



APRA



RESERVE BANK OF AUSTRALIA

## Network for Greening the Financial System Pledge

### Joint Statement from the Australian Prudential Regulation Authority and the Reserve Bank of Australia

#### Preamble statement

Climate change directly affects the economy and the financial system, and is therefore closely related to the mandates of the Australian Prudential Regulation Authority (APRA) and the Reserve Bank of Australia (RBA). APRA is tasked to ensure the financial safety of individual financial institutions and to promote the stability of the Australian financial system, and the RBA is mandated to implement monetary policy to achieve price stability and maintain financial stability. The physical impact of climate change, and the global transition to a lower emissions economy, will affect economic output, prices and employment. Climate change will be a driver of change in the value of certain assets and income streams, and therefore poses a risk to financial institutions and financial stability.

Both APRA and the RBA have been building capacity to conduct analysis and research on these issues, and are actively considering the steps that can be taken to achieve their respective mandates in view of climate-related risks. In developing approaches to understanding and managing the financial risks of climate change, APRA and the RBA work closely with the Australian Securities and Investments Commission and the Australian Government Treasury which collectively comprise the Australian Council of Financial Regulators (CFR) agencies.

#### Integrating climate-related risks into financial stability monitoring and micro-supervision

APRA considers that effective decision-making by financial institutions needs to include a full consideration of risk, including the potential impacts of physical, transition and liability climate risks.

APRA is leading a bottom-up supervisory climate vulnerability assessment (CVA) exercise with the five largest Australian banks under its supervision, using as its basis the Network for Greening the Financial System (NGFS) scenarios which are being adapted to explore Australian-specific circumstances. The RBA is assisting APRA with the CVA exercise, including by (i) participating in the steering committee, and (ii) participating in a modelling working group. The CVA commenced in 2021 and APRA plans to publish results in 2022. The three key objectives of the CVA are: to assess potential financial exposure to climate risk; to understand how banks may adjust business models and implement management actions in response to different scenarios; and to foster improvement in climate risk management capabilities.

In 2021, APRA will finalise prudential guidance to assist supervised entities to identify, monitor and manage the climate-related risks they are exposed to. The prudential practice guide has been informed by stakeholder consultation and provides guidance on prudent practice in the management of financial risks arising from climate change, including with respect to governance, risk management, scenario analysis and disclosure. Alongside this guidance, APRA is considering a periodic climate risk self-assessment survey to assist in understanding the financial sector's alignment to the guidance.



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## **Analysing the effect of climate-related risks on the macroeconomy and financial stability**

The RBA will conduct analysis to monitor the implications of climate change and related mitigation policies for the economy and the transmission of monetary policy through financial markets and the banking system to households and businesses.

The RBA will also continue to augment its forecasting models and its broader suite of macroeconomic models to understand the macroeconomic implications of different climate risks, including how climate risks translate into financial stability risks. The RBA has published some top-down analysis of the financial stability risks for Australia from climate change and commits to monitoring and communicating this risk regularly, including in its Financial Stability Review. The RBA will use NGFS-derived climate scenarios in its internal analysis of climate-related risks where scenario analysis is required.

The RBA commits to using the information obtained from this analysis to inform its work on bridging data gaps in relation to climate risks, in order to improve the ability of regulatory authorities and financial institutions to assess climate-related risks and opportunities.

## **Building awareness and intellectual capacity and encouraging knowledge sharing**

APRA and the RBA will continue to draw attention to the financial stability and macroeconomic consequences of climate change, including through speeches and by publishing analytical work on climate change. APRA and the RBA also commit to sharing knowledge based on their experience in climate-related topics with other central banks and regulatory agencies.

Domestically, APRA and the RBA work with other regulatory agencies through the CFR Climate Change Working Group. Internationally, the RBA and APRA will continue to share knowledge through forums including the NGFS, the Financial Stability Board (FSB), the Bank for International Settlements (BIS) and the Executives' Meeting of East Asia Pacific Central Banks (EMEAP).

APRA will continue to deliver and enhance internal training programs to equip its supervisors with the necessary skills and knowledge on climate-related risks for the industries (across banking, insurance and superannuation) and financial entities for which they are responsible. The RBA will similarly continue to use NGFS training material to equip its employees with the necessary skills and knowledge on climate-related risks.

## **Integrating sustainability factors into own operations**

APRA and the RBA recognise that actions to minimise the environmental impact of their own operations are important and will contribute to broader climate goals.

The RBA will continue to invest in the Asian Bond Fund, which has recently announced that it will purchase green sovereign bonds to encourage the development of local currency-denominated green bond markets in Asia. The RBA commits to exploring which climate-related financial disclosures it could publish, drawing on the recommendations of the Task Force on Climate-related Financial Disclosures.

APRA and the RBA are also committed to minimising the impact of their activities on the environment in other ways, such as through increasing the use of energy efficient equipment and renewable energy, reducing waste arriving in landfill and promoting sustainable and efficient water use.



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APRA and the RBA are among more than 50 international members of the Network for Greening the Financial System (NGFS) that have made public statements on the important role of central banks and financial regulators in mitigating the physical, transition and liability risks of climate change in the financial sector.

The NGFS has released the 'NGFS Glasgow Declaration: Committed to Action' in which NGFS members reiterate their willingness to contribute to the global response required to meet the objectives of the Paris Agreement.