



Workstream “Supervision”

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Chair of the workstream: Jamey Hubbs (Office of the Superintendent of Financial Institutions)

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A. Objective

The objective of the workstream is to ***foster progress among NGFS members towards incorporating climate-related and environmental risks within their supervisory frameworks and practices***. The workstream will identify and share good practices in supervision and prudential regulation, thus contributing to the uptake of consistent practices across jurisdictions and within the financial sector. To support these objectives, the workstream will undertake relevant analytical studies and closely coordinate with standard-setting bodies and relevant international organizations and networks.

B. Relevance to the work of the NGFS

This workstream will contribute to:

- i. the ***integration of climate-related risks into financial monitoring and micro-supervision*** (recommendation 1 of the [NGFS First comprehensive report](#)) and of ***environmental risks more broadly*** (recommended by the [NGFS Guide for Supervisors](#) and subsequent NGFS publications);
- ii. the ***bridging of data gaps*** (recommendation 3); and
- iii. supporting ***internationally consistent climate-related and environmental disclosure*** (recommendation 5).

C. Tasks

1. Conduct deep-dives into the prudential supervision of climate-related and environmental financial risks

Suggested topics include:

- i. Review how supervisors approach climate-related ***litigation risks***, building on the NGFS report on “[Climate-related litigation](#)”;
- ii. Explore the relevance and materiality of climate and environmental related ***reputational risks*** to financial institutions;
- iii. Focus on the integration of climate-related and environmental factors into ***credit rating and internal credit risk modelling***, as a follow-up to the NGFS Report on “[Capturing risk differentials from climate-related risks](#)”; and

- iv. Reflect on how supervisors should approach the supervision of **financial solutions developed to address climate change** (e.g. blended finance).

2. Analyse the need and potential ways to oversee transition plans and the role of supervisors in addressing transition risks

The workstream will examine the relevance and **extent to which financial institutions' transition plans relates to supervisors' roles and mandates** and could be considered within their supervisory toolkit. It will build on the conclusions of the NGFS Report on "Capturing risk differentials from climate-related risks", which underscore that supervisors should focus their efforts on the forward-looking assessment of transition risks.

In particular, the workstream could leverage on existing analytical work¹ and:

- i. aim to identify good practices among supervisors on overseeing (the design and execution of) financial institutions' transition plans, the **information/data needed** for the adequate oversight of transition plans, and how to **overcome/mitigate related challenges**;
- ii. examine how financial institutions should consider **counterparties' transition plans** in their exposure analysis and transition risk management processes and their own transition plans; and
- iii. explore **whether adjustments are necessary to the current supervisory framework** and whether additional mechanisms, tools and processes could be relevant from a supervisory perspective, including the development of supervisory expectations.

3. Update the mapping of supervisory practices for integrating climate-related and environmental risks into micro-prudential supervision

The workstream could support the mapping of supervisory practices and the implementation of the NGFS recommendations by providing practical guidance and identifying good practices, following up on the NGFS "[Progress Report on the Guide for Supervisors](#)".

In the area of climate-related risks, the workstream could:

- i. prioritise work on Focus Areas² where supervisors are facing the most important challenges and/or have reported the least progress, namely those relating to **risk assessment** and to the **integration of climate-related risks into the supervisory toolbox** (including supervisory review and mitigation tools); and
- ii. consider issuing **more granular and targeted guidance** while reflecting on how to define and apply the **proportionality principle** in the supervision of climate-related risks, coordinating with the other NGFS workstreams and expert networks and securing synergies with the work carried out by standard-setting bodies and relevant international organisations.

In the area of environmental risks, the workstream could:

- i. provide an updated overview of supervisory good practices with respect to the twelve Focus Areas, in particular, **clarity on the relevance of nature-related risks, including biodiversity-related risks, to supervisors' mandates and activities**;

¹ The WS should leverage existing analyses and identified best practices in coordination with relevant international stakeholders (including the output of SSBs as the ISSB and EFRAG, GFANZ and the TCFD).

² See Progress Report on the Guide for Supervisors.

- ii. reflect on the ***applicability of recommendations and guidance issued by the NGFS to the supervision of these risks***; and
- iii. develop, ***where relevant, additional recommendations to address their specificities***, on the basis of the work of the NGFS task force on biodiversity loss and nature-related risks.

In addition, the NGFS Guide for Supervisors could be updated to reflect the outcome of the thematic deep dives.