



WS1 - Supervision / Micro-prudential practices workstream

Mandate and Workplan from April 2020 to April 2022

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A. Objective

The objective of workstream 1 is to keep track of supervisory and micro-prudential practices within the financial industry, to identify leading practices and issue guidance for supervisors on how to incorporate climate and environmental risk within their supervisory framework. It also aims to undertake relevant studies for supervisors, including to assess the existence of a systematic risk differential between 'green' and other assets.

B. Relevance to the work of the NGFS

Workstream 1 contributes to the integration of climate-related risks into financial monitoring and micro-supervision (recommendation 1 of the NGFS April 2019 comprehensive report). It also follows up on the call to build awareness and intellectual capacity, and to encourage technical assistance and knowledge sharing (recommendation 4). Additionally, it contributes to the bridging of data gaps (recommendation 3), and supporting internationally consistent climate disclosure (recommendation 5).

C. Tasks

1. Keep track of supervisory developments and update the mapping of supervisory practices for integrating climate risks into micro-prudential supervision.

The workstream will update the 2020 mapping of supervisory practices to include:

- i. **Integration into supervisory framework**: How supervisors are currently engaging with regulated firms on climate issues, and considering the integration of these issues within their prudential risk framework (for example, in the review of firms' governance structure, as well as risk management and controls).

- ii. **Collaboration:** How micro-prudential supervisors are collaborating with other financial supervisors/regulators, and wider stakeholders, both domestically and internationally.

Based on a stock-take exercise, the workstream will explore options on how micro-prudential regulators can encourage financial institutions to integrate climate factors into financial decision-making, and develop a governance structure to provide oversight over risk management practices. This could facilitate convergence on baseline supervisory expectations, identify relevant best practices, and provide additional guidance on how supervisors may integrate climate risk assessment in their supervisory framework.

2. Take stock of current supervisory practices regarding environmental risk specifically

While climate change has been at the forefront of prudential concerns, other environmental risk factors (e.g. biodiversity loss, pollution, changes in land use) also warrant close monitoring. These factors also interact with climate change, and compound to produce more environmental degradation and impact on the financial system. As such, it is useful for supervisors to develop a better understanding of the risk in this space.

This stocktake would review existing supervisory practices, but focus more specifically on emergent environmental risk factors beyond climate change.

3. Conduct further study on financial risk differential between ‘green’ and other assets

The workstream will conduct the next phase of study following the “Status Report on Financial Institutions’ Experiences from working with green, non green and brown financial assets and a potential risk differential” published in May 2020¹ (“Status Report”). The study will map and critically evaluate specific tools used by financial institutions to better assess the risk differentials of green/other investments, how financial institutions are proceeding to capture credit risk at counterparty level for borrowers with a product mix of green and other assets, and analyze the micro-prudential risk implications of these developments.

4. Review and assess existing methodologies to measure environment and climate related financial risks at micro level

Building on workstream 1’s “Guide for Supervisors”² and “Status Report”, the workstream will provide insights on existing methodologies to measure environment and climate related financial risks at the micro level.

¹ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_status_report.pdf

² https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf