the context of the mandates of its members;
- intensify the work to bridge the data gaps that currently hinder the identification, management and mitigation of climate-related risks;
- supplement the set of NGFS practical guides with guidelines on TCFD-aligned reporting for central banks;
- facilitate uplift in supervisory capabilities and the global consistency of supervisory practices;
- step up its efforts on capacity building, with a particular focus on members from emerging and developing economies, to support members' progress in addressing climate-related and environmental risks and in implementing the NGFS recommendations;
- keep exploring emerging topics such as the impact of the loss of biodiversity or the risks associated with climate-related litigation, and work towards addressing them, in the context of the mandates of its members;
- continue to cooperate with standard-setters, other policy makers, the financial sector, academia and other relevant stakeholders to keep on distilling best practices, identifying challenges and solutions and avoiding duplication of work.