

An aerial photograph of a dam structure with a concrete roadway on top. The water below is highly turbulent, creating white foam and swirling currents. The dam's metal framework is visible on the right side.

Let's talk about the weather: the impact of climate change on central banks

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EUROSYSTEEM

What is this paper about?

Objective

- Article examines the impact of climate change and related energy transition effects on financial stability and monetary objectives of central banks

Main points

- Buildig on earlier work of BoE, paper derives number of channels by which climate change affects central banks. Most importantly:
 - **Physical risks** that have the pottential to trigger financial and macro economic instability
 - **Transition risks** which arise from unexpected tightening of carbon emissions
- Article provides options for sector and regulators on how to deal with these risks.
 - **Disclosure**
 - **Stresstesting**

Overview

What is the strength of this paper?

Relevance

Paper is consistent with work from a.o.:

- Multilateral initiatives, such as FSB TCFD, G20 Green Finance Study Group
- Central Banks
- Financial sector

Overarching view and focus on interlinkages

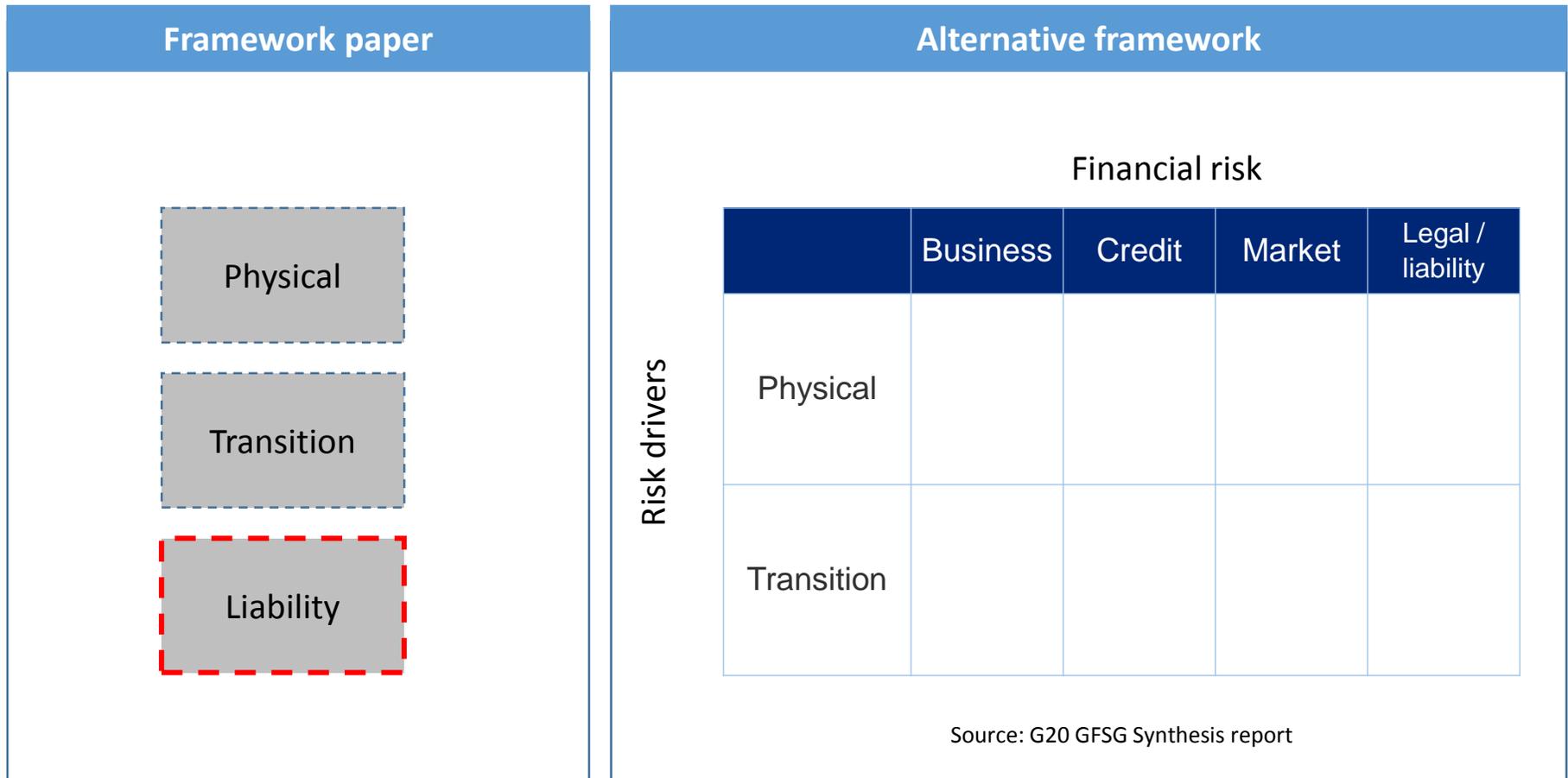
- Paper provides easy accessible overview of the topic, including relevant literature
- Interlinkages between banks and insurers are explored

Discussion on policy options

- Exploration of benefits and limits of regulatory and policy options, particularly stress testing and disclosure

Comments structure

From a conceptual point of view this paper might benefit from a division between risk drivers and financial risks



Comments physical risk

Article could pay more attention to physical market risks run by investors

Market risks is mentioned (fig 2)

Climate linked natural disaster



Increased uncertainty for investors



Asset fire sales

But lacks elaboration

Financial risk

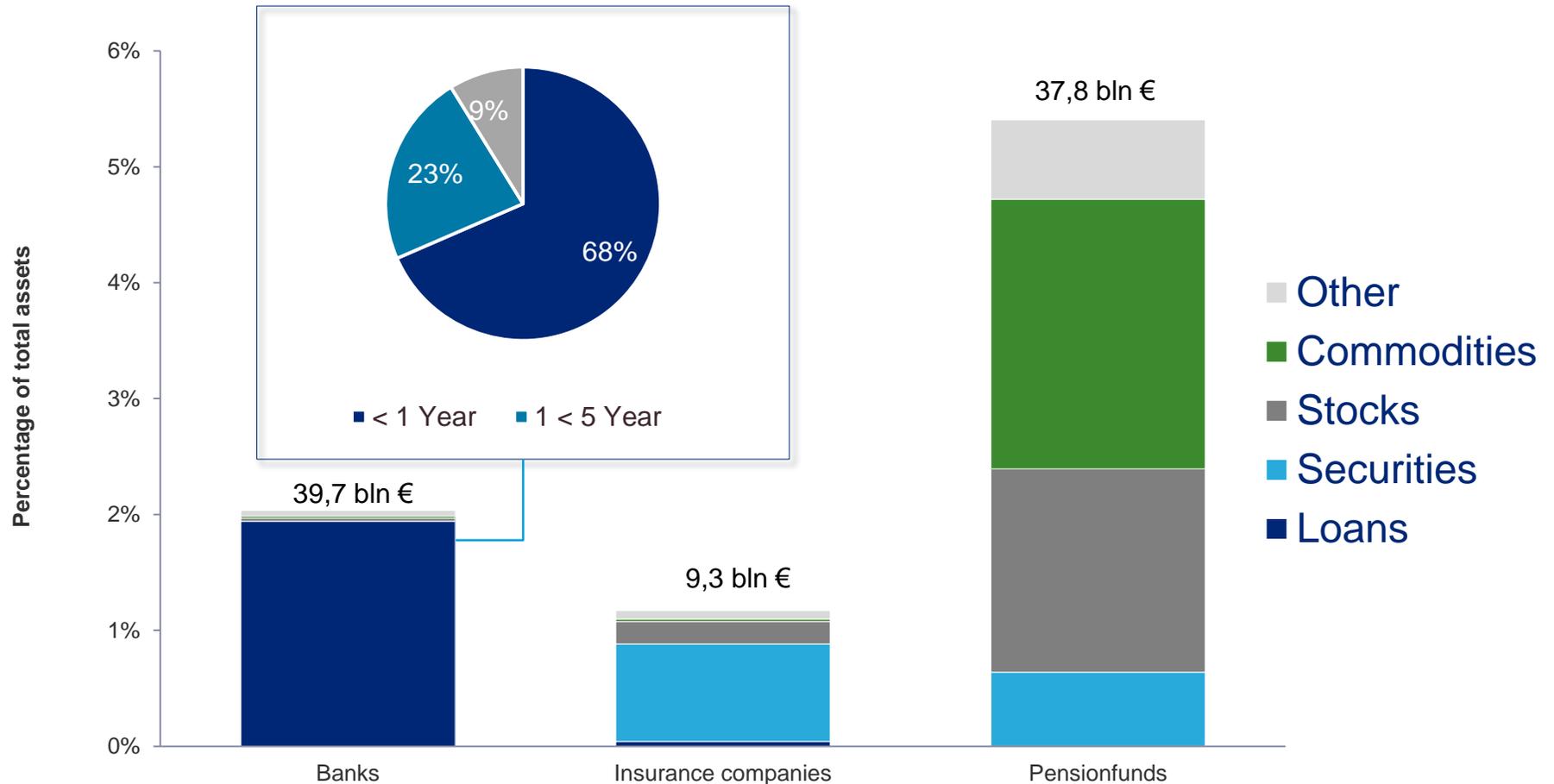
	Business	Credit	Market	Legal / liability
Risk drivers			X	

Source: G20 GFSG Synthesis report

Comments transition risks

The authors could explore the transition channel on financial stability further (1/2)

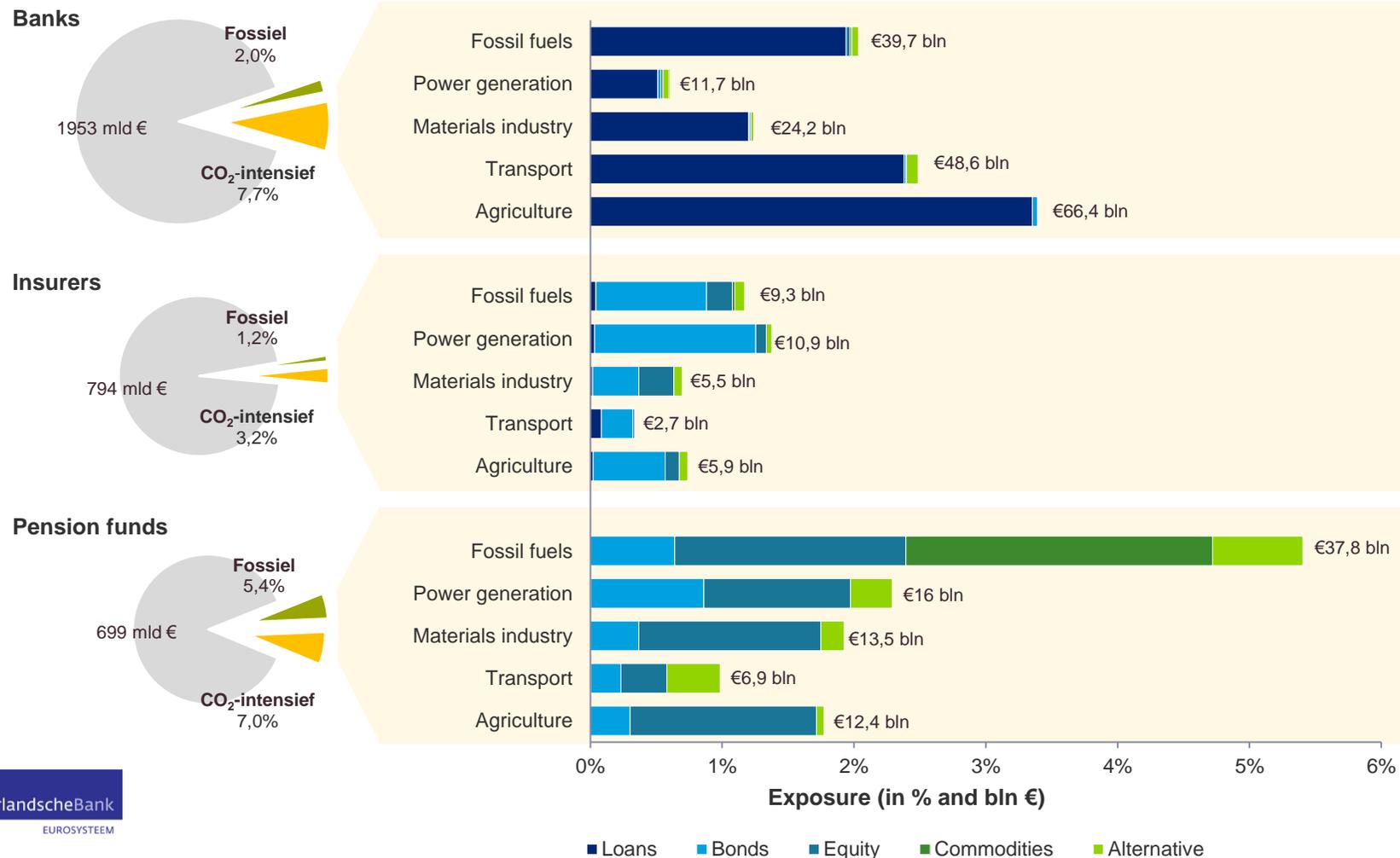
- Authors miss out on how different asset classes and different type of institutions are differently affected by an energy transition.



Comments transition risks

The authors could explore the transition channel on financial stability further (2/2)

- Paper focusses on impact of energy transition on the energy sector, while effects are most likely broader



Considerations on disclosure, stress testing and prudential measures

Stress testing & data

- Authors raise lack of sufficient data on relevant exposures (bonds, credit)
- Our experience is that it is possible to gain more insights into these exposures

Disclosure

- Are there negative sides to more disclosure on this topic?

Prudential policies

- Section 2.1.1. discusses the effects of prudential policies as a way to mitigate climate change.
- Wouldn't that fit better together with the discussions on stress testing and disclosure as a way to mitigate transition risk?