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NGFS guides central banks and supervisors towards better management of climate-related and environmental risks

Prudential supervisors around the world are stepping up to integrate climate-related and environmental risks into their work. Also there is a positive trend among financial institutions to better account for climate related risks of their assets. This can be concluded from the publications the NGFS released today:

- A [Guide for Supervisors](#) gathering leading practices of the supervisory community and issuing five recommendations for courses of action to be taken by NGFS members and beyond.
- A [Status Report on financial institutions' experiences from working with green, non green and brown financial assets and a potential risk differential](#) offering an overview of industry definitions and practices regarding environmental related risks' quantification and mitigation.

The *Guide for Supervisors* –the first of its kind– sets out five recommendations for courses of action of members of the NGFS as well as the broader community of banking and insurance supervisors to integrate climate-related and environmental risks into their work. The content of the guide is based on input received from NGFS members and work done by supervisors outside the network. The outcomes clearly show that worldwide supervisors are taking action: They are building their expertise and allocating resources, undertaking climate-related and environmental risk analyses of their financial institutions and are publishing documents to clarifying to financial institutions what is expected of them regarding climate-related and environmental risks. The practices showcased in the guide aim to further inspire supervisors and help them accelerate their efforts.

Frank Elderson, Chair of the NGFS and executive board member of De Nederlandsche Bank: *“Even under the current challenging circumstances of the pandemic crisis, we should not lose sight of the fact that climate change and environmental issues remain as urgent and vital as ever. Action is urgently needed, also from a financial risk perspective. With these two publications, the 66 central banks and supervisors and the 12 observers involved in the NGFS show that they are fully determined to continue their work to address climate-related and environmental risks.”*

The **NGFS Status Report on Financial institutions' experiences from working with green, non-green and brown financial assets and a potential risk differential** gives an overview of the current state of play of industry practices. This report highlights the main findings of a survey conducted by the NGFS among 49 banks and five insurance companies around the globe. This survey aimed at understanding how financial institutions kept track of the specific risk profiles of green, non-green and brown financial

assets (loans and bonds), developed specific risk metrics and analysed potential risk differentials. Although not conclusive on the existence of a risk differential, the report shows positive trends among financial institutions to better account for climate related risks of their assets and suggests encouraging ways forward in the analysis via forward-looking methodologies. The report recalls the impossibility for a complete assessment without harmonized green and brown taxonomies.

Henrik Braconier, Chief Economist and Executive Director Economic Analysis, Finansinspektionen: *“The Status report shows that financial institutions have taken important steps in their work on climate-related risks, but that the prerequisites for tracking the risk profile of green or brown assets are not yet in place. To be able to quantify climate-related risks there is a need of developing common taxonomies and forward looking approaches.”*

Looking ahead

The NGFS will continue to leverage the best practices identified within its membership to help central banks and supervisors, as well as the relevant stakeholders, to better assess and mitigate climate-related risks. **In particular, two other documents dedicated to climate scenario-analysis will be published by the NGFS shortly.** Looking further ahead, the **NGFS will start working on the data and metrics needs** for the purpose of climate and environment related risks assessment, and investigate the possible access limitations.

New members

The NGFS is also pleased to announce that **twelve new members have joined the Network since the beginning of 2020**: Banco Central do Brasil, Central Bank of Armenia, Central Bank of Cyprus, Central Bank of Georgia, Central Bank of West African States, Danish Financial Supervisory Authority, Eesti Pank, Financial Market Authority Austria, Latvijas Banka, Lietuvos Bancas, Malta Financial Services Authority and National Bank of Cambodia.

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 brings together 66 central banks and supervisors and 12 observers - representing five continents, half of global greenhouse gas emissions and the supervision of over two thirds of the global systemically important banks and insurers. The NGFS is chaired by Frank Elderson, executive board member of De Nederlandsche Bank. The Secretariat is provided by Banque de France.

For more details, visit the [NGFS website](#) and [Twitter account](#) or contact the NGFS Secretariat at Banque de France sec.ngfs@banque-france.fr

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