



## **Meeting with the U.S. Senate Democrats’ Special Committee on the Climate Crisis**

17 October 2019 – Washington DC - 11:30-12:30

### **Introductory statement by Mr Frank Elderson, Chair of the NGFS, Executive Director of the Dutch Central Bank**

The special US Senate Democrats’ Special Committee on the Climate Crisis invited the Network for Greening the Financial System (NGFS) for a roundtable session at Capitol Hill, on 17 October. Mr Frank Elderson, chair of the NGFS and executive director of De Nederlandsche Bank, gave an opening statement, followed by the other NGFS delegates. In his statement, Frank Elderson highlighted the current work and the next steps, of the NGFS.

#### **Network for Greening the Financial System (NGFS)**

Dear Chairman, dear senators, thank you for inviting me to this meeting and for your interest in our work on the impact of climate change on the financial system.

In my capacity as Chair of the Central Banks and Supervisors Network for Greening the Financial System (NGFS), it is my great honor to present to you the work of the NGFS and its main achievements since its launch almost two years ago.

Financing the transition to a green and low-carbon economy consistent with the ‘well below 2°celsius’ goal set out in the Paris Agreement, and promoting environmental sustainable growth are among the major challenges of our time. In the process of responding to environmental and climate challenges, there are both opportunities and vulnerabilities for financial institutions and the financial system as a whole.

At the Paris “One Planet Summit” in December 2017, eight central banks and supervisors established the NGFS, on the initiative of the Banque de France. Since then, the NGFS has quickly expanded to 46 Members and 9 Observers, across 5 continents, including the New York State Department of Financial Services as a member and the IMF and the Basel Committee on Banking Supervision as observers. Members of the NGFS represent half of global greenhouse gas emissions, responsible for supervising over three quarters of the global systemically important banks and two thirds of systemically important insurers.

The NGFS is a coalition of the willing and a voluntary, consensus-based forum. Its purpose is to help strengthen the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development. The work of the NGFS is structured along three workstreams: one dedicated to supervision, one dedicated to macro-financial impacts and one dedicated to scaling up green finance. The Banque de France provides the Secretariat of the NGFS.

In a first progress report<sup>1</sup>, dated October 2018, NGFS members acknowledged that “climate-related risks are a source of financial risk. It is therefore within the mandates of central banks and supervisors to ensure the financial system is resilient to these risks.” The legal mandates of central banks and financial supervisors vary throughout the NGFS membership, but they typically include responsibility for price stability, financial stability and the safety and soundness of financial institutions. Climate change will affect all agents in the economy (households, businesses, governments), across all sectors and geographies. The risks will likely be correlated with, and potentially aggravated by, tipping points, in a non-linear fashion. This means the impact of these risks could be much larger, and more widespread and diverse than those of other structural changes. Even though the prime responsibility for ensuring the success of the Paris Agreement rests with governments, it is up to central banks and supervisors to shape and deliver on their substantial role in addressing climate-related risks within the remit of their mandates. Understanding how structural changes affect the financial system and the economy is then core to fulfilling these responsibilities.

In April 2019, the NGFS published its first comprehensive report “A call for action”<sup>2</sup> which proposes first recommendations aimed at facilitating the role of the financial sector in achieving the objectives of the 2015 Paris Agreement. These six recommendations are not binding and reflect best practices identified by NGFS members. Four of them reflect best practices for central banks and supervisors on how to facilitate the role the financial sector can play in achieving the Paris goals. The last two do not fall directly within the remit of central banks and supervisors, but point to actions that can be taken by governments to facilitate the work of central banks and supervisors. The six recommendations are as follows:

1. Integrate climate-related risks into financial stability monitoring and micro-supervision;
2. Integrate sustainability factors into own-portfolio management;
3. To bridge data gaps appropriate public authorities are recommended to share data of relevance to Climate Risk Assessment (CRA);
4. Build awareness and intellectual capacity, encourage technical assistance and knowledge sharing;
5. Champion robust and internationally consistent climate and environment related disclosure;
6. Support the development of a globally consistent taxonomy of economic activities.

Going forward, the NGFS will continue its work as long as its members deem it necessary and useful. The lesson drawn from the first 22 months of NGFS activity is that climate change presents significant financial risks that are best mitigated through an early and orderly transition.

To ensure such a smooth transition, 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-related risks in the financial system. This calls for a close and specific dialogue with academia and for further technical work to translate the NGFS recommendations and observations into operational policies and processes.

More precisely, going forward the NGFS is planning to publish a series of technical documents, among them:

1. A guide on how to incorporate sustainability criteria into central banks’ portfolio management (particularly with regard to climate-friendly investments), which will be published today;
2. A guide on how to integrate climate-related risks into supervision;
3. Voluntary guidelines on scenario-based risk analysis.

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<sup>1</sup> NGFS first progress report (2018) ([link](#))

<sup>2</sup> NGFS first comprehensive report “A call for action” (2019) ([link](#))