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NGFS publishes two complementary reports on climate-related litigation risks

The Network for Greening the Financial System (NGFS) published today two reports on the topic of climate-related litigation. The first report outlines recent trends in the area, highlighting the rise in climate-related litigations. Drawing the conclusion from these developments, the second report focuses on the micro-prudential supervision of the risks for financial institutions associated with the increase in climate-related litigations.

Ravi Menon, Chair of the NGFS and Managing Director of the Monetary Authority of Singapore:

“These two reports by the NGFS highlight the increasing frequency and complexity of climate-related litigation involving financial institutions. Central banks and supervisors need to build up their capabilities to assess and manage the risks posed to the financial sector by such litigation.”

Report on **“Climate-related litigation: recent trends and developments”**

The report is an update outlining the most recent trends and developments that have occurred since the publication of the NGFS report [‘Climate-related litigation: Raising awareness about a growing source of risk’](#) in 2021.

Climate-related litigation is growing rapidly, not only in terms of the volume of cases being initiated, but also crucially in terms of the legal arguments being used, and the diversity of addressees of such claims. Such litigation against states, public entities, and corporates can have a significant impact on the financial sector and its increased relevance calls for central banks and supervisors to step up their monitoring and supervisory expectations. Moreover, several cases have already been brought directly against defendants in the financial sector, including the first cases against a credit institution in 2023. Looking ahead, environment-related litigation is likely to increase, as we can already see that governments and civil society are turning their attention beyond greenhouse gas emissions, to the importance of nature and the environment more broadly.

Chiara Zilioli, Chair of the Experts’ Network on Legal Issues and General Counsel of the European Central Bank:

“As climate and environment-related litigation continues to expand across jurisdictions and economic sectors, the impact on the financial sector is becoming ever more evident. It is crucial for central banks, supervisors and financial institutions to be aware of these trends, and to take action to address these risks.”

Report on “[Micro-prudential supervision of climate-related litigation risks](#)”

The report highlights the growing relevance of climate-related litigation to micro-prudential supervision. Supervisors need to identify risks drivers, transmission channels and exposures to properly assess ensuing financial risks to a financial institution, which can lead to direct (e.g. damages, fines, legal and administrative fees) and indirect (e.g. insurance pay-outs, credit losses or adverse business impacts) costs for financial institutions. From a survey of NGFS members in 2022 on current practices and supervisory gaps, the NGFS notes that the supervision of the risks associated with climate-related litigation is still at an early stage of development and formal supervision methodologies are not yet fully developed.

The report sets out potential options for the micro-prudential supervision of risks and suggests that supervisors adopt a risk-based approach to better prioritize their supervisory activity. Providing a reliable estimate and prediction of the future evolutions of climate litigation risks will be a challenge for supervisors as these risks continue to develop with a high degree of diversity by jurisdiction, political environment, and claim type and size. Supervisors should continue to explore and strengthen their methodologies and assessment of such risks.

Tolga Yalkin, Chair of the NGFS Workstream Supervision and Assistant Superintendent – Policy, Innovation and Stakeholder Affairs at the Canadian Office of the Superintendent of Financial Institutions (OSFI):

“Climate change is happening across the globe, faster and more profoundly than some expected. These significant and rapid changes will increase litigation. Prudential supervisors must make sure financial institutions are addressing this litigation risk. While only a first step, this report summarizes practices and options to do this.”

About the NGFS

The Network for Greening the Financial System (NGFS), launched at the Paris One Planet Summit on 12 December 2017, is a group of central banks and supervisors, which on a voluntary basis is willing 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 127 central banks and supervisors and 20 observers. Together, they span across five continents, operate in economies that account for more than 88% of global greenhouse gas emissions and are collectively responsible for the supervision of all global systemically important banks and 80% of the internationally active insurance groups. The NGFS is chaired by Ravi Menon, Managing Director of the Monetary Authority of Singapore. The Secretariat, headed by Jean Boissinot, 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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