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Greening the financial sector remains an urgent need to face the persistent challenge of climate change

Amidst the current Covid-19 crisis, we all need to keep fighting another crisis, climate change, and keep thinking about the best measures to undertake to finance the transition to a low carbon economy. In that perspective, one priority stays to ensure that “green” projects can be appropriately funded. Financial institutions must be able to assess the risks and returns of such projects on the accurate (longer) time horizon. Considering climate change seriously also means, for the financial sector, taking into account the financial risks relating to transition— notably the risks of stranded assets— and physical risks in their own balance sheets. In a nutshell, climate-related risks must become a widespread axis of risk analysis by financial institutions.

Over the past years, the financial sector has been moving in a greener direction, no doubt. Part of this trend has indeed resulted from both market pressure and clients’ appetite for greener products. However, regulation has also played a key role, both at national and European levels, by setting disclosure standards for instance. In France, since 2016¹, financial institutions must disclose their exposure to climate-related risks and assess the related financial risks. The French supervisory Authority for Banks and Insurance (ACPR) recent studies² find that there was a significant progress in the governance of climate change risks and in the analysis of transition risks. The need to closely monitor climate-related financial risks is also observed globally: the Central Banks and Supervisors’ Network for Greening the Financial System (NGFS) is planning to release a Status Report on this topic in the coming weeks.

This is something we follow upon carefully as we, Central Banks and Supervisors, definitely believe that we can support this evolution and foster its harmonization, along with standard setters. The Banque de France is particularly active within the NGFS, launched at the One Planet Summit in 2017. This network is a coalition of Central Bankers and Supervisors willing to share best practices and leverage each other’s knowledge. At the national level, the ACPR established last year a Commission on Climate and Sustainable Finance aiming at keeping track of the commitments taken by banks and insurers relating to climate risks. Our next step will be to simulate the resilience of these institutions: a pilot exercise, based on climate scenario analysis,

will be conducted by the Banque de France and the ACPR in 2020.

Nevertheless, the NGFS is not a standard setting body, and we rely on standard setters and policy makers to allow for homogenous data, without which no consistent monitoring and pricing of climate-related risks can exist. The political will to produce standards should not weaken in the context of the current Covid-19 crisis. We should keep in mind that the fight against climate change is vital. Some experts even suggest that both crisis are related at some point. Hence, the biodiversity loss and its impacts on the financial sector may be one topic to further explore in the future. ●

¹ Act of 17 August 2015 on energy transition for green growth

² Analyses et Synthèses n°101 et 102, avril 2019