

Emerging supervisory priorities: climate change-related risks

BCBS-BSCEE-FSI High-level Meeting for Europe on Banking Supervision, May 21, 2019 – Session 1

Supervision of climate-related risks at Banque de France / ACPR

- ❑ **The Banque de France and the ACPR have started to work on financial risks arising from climate change since 2015.**
 - The French Energy Transition Act (2015) required the elaboration of a report by end 2016 discussing the feasibility of stress-testing exercises related to climate change-related risks.
 - It was deemed within the mandate of the supervisor to raise awareness and enhance ownership of these potential risks throughout the banking sector.

- ❑ **In 2018, the ACPR surveyed both main French banking and insurance institutions with two objectives:**
 - To take stock of progress achieved by financial institutions in dealing with climate change-related financial risks.
 - It also intends to contribute to the reflections of the Network for Greening the Financial System (NGFS) launched in December 2017 by the Banque de France.
- ⇒ The main takeaways from both surveys were published on April 10th, 2019.

Main takeaways from the survey

- ❑ **A shift in the governance of climate change-related risks from a CSR-only perspective towards a two-pronged approach which integrates traditional risk departments:**
 - Trend mainly observable in the largest and most internationally active institutions.
 - Operational implementation could be improved significantly (lack of metrics, specification of strategic orientations at the business-line level...).

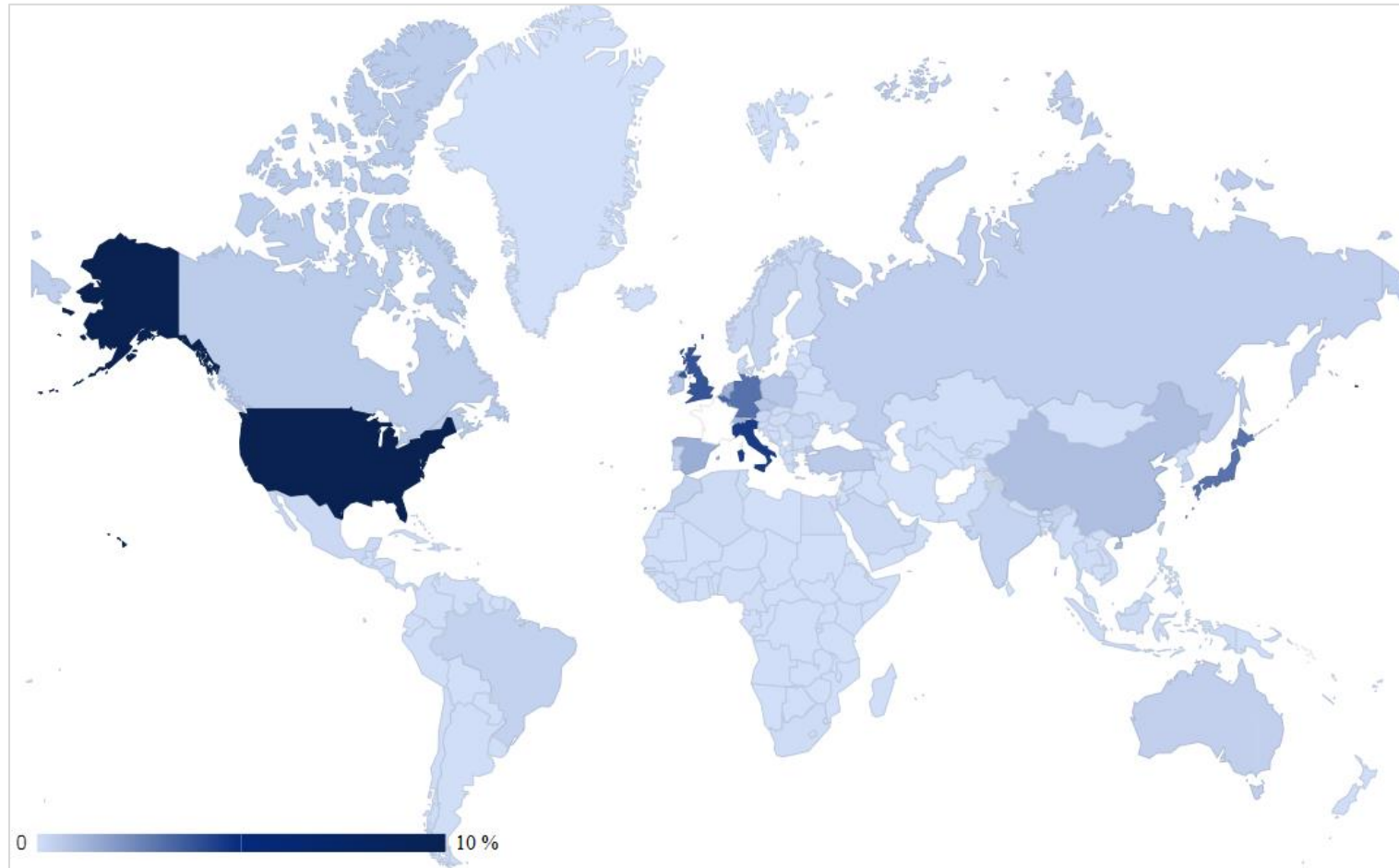
- ❑ **Some progress in the development of the risk analysis tools:**
 - Banks focus on transition risks as related exposures represent a potentially much larger share of their balance sheet compared to physical risk-related exposures.
 - Tools need further refinement and more data collection.
 - Liability risk is not viewed as a material risk.

- ❑ **Therefore, some recommendations directed to institutions and to regulators and supervisors:**
 - Prudential reporting of exposures to non sustainable activities.
 - Need to publish strategic roadmap about the way the supervisor intends to scale-up the supervision of these risks along the different regulatory pillars.
 - Collective challenge to develop stress-testing frameworks.

Limited exposure to sensible geographic zones

Banks

Allocation of gross financial claims by geographical area - outside France (47% of total gross financial claims)
(in % as of late June 2018)

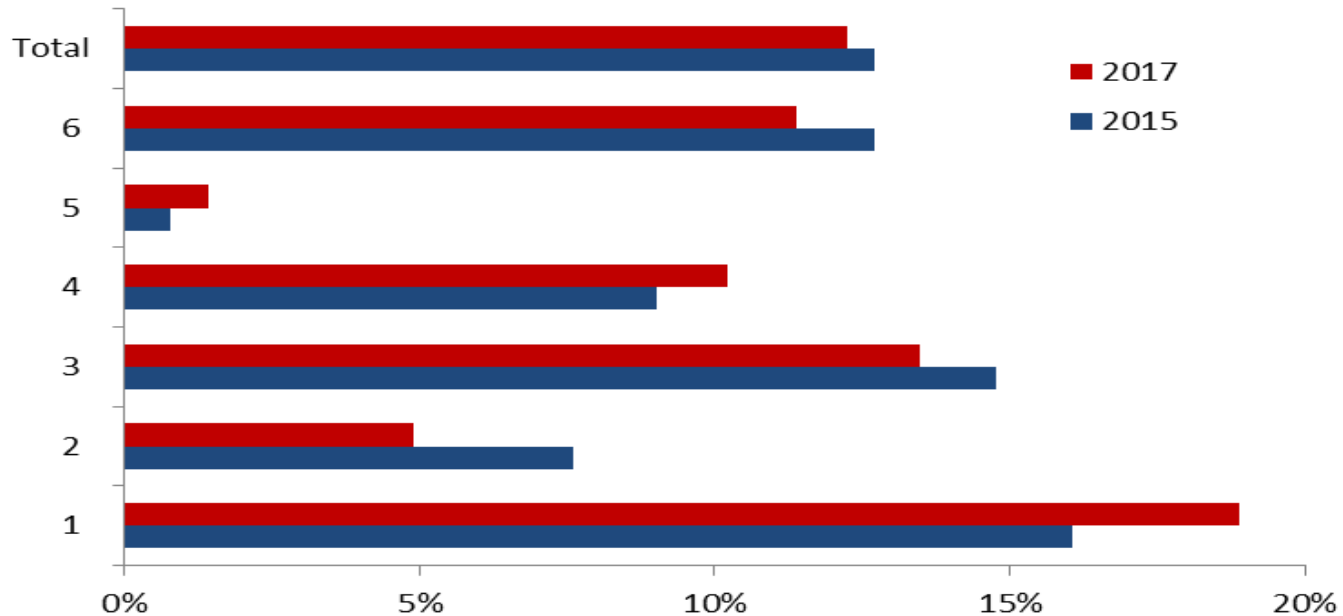


Sources: ACPR, data as of end-June 2018 on banking groups which participated in the survey (BNP Paribas, BPCE, Crédit Agricole, Crédit Mutuel, HSBC France, La Banque Postale, Société Générale).

Transition risk: an increasing consideration

Banks

Exposures to the transition risk
(in % of net outstanding exposed to credit risk)



Sources: Eurostat, ACPR, data on 6 of the 7 largest banking institutions in France and participating in the interviews conducted in 2015 and 2017.

Note: The exposure to transition risk corresponds to outstanding in the first 20 sectors of the NACE rev 2 classification in terms of the issuance of Greenhouse Gases (GHG) per unit of value added (86% of greenhouse gas emissions in France in 2012 and 13.7% of the value added of the sectors). The automotive construction (C 29) and construction (F) sectors are then added: see F. Lenglard et al. "CO 2 issues of the economic circuit in France", 2010.

Next steps

- ❑ **These assessments confirm the relevance to pursue the ACPR's analytical and supervisory work so that the financial sector further takes into account these risks.**
- ❑ **Two working groups will be established with French institutions:**
 - The first one on the governance of climate-change related risks
 - the second one on risk metrics and scenarios analysis, liaising with work carried out under the umbrella of the NGFS
- ❑ **Importance to ensure proper coordination among various initiatives at the European level to avoid redundancies and duplication.**
- ❑ **Regarding global coordination and the role of global standard-setter such as BCBS and FSB :**
 - In the short-run, there is a need for the “willing” to move ahead to collectively address within the NGFS framework the challenges related to the supervision of climate-related risks => it could come along with high-level principles to enhance some minimal degree of harmonization ;
 - The NGFS has already issued six very important recommendations in April ;
 - In the longer-run, it might be needed to issue global standards to address climate change-related risks while ensuring a global harmonization => BCBS / FSB could have a leading role.