

## Session I: A Moderated Scene-Setting Dialogue

### Top 3 takeaways:

- The world is *not* on track to meet our net zero goals, and we have already used more than 90 percent of the carbon budget that we have for the 1.5°C target. A lot more needs to be done on all fronts, as financing needs are 5 to 8 times larger than what is being provided today.
- In addition to carbon pricing, emissions standards, and technological advancements, central banks and regulators have a key role to play in the transition to net zero. The financial system needs to have higher resilience to climate risks. Greater use of climate stress tests, nurturing an ecosystem of sustainable financial products along the 3 Ds: data, definitions (taxonomies) and disclosures can facilitate achieving that resilience and enabling the transition to green activities.
- Mobilizing finance for climate change should be mainstreamed and streamlined for the economic investment needed for adaptation and mitigation. Given the large size of investments needed, the public and private sectors need to work together. The most effective use of public sector funds (and IFIs) is to assume the equity tranche risk, which can crowd-in the private sector and allow them to provide the bulk of funding.

### Other takeaways:

- Asia is the battleground where the war against climate change will be won or lost, as it accounts for 45-50 percent of global greenhouse gas emissions, and it has great challenges still ahead with economic and social developments, which amplify the transition risks.
- Banks should play an important role in accelerating the green transition, because they are providing the majority of credit in emerging market economies, particularly to SMEs that are exposed to physical and transition risks. As such, climate change risk management is important, and clear regulatory guidance can provide a strong hand in guiding investments and underwriting practices.
- For small island states, financing needs are enormous, and countries have limited capacity. There are 3 main priorities for climate finance: (i) designing climate change development priorities that suit the absorptive capacities of countries; (ii) coordinating the requirements and terminologies of development priorities with development partners; and (iii) implementing the climate change development priorities with a goal to fully absorb the utilization of resources provided by development partners.
- The IMF is already a systemically important international financial institution, and it is doing its part to address the economic and financial threat of climate change via: (i) foundational work (including promoting global cooperation); (ii) financial stability evaluations (such as via FSAPs); and (iii) provide the financing for a green transition and trying to find way to mobilize other public and private financing.
- The upcoming 6-part new work program for the NGFS will include: (i) enhancing supervisory practices; (ii) designing actionable climate scenarios; (iii) assessing the implications of climate change for monetary policy; (iv) advising central banks on the net zero transition; (v) analyzing nature-related financial risks (distinct from climate change); and (vi) building capacity in central banks.

## Session II: Climate Financial Risks and the Role of Central Banks / Regulators

### Top 3 takeaways:

- Diversity of economic development and structures in Asia creates unique challenges for the economies in the region to address climate financial risks. This diversity may lead to regulatory fragmentation. Building a taxonomy that is adapted to local needs and making it interoperable for consistency across jurisdictions are critical for promoting cross-border climate finance.
- Work in partnership among multiple agencies is imperative to operationalize a framework for climate financial risk assessment, and collaboration is also needed in an international context. In Australia, the Council of Financial Regulators brings together relevant stakeholders across agencies. A similar arrangement exists in Hong Kong and Indonesia to address and manage climate financial risks.
- A learning by doing approach can identify steps needed to green the financial system. A climate risk self-assessment survey in Australia offered financial institutions to benchmark against climate disclosure expectations and assess their risk management capabilities. Pilot climate stress testing in Hong Kong allowed banks to identify transmission mechanisms of climate risks and data gaps.

### Other takeaways:

- Integrating the structure and geography of the local economy is critical to make assessment of climate financial risks. Authorities can apply the NGFS climate scenarios, which provide valuable international reference points, but need to tailor them by incorporating the industrial structure of the local economy.
- The critical role of insurers needs to be recognized and should take an integral part in climate finance since nothing happens in the business world without insurance. Likewise, climate financial risk assessment needs to go beyond the banking sector to cover the insurance sector.
- Building a green ecosystem is important for greening the financial system. A carbon calculator in Indonesia helps industries assess their carbon footprint. An API-based data repository in Hong Kong allows banks to easily access information for climate financial risk assessment.
- Harmonization of regulatory frameworks should be applied to climate disclosure. The international standard setters have been working on high level principles for effective management and supervision of climate-related financial risks, and have recently proposed climate disclosure requirements.
- Encouraging banks to make behavioral changes to address climate risks can go a long way. A “Name and Praise” approach that assesses the progress made by banks and identifies role models can support climate transition through peer learning. Raising climate awareness among financial institutions to better understand a link between climate change and financial stability should be also encouraged.

## Session III: Green Financial Markets and Products

### Top 3 takeaways:

- Sustainable finance is growing rapidly but remains small in relative terms. The evolving, early-stage nature of sustainable finance requires a flexible policy approach and willingness to adjust frameworks. To avoid fragmentation, regulation should aim for international consistency and interoperability. Private sector innovation and initiatives such as GFANZ are important to advance sustainable finance.
- Policy support is crucial for the development of green financial markets. First and foremost, a persistent and predictable policy path toward reducing emissions (carbon pricing, regulation) is needed to set the incentives for finance. Beyond this, regulation on reporting, taxonomies, and disclosures, direct support programs for green financial products, the development of ESG-savvy human capital and other initiatives to mainstream climate considerations are shaping sustainable finance.
- There is a need for more transition finance to support the decarbonization of high-emission sectors and countries. The focus of sustainable finance to date has been mostly on low-emission sectors such as tech. Transition finance is particularly important in Asia with its focus on manufacturing and place at the heart of supply chains. Taxonomies need to reflect transition priorities (for example, Singapore includes a transition category in its taxonomy).

### Other takeaways:

- Large ESG flows in Asia have mostly been directed into tech and Chinese wind and solar, little so far into transition and upstream sectors.
- Taxonomies are being developed in many Asian jurisdictions (including ASEAN, Singapore, Thailand). They provide a common language and encourage the flow of financing to green purposes. While taxonomies in Asia are often taking the EU taxonomy as a starting point, there is a need to reflect local conditions. Unlike many other countries, Japan plans to rely on a more principle-based approach instead of a taxonomy. With the proliferation of green taxonomies, there is a need to avoid fragmentation.
- Although only a small part of global assets has an explicit sustainability mandate, asset managers can take action by providing transparency on climate risk exposures, integrating sustainability considerations in all investments, and engaging with firm management/exercising voting rights.
- Regulators and the private sector increasingly take a broader environmental risk view that does not just include climate. Examples are Singapore's environmental risk management guidelines and Blackrock's efforts to analyze broad nature-based dependencies.
- MDBs can support sustainable investments through de-risking (loan guarantees), investment in green projects, and capacity building.
- ESG ratings are often static and not helpful in assessing environmental impact. In response FIs invest in their own indicators and risk analysis.
- Technology can play a role in easing the additional regulatory burden associated with sustainable finance regulations (e.g., a Singapore fintech provides a tool to compare taxonomies across jurisdictions).

## **Session IV: Climate Transition in Asia –Data, Disclosures, Taxonomies**

### **Top 3 takeaways:**

- Designing taxonomies is a crucial policy objective in Asia. The ASEAN Taxonomy and its application in Indonesia and Thailand are some good examples. The EU approach and the methodological principles for the design of taxonomies has been influential in Asia. The region is tailoring its taxonomy system to local priorities of mitigation and adaptation. A “traffic-light” approach is being adopted to incorporate transition risk. This is facilitating an all-encompassing financing strategy covering not only companies already in line with climate objectives, but also those that are currently carbon-intensive and need to decarbonize substantially.
- Mandatory disclosures at the core of an effective data collection and reliability system, especially for corporates. Disclosures should be enlarged for financial institutions that should report against a series of qualitative (ex. climate and environmental risk management) and quantitative (ex. carbon intensity of portfolios) criteria.
- Avoiding fragmentation must be a top priority. For this, information sharing among regulators and supervisors should be advanced further as the adoption of international standards for disclosure requirements (ex. strategy, governance, risk management, metrics, and targets), identification of priority sectors for decarbonization at regional – and global – level, active participation to global and regional fora (i.e., NGFS, ASEAN TF on Taxonomy and Disclosures).

### **Other takeaways:**

- Data quality remains variable across countries and types of climate-related risks. On physical risks, data must be geographically specific and science-based to ensure targeted risk management systems. Data fragmentation remains a reality and there is a need to lever up new and existing technologies to foster data quality and comparability as well as data certifications.
- In the ASEAN region, regulatory reporting for corporates and financial institutions against their taxonomies is viewed as a crucial tool to ensure collection of aggregate data. Compliance with taxonomy-based principles and criteria can ensure sound planning and strengthen reporting and risk management. Data quality will help make taxonomies more dependable and facilitate disclosures for capital allocation and risk management purposes.

## Session V: Regulating and Supervising Climate-Related Financial Risks

### Top 3 takeaways:

- Preserving financial soundness is the core mandate of financial supervisory authorities, who should ensure that climate-related risks are adequately captured in supervisory processes. Supervisory actions should be guided by the need to preserve financial stability. Taxonomies and understanding transmission channels are important, as a number of supervisory activities and disclosure requirements are linked one way or another to taxonomies.
- Incorporating climate change into the prudential framework is a long journey. While the supervisory process and approach still need to mature, a lot can be done in the interim to build the resilience of the financial sector to climate risks. This includes: engaging with financial institutions on climate risk mitigation plans, setting out supervisory expectations for climate risk management and governance, building supervisory capacity, and addressing data gaps.
- The international community needs to work together to overcome the existing methodological challenges. This is to support more coordinated and universal approaches in the development of supervisory guidelines, methodologies, and regulations. International standards can also help in closing the identified gaps by enhancing the availability of high-quality data, setting minimum prudential standards, and ensuring interoperability.

### Other takeaways:

- Lowering or increasing risk weights to incentivize green assets or penalize brown assets could result in unintended consequences and needs to be given careful consideration.
- Enhancing disclosure should be a top priority. This is to enable essential analytical work, build consensus, and help develop supervisory tools.
- Given the limited expertise on climate-related risks, there is value in supervisors partnering with climate scientists, for example, to develop localized and detailed climate scenarios.
- Supervisors can enable and support sustainable finance and management of climate-related risks by institutions through issuance of regulations and guidelines, and by setting the right tone from the top.
- Macroprudential tools may need adjustment to be more responsive to climate risks. Introduction of limits (LTV, sectoral) to address climate risks could however have negative impact on lending to vulnerable individuals, carbon intensive sectors and supply chains.
- A platform for collaboration and information sharing between financial sector supervisors would help overcome some of the existing challenges.

## Session VI: Monetary policy/operations and climate change

### Top 3 takeaways:

- Central banks can potentially facilitate the transition to a lower-carbon global economy through new strategies such as greening their asset portfolios, supporting green funding-for-lending, and changing their operational frameworks. Many are already implementing new approaches to address climate risks that they view as mandate-consistent. For example, the BOJ and PBoC are actively supporting green funding-for-lending programs. The programs recognize the bank-centric nature of financial systems and support the private sector's efforts by providing incentives to mobilize private finance.
- While the panelists viewed these approaches as promising, they envisioned that additional steps would be needed for central banks to play a more effective role in facilitating the climate transition. These steps ranged from broadening the scope of green activities eligible for subsidies to the development of proper infrastructure to price climate risk and appropriately incentivize firms.
- Panelists viewed these strategies as consistent with central bank mandates and did not see them as likely to compromise the core objectives of price and financial stability. While recognizing possible governance concerns, the panelists viewed these risks as manageable, including through transparent disclosure and third party validation.

### Other takeaways:

- In July 2021, the BOJ launched a comprehensive climate change strategy (funding-for lending scheme with subsidized loans to financial institutions making green investments). Loans have a term of one year but can be rolled over up to 2030. Importantly, participating financial institutions must make disclosures to validate that the investments are effective in reducing climate change.
- PBoC has launched two initiatives: a carbon emission reduction facility and a central bank lending facility to promote the efficient use of coal. These programs are accessible to national financial institutions at rates that are lower than the policy rate, and they require appropriate disclosures.
- India is firmly committed to the commitments under COP 26 and the RBI has been adopting several initiatives on the regulatory front. This includes the creation of a financial sustainability group and the conduction of a survey on climate risks among financial institutions.
- Work needs to be done to improve the climate financial market infrastructure, including through credible and interoperable taxonomies. There is also a recognition that current asset valuations are not pricing climate risks appropriately. Most models have difficulty in capturing risks that have not yet materialized. Models that incorporate a more forward-looking approach are needed.
- On implementation challenges, strategies should be designed to take account of the structure of the financial system (e.g., bank-centric in most Asian economies). Despite the lack of proper taxonomy, programs where the central banks entrust asset allocation decisions to the private sector are likely to perform better and present fewer governance risks.