COP25 Side-Event Concept Note
Closed-door session on climate risk in financial institutions
Thursday 5th of December – 09:00 to 11:00
IDFC Pavilion

The issue of climate finance risks has gained strength within the international financial community in the last few years:

- It all began in 2015 when Mark Carney, the governor of the Bank of England, made his memorable speech in 2015 on the tragedy of the horizon around climate issues
- The launching of the Taskforce for Climate Finance Disclosure - TCFD) by the Financial Stability Board – FSB
- New regulations have emerged (for example in France through Article 173 of the Energy transition law) inviting the banking sector to integrate climate issues in their risk management mechanisms and introducing reporting obligations for investors.
- The launching of the Network of Central Banks and Supervisors to Green the Financial System – NGFS, with the objective of contributing to the analysis and management of climate risks in the financial sector and thus mobilize greater support for the transition to a sustainable economy.

As such, financial institutions have advanced in the issue or are thinking on how to grasp these complicated issues taking into account their mandate.

Objective: This closed-door session is designed to facilitate exchanges and the sharing of lessons learned / experiences between peers (financial institutions). The format is voluntarily open and flexible to allow for a free discussion on the internal challenges faced by financial institutions around climate risks. The aim is to be as practical and technical as possible to allow for fruitful takeaways for all participants.

You will find below an indicative list of themes we would like to discuss during this session. Please do not hesitate to come with other themes you would like to share with or learn from your peers.

Please note that two public side-events convened by the Climate Action in Financial Initiative will follow this session:

- One side-event jointly organized by the EIB and AFD on Thursday December 5th (2-3pm) in the MDB pavilion
- One side-event jointly organized by the IDB and AFD as co-lead of the Initiative's risk work-stream on Friday December 6th (6-7pm) in the IDB pavilion

Supporting Institutions of the Initiative and invited financial institutions are free to attend and participate.

The discussion will be held strictly under The Chatham House Rule, participants will be free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed. Following those rules, the secretariat will circulate a summary of the discussion among participants and members of the Climate Action in Financial Institutions Initiative.

In case you will not be at the COP, please let the secretariat know if you could be interested in connecting remotely. We are exploring if the venue will be adapted to do so: alice.pauthier@i4ce.org

How to advance on physical risks?

- Implementation of methodologies and processes around physical risk management
- Data sources and experience working with consulting firms (pros and cons)
- Relevance of integrating sector specificities
- Creation of specific tools to assess and manage physical risks
- Impact on credit ratings
- Internal uptake: specific training / communication tools for internal and/or external use

How to advance on transition risks?

- Implementation of methodologies and processes around transition risk management.
    - Are emissions emission intensities of counterparties a good indicator of / proxy for transition risk?
    - How to account for differences in local regulatory environments for banks dealing with a multitude of jurisdictions and trajectories?
- Relevance of integrating country specificities
- Data sources and experience working with consulting firms
- Creation of specific tools to assess and manage transition risk
- Impact on credit ratings
- Internal uptake: same question as above

Consistency between project, portfolio and counterparty risk assessment

- Consistency between project, portfolio and counterpart climate change risks assessment
- Usefulness of portfolio-level assessment? How does it inform (if at all) client level assessment and origination strategy as a whole?
- Bridging the gap between client and project. How to deal with a green project for a brown client?
- How to deal with financial intermediaries at the counterparty level?

Reporting and stress testing

- Proactivity of the local regulator on those topics
- Ability of the bank to produce dedicated reports
- Policies in terms of public disclosure
- Methodologies for stress testing: impact on PD and / or LGD? Specific scenarios or macro approach?
- Impact of climate risk on the treasury function

How to advance on litigation risk?

- Have you started to assess these risks?
- Have you stated thinking on risk mitigation measures?
- Which teams should deal with the issue?

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The ***Climate Action in Financial Institutions*** initiative is a coalition of 44 public and private financial institutions around the globe aiming to systematically integrate climate change considerations across their strategies, programs and operations. Launched in 2015, and built around ***5 Principles for Mainstreaming Climate Action Within Financial Institutions***, the ***initiative aims to provide an opportunity for Supporting Institutions to learn from each other, to disseminate good practice and lessons learned and to collaborate on areas of common interest.***

Through its workstream on “Climate Risks: Approaches, tools and methodologies”, the Initiative facilitates knowledge sharing between Supporting Institutions on climate-related risk management. It aims to develop common understanding of climate risk-related issues and to share definitions and experience on developing metrics to assess this issue quantitatively and qualitatively. At the 2019 Annual Assembly, Supporting Institutions shared their experience as well as discussed the current ‘trends’ on climate risk, including exchanges with the Secretariat of the Network for Greening the Financial Systems (NGFS) as well as Moody’s Investors Service.