



Climate change and the financial system

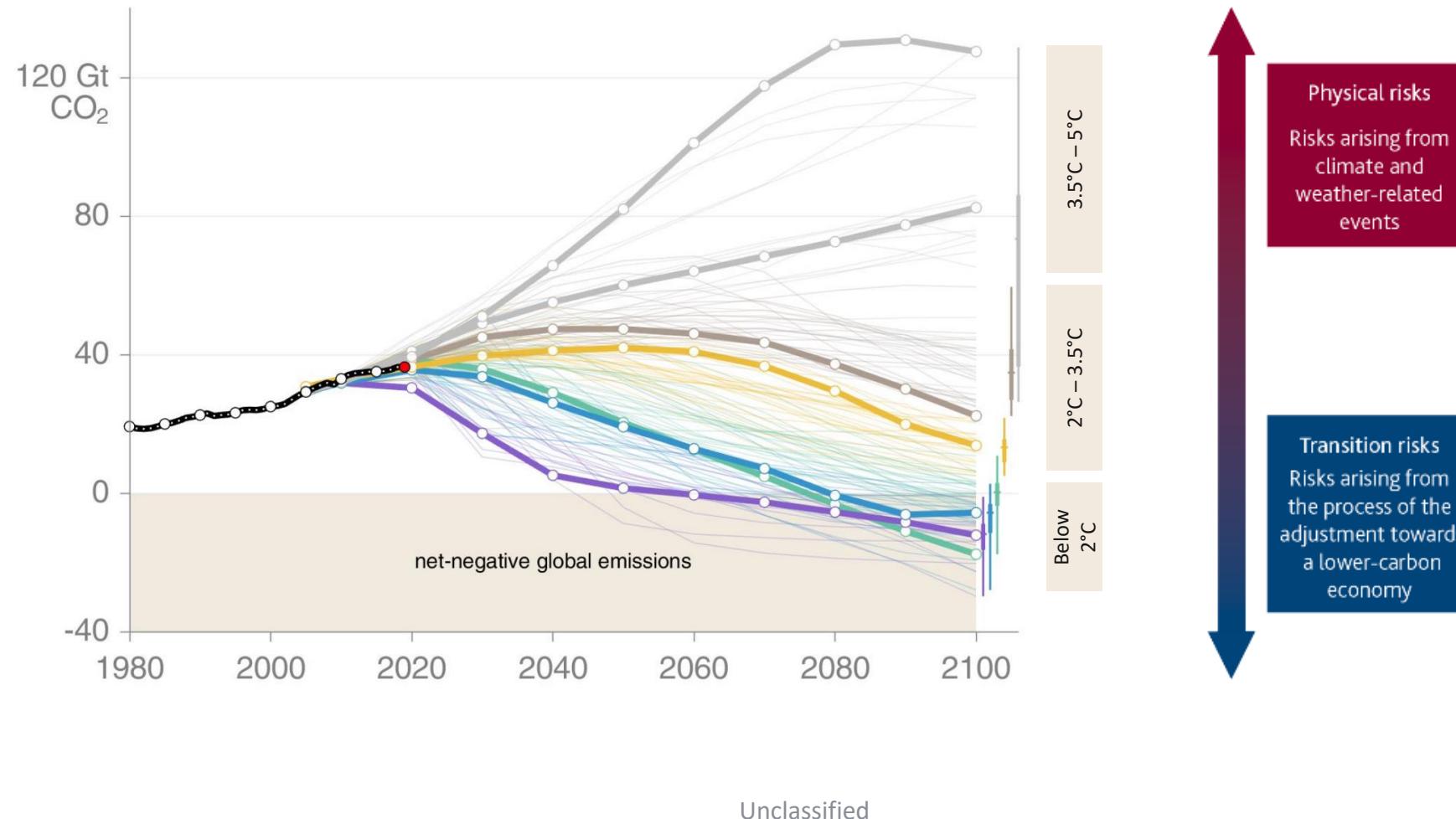
Sarah Breeden
Executive Director for UK Deposit Taker Supervision



Climate change and the financial system

- **Greening finance:** ensuring the financial system is resilient to the risks from climate change
 - Reporting
 - Risk management
 - Safe and sound firms & a stable financial system
- **Financing green:** supporting an orderly transition to net zero
 - Innovation
 - Investment
 - Managing the intrinsic risks in the real economy

Climate change creates financial risks



... and they have distinct characteristics

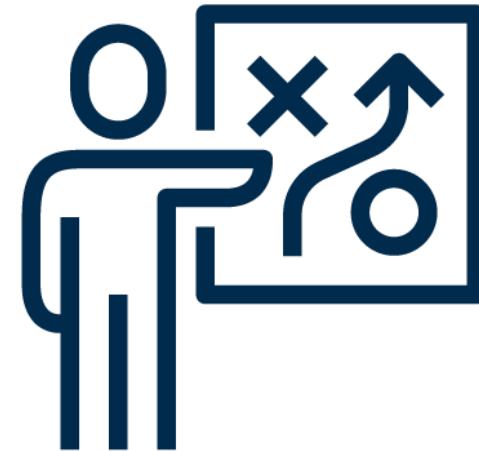
**Far reaching
breadth and
magnitude**



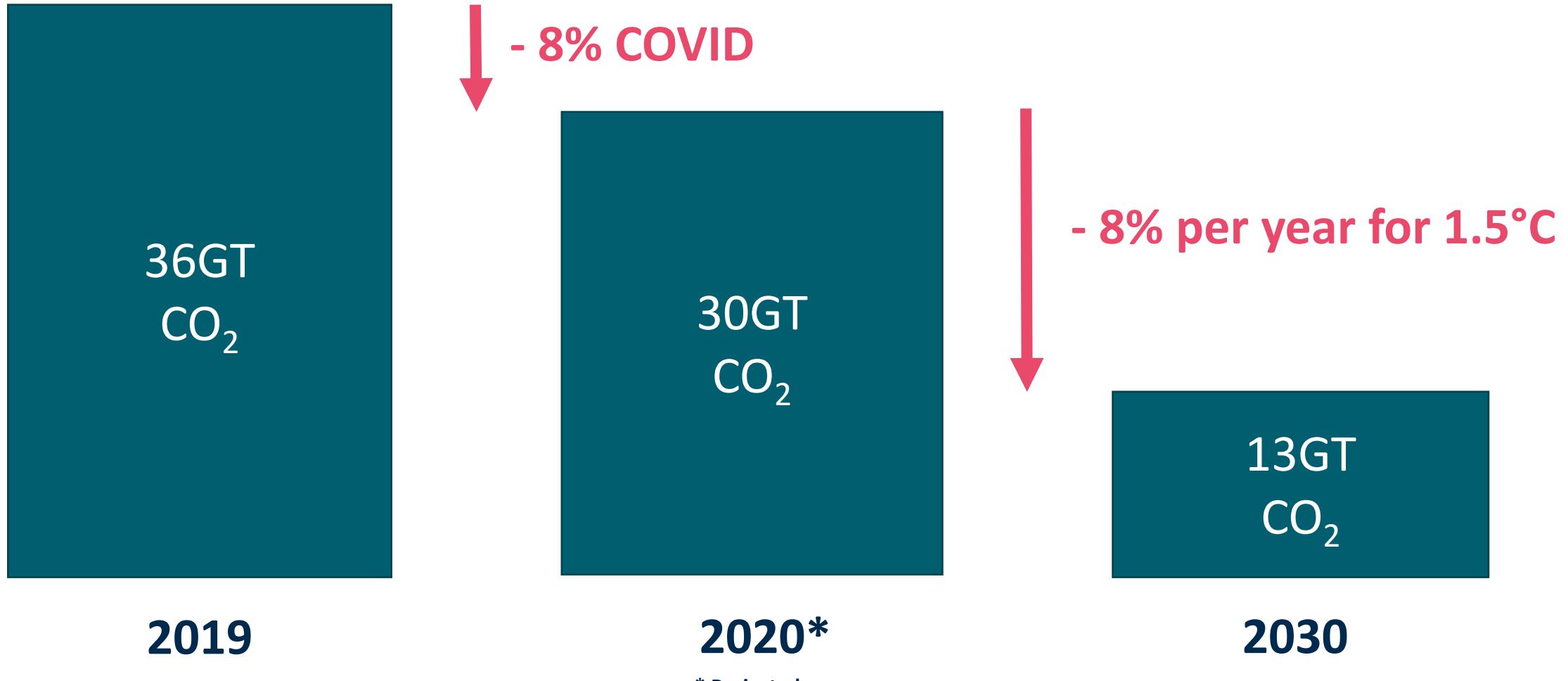
**Foreseeable, yet
uncertain**

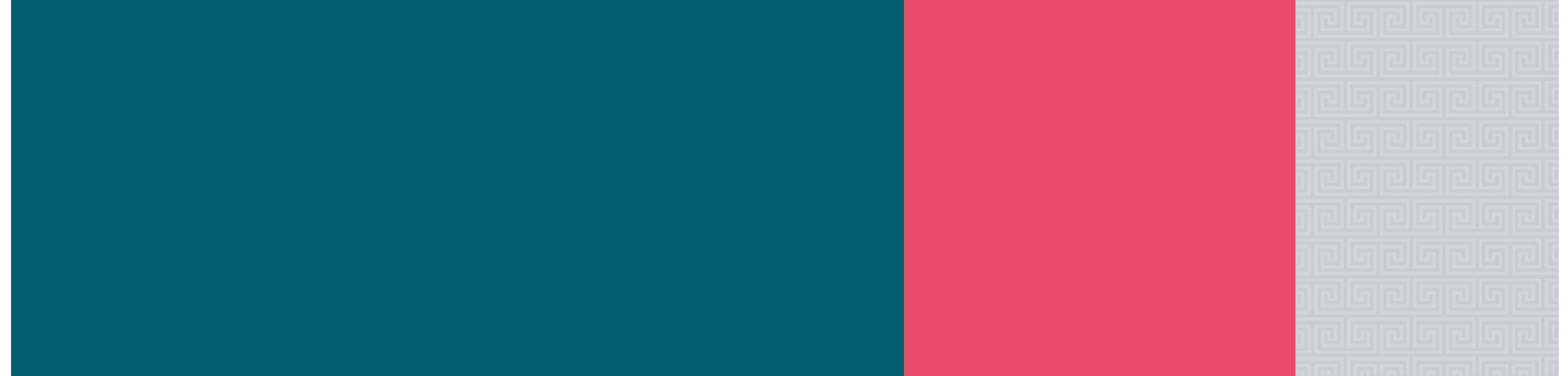


**For action
today**



Size of the challenge





Greening finance

Greening finance

Reporting & Disclosure

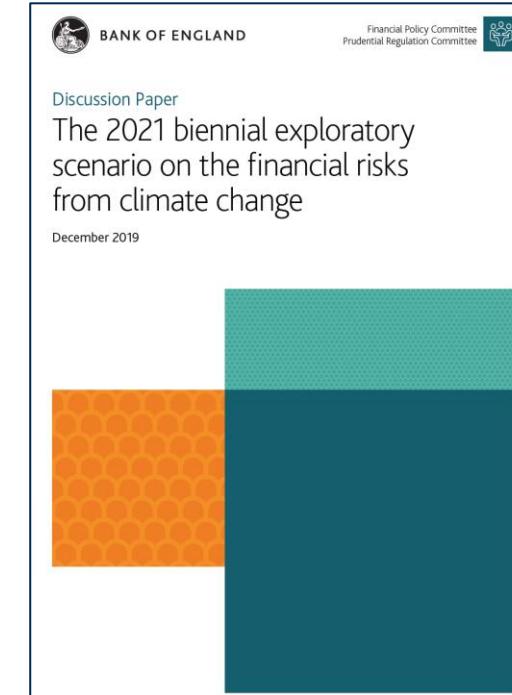


Supervisory expectations

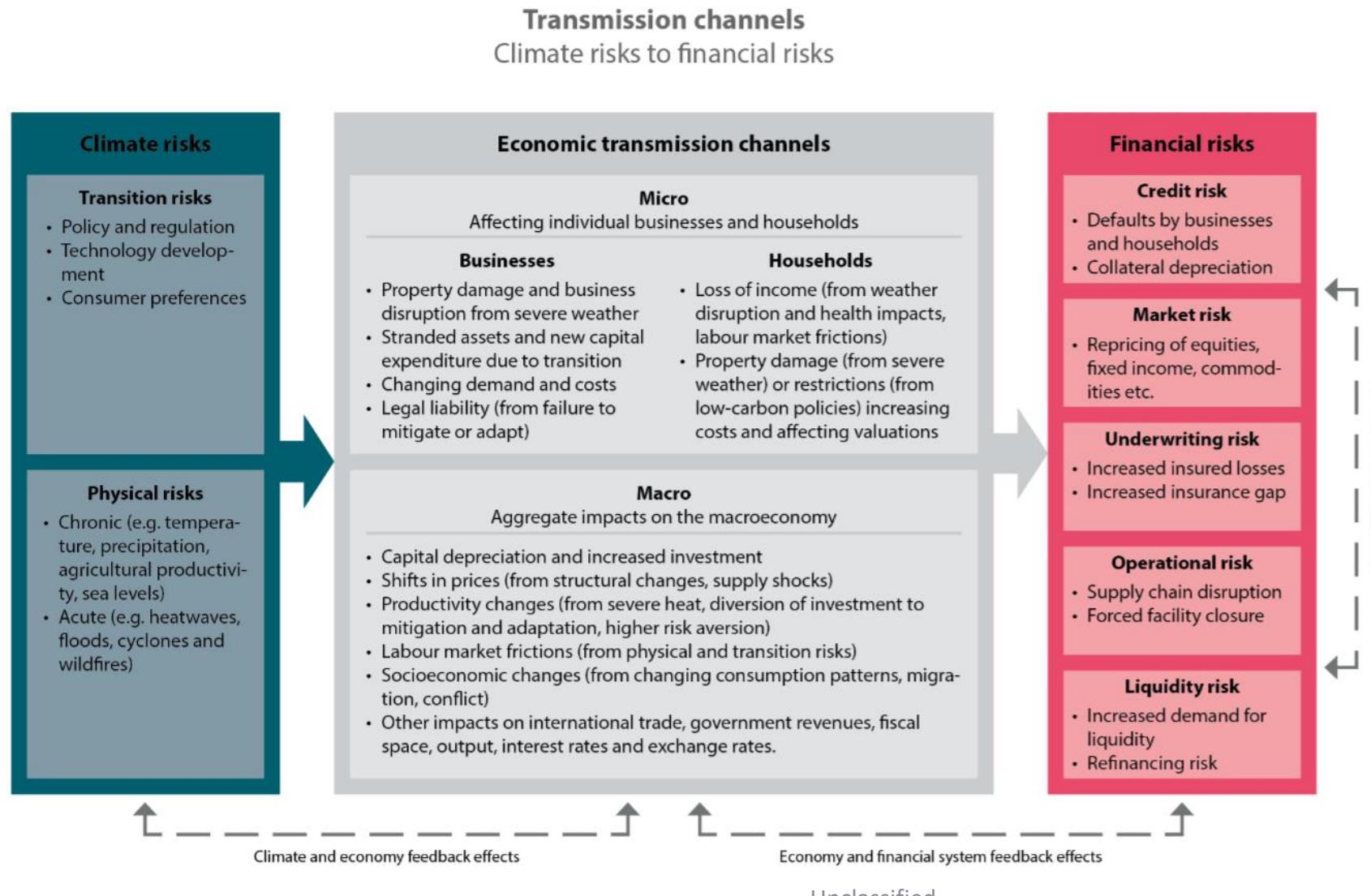


Transforming risk management

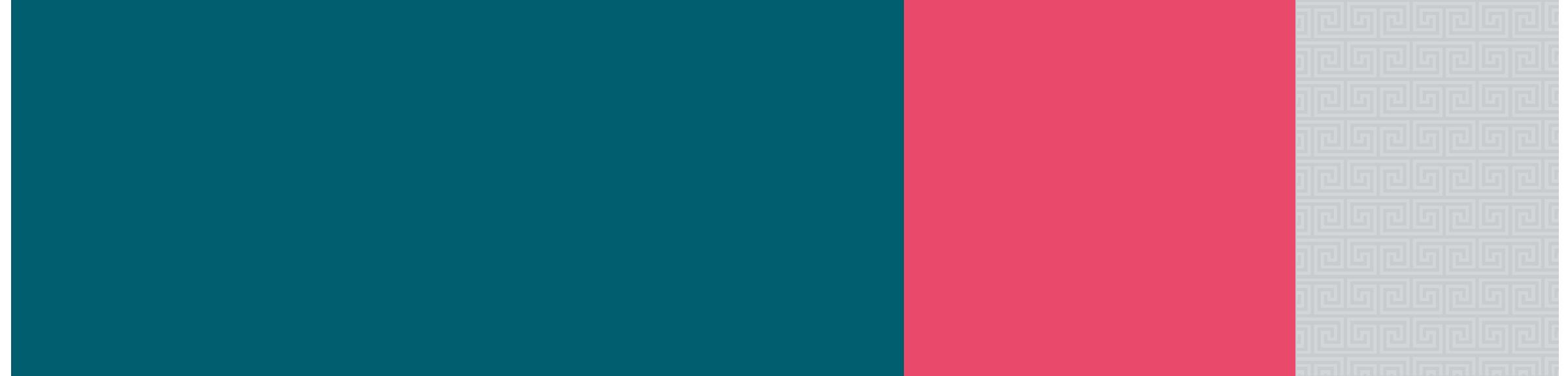
Stress testing



The transmission of climate risks to financial risks



- Significant inter-dependencies
- Lack of data
- Absence of mature methodologies
- Need for decision-useful scenarios



Financing green

Financing green

“Investments that look safe on a backward look may be existentially risky given climate risks. And investments that might have looked speculative in the past could look much safer in the context of a transition to net zero.”

Andrew Bailey, Governor, Bank of England

Two components to financing green

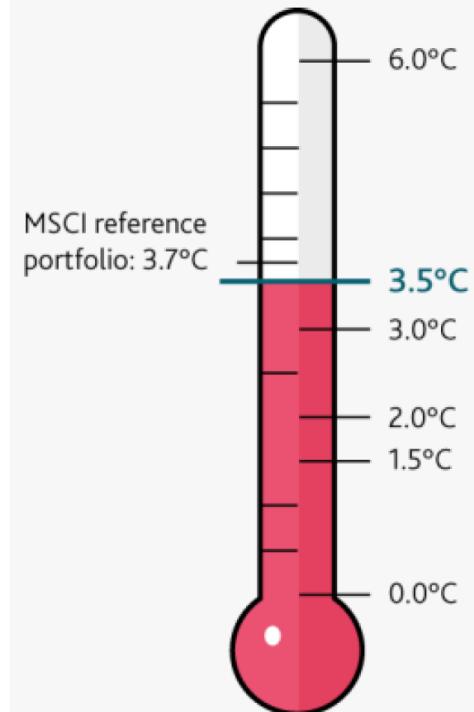
1) Innovation in instruments and investment strategies

- **Measuring alignment** – e.g. portfolio warming metrics that measure implied warming from investments
- **Mobilising finance to deal with real problems** – e.g. retrofit homes

2) Identify and reward investments that support the transition

- Role of **capital markets** – an implied price for carbon
- **Labels** – e.g. marker for investments in companies with credible transition plan
- **Sustainability reporting standards** – e.g IFRS Foundation Consultation to establish new body

Chart 4.8 APF corporate holdings 'portfolio warming potential'



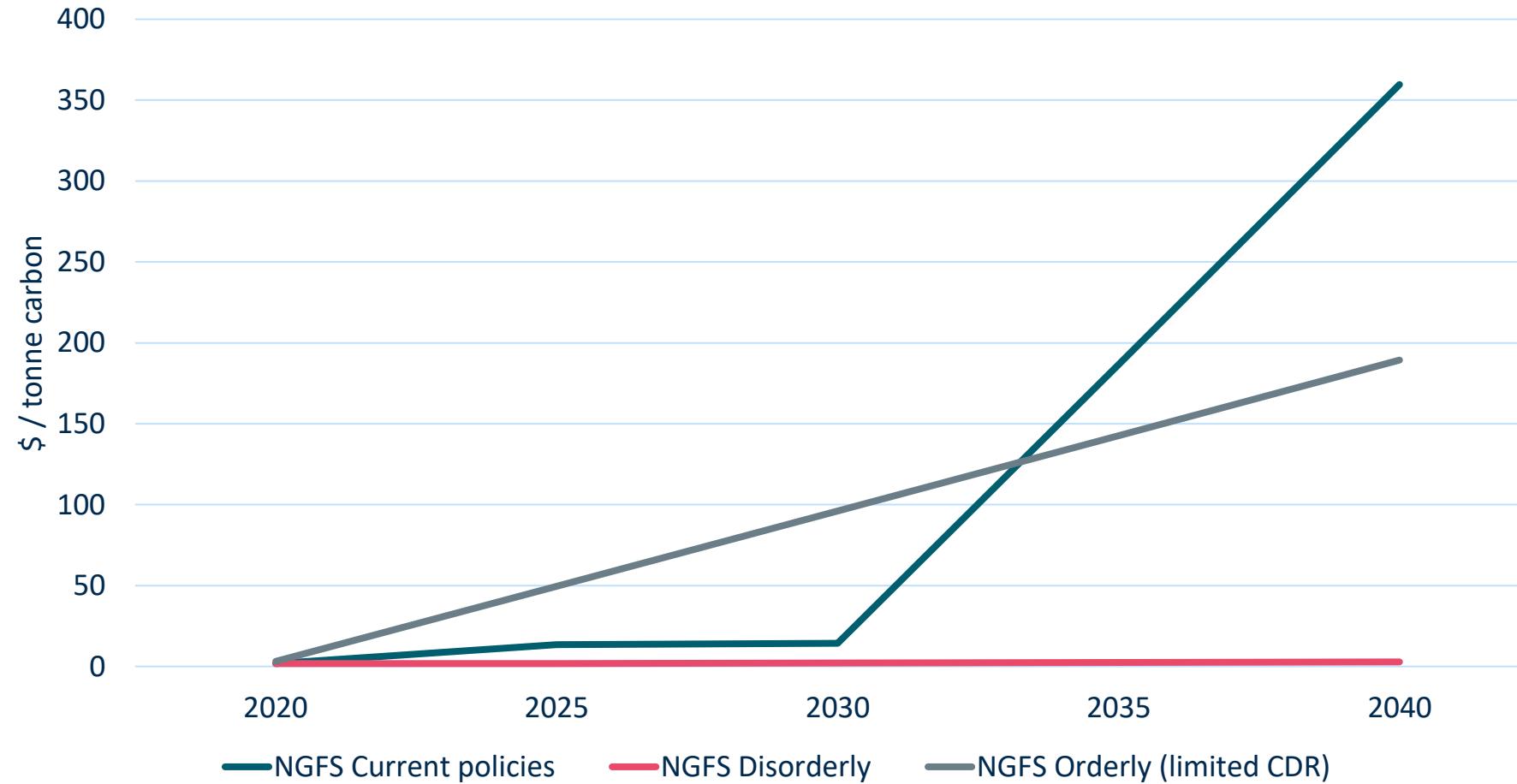


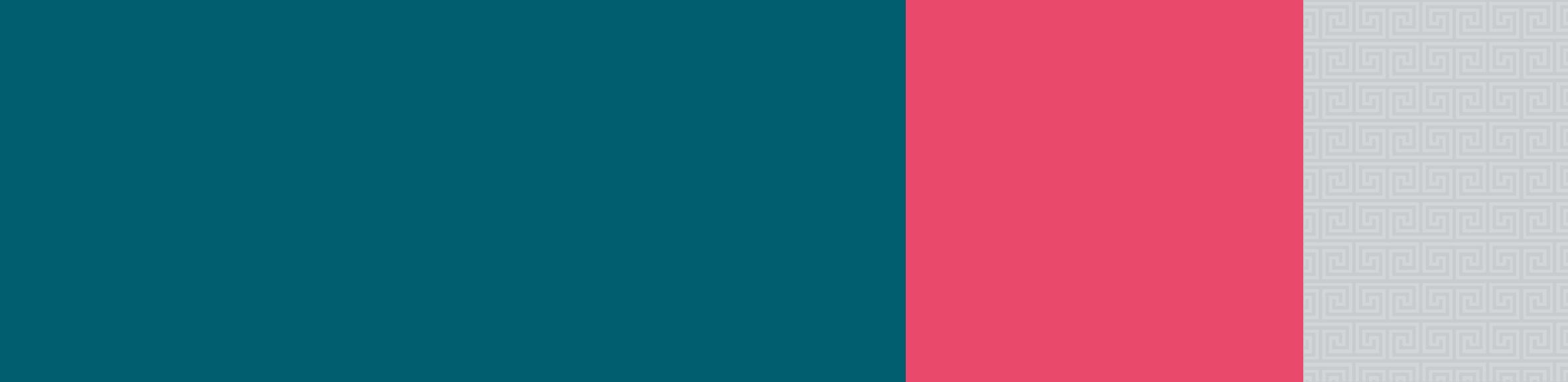
The role of climate policy

The role of climate policy

- **Sets the backdrop for the private sector and the financial system:**
 - Establishes targets
 - Agrees internationally-consistent standards
 - Indicates the pathway
- **E.g. shadow carbon pricing:** in one Paris aligned scenario, a shadow price of c. \$100 per ton by 2030 may be needed

Shadow carbon prices in the NGFS scenarios





Conclusion

Thank you.