



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

In Conversation with

Ms Jessica Chew

Deputy Governor, Bank Negara Malaysia

(June 2020)

1. When and why did your institution join the NGFS?

Bank Negara Malaysia (BNM) became a member of the NGFS in October 2018. Our admission was announced at the NGFS meeting held during the 2018 Annual IMF-WB Meetings in Bali – an event which was also notable for a panel in which Governor Shamsiah joined the Chair of the NGFS and other Governors and Heads of financial regulatory authorities to specifically address the role of regulators and central banks in supporting efforts to advance climate change adaptation and mitigation.

Then, BNM was one of two early members from ASEAN¹ to join the NGFS. Today, we are among five countries from ASEAN within the NGFS membership.

BNM's decision to join the NGFS was very much in line with a need that was recognised within the Bank to deepen our understanding of climate risks and their implications for monetary and financial stability, and to strengthen our capacity to respond to these risks.

This was important because we regard climate change as having direct relevance to our statutory mandates of promoting monetary and financial stability. Under the Central Bank of Malaysia Act, these mandates specifically include pursuing monetary policy *that gives due regard to developments in the economy*, and promoting a *sound, progressive and inclusive* financial system.

Like most countries, Malaysia has not been spared from an increasing frequency and intensity of climate-related disasters, and their adverse effects on productivity, output and societal well-being. In line with our mandates, we believe it is our responsibility to consider the implications this has on monetary policy settings, and to ensure that financial institutions are adequately measuring, mitigating

¹ ASEAN refers to The Association of Southeast Asian Nations, a regional intergovernmental organisation comprising ten countries in Southeast Asia, namely Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

and buffered against climate change risks. We also believe that the financial sector *can and should* play a catalytic role in the transition towards a low-carbon economy. Not only is the financial sector uniquely placed to do this given its nexus with businesses, households and the Government, it also has greater resources than most to do so.

Becoming a member of the NGFS enables us to pursue these objectives with greater speed, agility and confidence by cooperating with like-minded institutions that share similar challenges and priorities. Ultimately, this is a global challenge, and we believed we needed to be a part of the global solution.

2. Can you share with us the key elements of the Bank Negara Malaysia's climate strategy and how it fits into the broader national strategy in your jurisdiction?

BNM's climate strategy comprises five key thrusts:

- *Engagement and capacity building* – that is, working closely with the government, experts, practitioners and opinion shapers to increase awareness and understanding of climate risks and their impact on financial stability. This is accompanied by initiatives to build capabilities within BNM and the financial sector to assess, manage and mitigate climate risks, often with the support of coalitions like the NGFS.
- *Integrating climate risk within macroeconomic and financial stability assessments* – that is, reflecting climate risk developments and impacts more prominently in BNM's stress tests for the financial sector, in our ongoing surveillance of risks to financial stability, and in macroeconomic forecasting models.
- *Strengthening regulatory and supervisory expectations for managing climate risks* – that is, expanding on expectations set by BNM for financial institutions to effectively manage climate and environmental risks², and reinforcing these expectations through our supervisory activities. This includes improving disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
- *Creating an enabling environment for green financing and investment* – that is, working with the financial industry, the Securities Commission Malaysia and the Malaysian Government to align financial sector and national climate strategies, and address barriers to green financing and investments.
- *Leading by example* – that is, ensuring that the Bank's own operations are consistent with sustainable practices. These initiatives include measures taken to adopt socially responsible investment strategies in our investment operations, sustainable currency operations, and reducing the Bank's carbon footprint in its day-to-day activities.

BNM's climate strategy is supported by seven internal workstreams that are coordinated by an internal climate strategy unit which reports to the senior management of the Bank. Recognising the importance of a collective response, a Joint Committee on Climate Change (or JC3) was also established as a platform to drive and support climate change actions within the financial sector. The JC3 is chaired by

² Under existing standards on Corporate Governance which are applicable to financial institutions, boards of financial institutions have a specific responsibility to “*promote sustainability through appropriate environmental, social and governance considerations in the financial institution's business strategy*”.

BNM and the Securities Commission Malaysia, with members and observers comprising the stock exchange, financial institutions, institutional investors and non-government organisations.

Our climate journey in the past 12 months has seen several notable milestones, including:

- the issuance of a *Climate Change and Principle-based Taxonomy Discussion Paper*³ in December 2019 to provide a common framework for identifying the impact of economic activities on climate change, and helping to facilitate financial flows towards activities that would support the transition to a lower carbon economy. The taxonomy is a key component of our efforts to accelerate the integration of climate-related risks in the risk management practices of financial institutions, as well as the Bank's financial stability risk assessments.
- the issuance of the *Value-based Intermediation Financing and Investment Impact Assessment Framework*⁴ in November 2019 as a guide for Islamic and other financial institutions seeking to incorporate environmental, social and governance considerations in their financing and investment decisions.
- the completion of a *Report on the Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks*, undertaken by a task force of ASEAN central banks led by BNM. The report assesses the implications of climate and environment-related risks for both financial and monetary stability, the roles and limits of central banks and puts forward a set of non-binding recommendations to ASEAN central banks. It will be presented at the ASEAN Central Bank Governors' Meeting, tentatively in October 2020.

BNM's climate strategies both contribute to, and are informed by, Malaysia's national strategies⁵ to meet commitments made under the Paris Agreement 2015.⁶ The Bank's response to the COVID-19 pandemic health crisis is an illustration of this as we strive to look for opportunities presented to shape a recovery that also brings us closer to our sustainable development goals. An example of this has been working through funds established by BNM for lending to SMEs to also support the modernisation of their businesses in line with sustainable practices.

3. To which extent did the Bank Negara Malaysia leverage the work of the NGFS in its own domestic journey? Any concrete examples?

BNM has benefited immensely from its collaboration with the NGFS since day one of its membership. Climate risk management in the financial sector remains in many respects a new area of practice in Malaysia. Through our involvement with the NGFS, we have been able to more rapidly develop our internal capabilities and body of knowledge by participating in the deep technical work conducted by

³ <https://www.bnm.gov.my/index.php?ch=57&pg=137&ac=892&bb=file>

⁴ <https://www.bnm.gov.my/index.php?ch=57&pg=137&ac=851&bb=file>

⁵ As set out in the 11th Malaysia Plan (2016-2020), National Policy on Biological Diversity (2016-2025), Green Technology Master Plan Malaysia (2017-2030)

⁶ 'Intended Nationally Determined Contribution of the Government of Malaysia', UN Framework Convention on Climate Change (UNFCCC), 26 Nov 2015 <https://unfccc.int/news/malaysia-submits-its-climate-action-plan-ahead-of-2015-paris-agreement> and <https://www4.unfccc.int/sites/submissions/INDC/Published%20Documents/Malaysia/1/INDC%20Malaysia%20Final%2027%20November%202015%20Revised%20Final%20UNFCCC.pdf>

the three workstreams in which we are represented, and by drawing extensively on the collective wealth of knowledge and experience of the NGFS community.

The inclusive and generous sharing of experiences, ideas and solutions in particular has greatly supported our own domestic efforts. For example, our internal macroprudential and surveillance workstream plans to conduct a mapping of the risk transmission channels of climate-related risks later this year. This will leverage on the work undertaken by the NGFS “Macrofinancial” workstream to develop climate transition scenarios and estimate the economic impacts from transition and physical risks.⁷ We are also taking guidance for our supervisory activities from the approaches identified in the NGFS Guide for Supervisors: Integrating Climate-related and Environmental Risks into Prudential Supervision.⁸ We also intend to seek the input of the NGFS community on BNM’s Climate Change and Principle-based Taxonomy document and will carefully consider the Status Report published by the NGFS in May 2020 on Financial Institutions’ Practices with Respect to Risk Differential between Green, Non-green and Brown Financial Assets and a Potential Risk Differential⁹ in finalising the taxonomy.

As part of the NGFS community, we strive to bring a developing economy perspective to the deliberations and publications of the NGFS. Through our participation in various surveys, stock-takes, technical work and events organised by the NGFS, the Bank is hopefully able to highlight some of the challenges faced by developing economies – including the trade-offs between managing transition and physical risks, and implementation challenges associated with climate mitigation and adaptation strategies - in order to ensure that NGFS remains inclusive and relevant.

4. *One last word?*

For BNM, understanding climate risks and taking actions to respond to climate risks is not an option. Given the enormity of the challenge before us, it is immeasurably helpful to know that we are not alone; and that by working together within and across borders, we can meet the challenge with strong resolve and confidence.

⁷ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_climate_scenarios_final.pdf

⁸ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf

⁹ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_status_report.pdf