

29th May 2018



WS3 – Scaling up green finance Mandate and workplan from 2018 to April 2020

Chair of the workstream: Joachim Wuermeling (Bundesbank)

Composition: Banco de España, Banco de Mexico, Bank al Maghrib, Bank of England, Banque de France, Bundesbank De Nederlandsche Bank, Oesterreichische National Bank, People’s Bank of China, BIS as observer.

Member of the Secretariat: Emmanuel Buttin (Banque de France)

The transition to a low-carbon economy requires shifting trillions from brown to green activities. Several reports estimate that more than USD 90 trillion will be needed to make our infrastructure consistent with the 2°C scenario¹. Following the Paris Agreement, a growing momentum in the private sector has opened up a new phase in the development of green finance. However, given that the horizon of materialization of climate risk is narrowing, the need to change scale is becoming more pressing.

Therefore, as agreed at the NGFS January meeting, the purpose of the NGFS WS3 is the following:

“WS3 will conduct a mapping of existing incentives to scale up green financing paying due regards to the different institutional settings of the Members and avoiding duplication with the work already undertaken/ongoing in particular at the G20 level. WS3 will notably work on a comparative approach to green taxonomies, green bonds labeling and the prevention of greenwashing, the regulation of second opinion provider and their methodologies.”

For WS3 more than for the two other workstreams, there is a risk of overlapping with ongoing initiatives at the G20-Sustainable Finance Study Group, the European Commission (EC) Action Plan on sustainable finance, the United Nations Environmental Program (UNEP), the Organization for Economic Cooperation and Development (OECD) or the Sustainable Banking Network (SBN). Attention will be given to a smooth cooperation with these parties.

- 1. The purpose of WS3 is to outline the role that central banks and supervisors could play in promoting the scaling up of green finance**

¹ OECD, [Investing in Climate, Investing in Growth](#), 2017 ; New Climate Economy Report, [Better growth better climate](#), 2014.

At the Paris meeting, NGFS Members have decided, for the first year of existence of the NGFS, to perform a stocktaking exercise of existing regulations and/or practices. This exercise should be complemented by an analysis of some of the topics explored below.

a. Greening the activities of Central Banks and supervisors

Central banks and supervisors have a role to play in “leading by example”. The WS3 may examine **what are the current practices of central banks and supervisors to incorporate ESG criteria in their operational activities** as corporates as well as policy bodies.

- a) From the perspective of central banks and supervisors as corporates
 - (i) Management of own funds or pension funds: some central banks/supervisors have already started to elaborate on the ways they could integrate some kind of requirements in their portfolio management framework or target green financing.
 - (ii) Reduction of their carbon footprint: as many companies, some central banks/supervisors have conducted ambitious policies to reduce their activities’ carbon footprint.
 - (iii) Disclosure: some central banks/supervisors have made public their engagement regarding the previous items.
 - (iv) In-house climate/environmental-efficient use of resources such as energy, water or waste-management: explore current practices as well as compare them with private banks.

- b) From the perspective of central banks and, when relevant, supervisors, as policy bodies
 - (i) Monetary policy framework: some central banks might have endorsed specific approach regarding green/brown assets. When relevant, this item should be examined in close cooperation with WS1 and/or make reference to WS1 works.
 - (ii) Reserves management: when managing foreign currency reserves, some central banks might have endorsed dedicated policies with regard to green assets.
 - (iii) Risk management: central banks and supervisors are users of credit assessments, sometimes of in-house credit assessments which might integrate consideration of ESG or climate change criteria/risks in credit assessments.
 - (iv) Consumer protection: some central banks or supervisors may have a mandate for consumer protection also with regard to greenwashing or climate/environmental risk.
 - (v) Financial literacy: some central banks or supervisors have a broader mandate for financial literacy. Improved information of the public regarding climate, environmental and financial issues (green products as well as climate risks) is key to scaling up green finance.

b. Understanding/monitoring the market dynamics of green finance

Due to their specific role, central banks are well-placed to monitor market developments. The WS3 could therefore focus on monitoring market conditions on the green bond market (primary/secondary market liquidity, premium, type of issuers/investors, sectors, ...) as well as green financial innovation in general (green securitization, RMBS, green CLOs, green covered bonds, ...) which are less explored by existing analysis. This work could be based on the existing work conducted by central banks and IOs, but should not be restricted to the members’ scope. Contribution of other

central banks and market intelligence should usefully complement the analysis to provide a broad overview of green products. Understanding the market dynamics of green finance implies understanding the effect of long term policy signals.

c. Central banks/supervisors as catalysts for greening the financial system

Central banks and supervisors have a role to play as catalysts for a sound scaling up of green finance. Their role may vary according to the domestic institutional framework. In a preliminary stock-taking exercise, **NGFS Members may provide some information on their involvement in market initiatives in their jurisdictions.** In a second step, the scope of the work could be broadened and include an **analysis of what central banks and, to the extent it falls within their mandate, supervisors, see as prerequisites for a sound scaling up of green finance and how they can support in identifying market barriers and dysfunctionalities on the supply and demand side and best practices to overcome such barriers.** More specifically:

- (i) The need for a publicly endorsed green and/or brown asset taxonomy.
- (ii) The need for a publicly endorsed label/standard regarding green bonds/loans/assets.
- (iii) Regulation of second opinion providers.
- (iv) Role of accounting standards to promote long term financing.
- (v) The scope of the challenge that greenwashing represents for the green finance agenda.
- (vi) Explore the possibility of including into credit reporting company databases information on green delinquencies that is information of physical and moral persons that have been sanctioned by environmental authorities.

The work of WS3 is expected to feed into the first NGFS progress report to be issued by April 2019.