IV Central Banks Conference on Environmental Risks

The Role of Central Banks and Financial Supervisory Authorities in Sustainable Finance

Date: Thursday 14 December and Friday 15 December 2023

Time: Mexico-City time (UTC-6)

Location: CEMLA Office at Durango 54, Colonia Roma Norte, 06700, Mexico City, Mexico

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Background

The Latin America and Caribbean (LAC) region is at the frontline of the climate emergency. According to the Global Climate Risk Index, ten LAC countries are among the world's twenty-five most vulnerable countries to climate risk. Mobilizing private capital for a sustainable, resilient, and inclusive economic transition in the LAC region will be critical to meet the Paris Agreement objectives and the Sustainable Development Goals (SDGs). This urgent need of redirecting investments towards this transition has been recently reinforced by the COVID-19 pandemic and geopolitical instability.

Public finance is not going to give the scale that is needed to bridge this investment gap. Therefore, the private sector, specifically the financial sector through global financial markets, has the potential to bridge the sustainability gap by linking financing needs to global sources of funding. The LAC financing gap for achieving the SDGs was estimated at USD$650 billion annually before the COVID-19 pandemic.[1] And financing flows to address climate change are particularly low, with only 6% of the global distribution allocated to the region.[2] Those flows are not equitably distributed across countries or sufficiently channeled to climate adaptation and other critical needs to achieve a net-zero transition.

Furthermore, over a period of 20 years ending in 2017, 53% of economic losses due to climate-related disasters worldwide were registered in the LAC region.[3] The multiple manifestations of the climate crisis have brought a previously unknown spectrum of financial risks to the fore. As market actors have increasingly acknowledged the relevance of these risks, central banks and financial supervisory authorities have also started to take action to address them in their daily operations, monetary policy, and supervisory activities. International fora like the Network for Greening the Financial System (NGFS) have also played a pivotal role in facilitating the exchange of best practices among central banks and supervisory authorities and the design of crucial tools for the analysis and supervision of these risks.

However, action must urgently be intensified. Without immediate and deep emission reductions across all sectors, limiting global warming to 1.5°C is beyond reach. That is the alarming verdict of the latest Intergovernmental Panel on Climate Change (IPCC) findings. Policymakers must drive change forward by implementing a regulatory landscape that safeguards the credibility and accountability of climate action for all actors in the economy. The net-zero leaders cannot achieve this goal unless the entire financial system, indeed the entire global economy, moves forward.

[1] https://www.iadb.org/en/news/road-sdg-financing-new-destination-private-investment

[2] UNEP, 2023. Common Framework of Sustainable Finance Taxonomies for LAC. https://www.unepfi.org/publications/common-framework-for-sustainable-finance-taxonomies-for-latin-america-and-the-caribbean/

[3] Ibidem

This requires the development of sustainable finance frameworks, in line with international best practices, with the aim of building a conducive environment for sustainable finance to (i) steer private capital flows into the investments required for a sustainable, resilient, and inclusive economic transition and (ii) to strengthen LAC financial stability. Building a conducive environment for sustainable finance requires a wide range of supervisory and regulatory actions, where policy makers, central banks, and financial supervisors and regulators are engaged as stakeholders.

Scaling up sustainable finance is a challenging task for which market guidance is critical. Sustainable finance taxonomies have become a cornerstone of sustainable finance policy frameworks, as one of the key policy tools to redirect investments into economic activities, assets, and projects that support the transition towards sustainable, resilient, and inclusive economies. Colombia (Superintendency of Financial Entities) and Mexico (Ministry of Finance) are the two countries in the region that have recently published their sustainable finance taxonomies. However, there are more than ten LAC countries that are currently developing or planning to develop sustainable finance taxonomies in the near future. These processes are being indistinctively led by ministries of finance, central banks, or financial supervisory authorities.

In addition, in the context of LAC countries, there is a growing demand for sustainability-related financial instruments like green, social, sustainability, transition and catastrophe (GSS+) debt instruments created to accelerate the financing of climate adaptation, mitigation and resilience solutions by 2030. In the LAC region, the GSS+ market represents an impressive 21% on average of the region's debt (compared to a 5% share of global debt capital markets).[4] Central banks and supervisor authorities are also keeping an eye on developments in the markets and in the new financing instruments now emerging, to understand how the transition is being financed.

Considering the above, the IV Central Banks Conference on Environmental Risks will provide an overview of the policy tools available to central banks and financial supervisors for governing sustainable finance. Sharing and learning from best international practices are essential steps that contribute to the regional sustainable finance agenda. Therefore, this conference will bring together senior representatives from central banks and financial regulators and supervisors to discuss how these actors can:

- Support the scaling up of sustainable finance;
- Take a strategic approach to align the financial system with sustainability targets;
- Integrate the macroeconomic and financial stability impacts of climate change and;
- Use climate scenario analysis, stress tests, and Dynamic Stochastic General Equilibrium (DSGE) models to shape prudential policy and supervisory tools.

In the light of these developments, the Climate Financial Risk Center and CEMLA are hosting the IV Central Banks Conference on Environmental Risks. The conference counts with the financial support of the European Commission through the EUROCLIMA Programme. This IV conference follows up the III Central Banks Conference on Environmental Risk "Macroeconomic and financial implications of climate change: How can central banks, financial supervisors and regulators take immediate action in addressing climate-related risk?" held in 2022.

[4] See https://www.climatebonds.net/resources/press-releases/2023/07/climate-bonds-connect-2023-lands-colombia

Agenda

Day 1, Thursday, December 14, Mexico City, Mexico (UTC-6)

08:00-08:15 (15 min)	**Registration**
08:15-08:45 (30 min)	**Opening remarks** **Chair: Matias Ossandon Busch**, Director of Financial Stability, CEMLA **Speakers:** **Manuel Ramos Francia**, Director General, CEMLA **Eric Usher**, Head, UNEP FI
08:45-09:45 (60 min)	**Introductory lecture - Sustainable finance taxonomies 101** This introductory lecture presents sustainable finance taxonomies as one of the key policy tools to redirect investments into economic activities/assets/projects that support the transition towards sustainable, resilient, and inclusive economies. This session provides an overview of the current landscape of sustainable finance taxonomies and their strategic objectives. By the end of the lecture, participants should be able to answer the following questions: • What is a sustainable finance taxonomy? • What is a sustainable finance taxonomy for? • How taxonomies have been developed at a global and regional scale? • What are the key elements and guiding principles of sustainable finance taxonomies? (International best practices as examples) • Who are the main users of sustainable finance taxonomies? • What are the main applications of taxonomies? **Chair: Mercedes G. Fariña**, LAC Policy Lead, UNEP FI **Speakers:** **Valeria Dagnino**, Sustainability Manager, Climate Bonds Initiative **Andrés Felipe Sánchez**, Head of LAC, Climate Bonds Initiative **Diana Isaza**, LAC Market Development Analyst, Climate Bonds Initiative
09:45-10:10 (25 min)	**Coffee break**
10:10-10:55 (45 min)	**Presentations and panel discussion - Interoperability: Concept and relevance** Interoperability implies that taxonomies must be based on similar guiding principles, have design elements such as objectives, classification systems for sectors and activities that are comparable, and feature equivalent methodologies to define sectors' eligibility, while considering local specificities. This session will begin with the presentation of the report *Activating Alignment: Applying the G-20 Principles for Sustainable Finance Alignment with a Focus on Climate Change Mitigation* by Charlotte Gardes-Landolfini. The session will also include a discussion panel discussing addressing the following central topics:

	• The importance of sustainable finance taxonomies to encourage financial flows to sustainable investments. • The role of interoperability in the context of the increasing number of sustainable finance taxonomies globally and regionally. • The opportunities and challenges that arise for central banks and financial supervisors and regulators from ensuring interoperability in sustainable finance taxonomies at the regional and global scale. • International experiences about interoperability in sustainable finance taxonomies. **Chair: Matias Ossandon Busch**, Director of Financial Stability, CEMLA **Speaker: Charlotte Gardes-Landolfini**, Climate Change, Energy and Financial Stability Expert, IMF
10:55-11:20 (25 min)	**Coffee break**
11:20-12:00 (40 min)	**Presentation - Introduction to the common framework of sustainable finance taxonomies for Latin America and the Caribbean**[5] This presentation introduces the Common Framework of Sustainable Finance Taxonomies for the LAC region. This framework was launched in July 2023 aiming at serving as a reference to orient LAC countries that are in the process of or intending to develop sustainable finance taxonomies. While considering local specificities, it establishes a set of guiding principles, drawing on international best practices, that will improve comparability and ensure interoperability of sustainable finance taxonomies in the LAC region and internationally. **Chair:** Mercedes G. Fariña, LAC Policy Lead, UNEP FI **Speakers:** **Vishwas Vidyaranya**, Lead Author and Senior Taxonomy Consultant, Ambire Global (virtual) **Isabel González**, Co-author, Director of Sustainable Finance, Ambire Global
12:00:12:15 (15 min)	**Transition break**
12:15-13:15 (60 min)	**Presentation and panel discussion - The role of central banks and financial regulators and supervisors in the implementation of the sustainable finance taxonomies** Scaling up sustainable finance is a key element in raising private capital to support the transition towards sustainable, resilient, and inclusive economies in LAC. Sustainable finance taxonomies are powerful instruments for sustainable finance policy frameworks. However, how should sustainable finance taxonomies be designed to encourage financial flows to sustainable investments in the most effective way? What are the critical elements to be considered by financial regulators and supervisors for taxonomies' implementation? Based on the EU Taxonomy process, this session will share key practical recommendations for central banks and financial regulators and supervisors to support taxonomy implementation in the LAC countries' markets (market preparedness for disclosure obligations, regulatory requirements, usability, reporting, and data quality and verification). In addition, the session features a panel discussion on how LAC country

[5] https://www.unepfi.org/publications/common-framework-for-sustainable-finance-taxonomies-for-latin-america-and-the-caribbean/

	authorities are planning to implement sustainable finance taxonomies. The discussion will address the following questions: • What are Mexico's and Colombia's plans regarding the implementation of their national sustainable finance taxonomy after their publication? • How can the central banks and financial supervisors and regulators leverage and benefit from this tool? • How do sustainable finance taxonomies interact with other policy instruments? • What are the challenges and opportunities in the process of implementing sustainable finance taxonomies? **Chair: Matias Ossandon Busch**, Director of Financial Stability, CEMLA **Moderator: Elodie Feller,** Head of Policy, UNEP FI (virtual) **Keynote: Helena Vines Fiestas,** Commissioner of the Spanish Financial Markets Authority, Chair of the EU Platform on Sustainable Finance (virtual) **Speakers**: **Laura María Santa,** Adviser to the Sustainable Finance Group, Financial Superintendence of Colombia (virtual) **Alejandro Manriquez Rangel**, Coordinator of Financial Analysis and International Liaison at the Banking, Securities and Savings Unit, Mexican Ministry of Finance.
13:15-13:30 (15 min)	**Transition break**
13:30-14:15 (45 min)	**Presentations - Green, social, sustainability, transition, catastrophe (GSS+) debt instruments: Implications for central banks and supervisory authorities** With the urgent need to act against climate change, the development of the sustainable finance market is key for the transition to a net-zero economy in alignment with the Paris Agreement. Sustainable finance instruments include green, social, sustainability and transition debt instruments created to accelerate financing the development of infrastructure, climate adaptation and mitigation and resilience solutions. In the LAC region, the GSS+ market represents an impressive 21% on average of the region's debt (compared to a 5% share of global debt capital markets). Similarly, the market for catastrophe bonds (so called "cat bonds") has been rapidly expanding, offering investors the possibility to replace a portion of conventional bonds with securities that contribute to finance the mitigation of physical risks. However, financial barriers to local capital markets persist (e.g., currency risk, lack of liquidity, project risks, etc.) and the LAC market is the source of only 4% of the global GSS+ debt. This session will look closely at the emergence of the GSS+ market with a focus on what central banks and supervisors can learn from recent market trends to reinforce their policy mandate. The session will focus on the following topics: • State of the GSS+ market globally and regionally. • Recent trends of the GSS+ market and their potential to mobilize capital to address environmental objectives. • Challenges and opportunities for central banks and supervisor authorities derived from the GSS+ markets. **Chair: Matias Ossandon Busch**, Director of Financial Stability, CEMLA

	Keynote address: **Thematic debt instruments and their role to address climate change** **Sean Kidney,** Founder and Chief Executive Officer, Climate Bonds Initiative (virtual) **Discussion:** **Agnieszka Smoleńska**, Assistant Professor, Polish Academy of Sciences & Florence School of Banking & Finance, EUI
14:15	**End of Day 1 (Lunch)**

Day 2, Friday, December 15, Mexico City, Mexico (UTC-6)

08:15-09:00 (15 min)	**Registration**
09:00 -09:05 (5 min)	**Introduction of day 2** **Matias Ossandon Busch**, Director of Financial Stability, CEMLA
09:05 -10:05 (60 min)	**Panel discussion - Financial stability risk implications of climate change** Climate risks pose significant challenges for the financial system, be it through physical risk and its impact on asset losses and/or and through transition risk via technological and regulatory changes which may equally result in asset losses. In addition to these exogeneous factors, financial institutions are also under pressure 'from the inside' since both investors and depositors push them to green their balance sheets. This, in turn, raises concerns of greenwashing and possibly investor runs. In this context, this panel will explore these issues from economic, legal and macro-prudential perspectives. It will discuss: • How to assess climate risks from a financial stability perspective • How a disorderly transition scenario could negatively hamper financial stability • How to map climate-related macro exposures and concentration risks • Whether some macro-prudential tools are fit for purpose to address systemic climate change risks **Chair: Thorsten Beck**, Florence School of Banking & Finance, EUI **Speakers**: **Irene Monasterolo,** Professor, University of Utrecht **Matias Ossandon Busch**, Director of Financial Stability, CEMLA **Kern Alexander,** Professor, University of Zurich and European University Institute **Katarzyna Budnik,** Adviser, European Central Bank
10:05-10:30 (25 min)	**Coffee break**

10:30 -11:15 (45 min)	**Introductory lecture - Financial regulation and distributional consequences of climate change: The use of Dynamic Stochastic General Equilibrium (DSGE) models to assess climate-related financial risks** **Keynote speaker: Dimitrios P. Tsomocos,** Professor of Financial Economics and Fellow, Saïd Business School and St. Edmund Hall, University of Oxford (virtual)
11:15 -12:00 (45 min)	**Panel discussion - Assessing climate-related risks: uptakes from experiences in Latin American' central banks** In this session, representatives from the central banks of Costa Rica and Uruguay will discuss the main findings from studies conducted during the Workshop on DSGE Modeling and Climate Risk for Central Banks organized by the Climate Financial Risk Center. The country representatives will report on their conclusions from empirical analyses in which they provide a preliminary framework to assess financial sectors' exposure to climate-related risks. **Chair: Matias Ossandon Busch**, Director of Financial Stability, CEMLA **Speakers:** **José Pablo Barquero Romero**, Central Bank of Costa Rica **Irene Alvarado Quesada**, Central Bank of Costa Rica **Andrea Baron Vanori**, Central Bank of Uruguay
12:00 -12:25 (25 min)	**Coffee break**
12:25 -13:45 (80 min)	**Panel discussion - Adapting central banks' macroeconomic models to capture climate-related risks: uptakes from experiences in Latin American' central banks** In this session, representatives from the central banks of Brazil, Chile, and Mexico will discuss the main findings from studies conducted during the Workshop on DSGE Modeling and Climate Risk for Central Banks organized by the Climate Financial Risk Center. The country representatives will report on their conclusions from advances in the incorporation of climate-related risks in central banks' macroeconomic models. **Chair: Matias Ossandon Busch**, Director of Financial Stability, CEMLA **Speakers:** **Mario Gonzalez Frugone**, Central Bank of Chile **Javier Marcos Moreno Jorquera**, Central Bank of Chile **Miguel Ángel Mascarúa Lara**, Central Bank of Mexico **Marcos Valli Jorge**, Central Bank of Brazil **Silvio Michael de Azevedo Costa**, Central Bank of Brazil **Jesús Antonio Bejarano**, Banco de la República (Colombia) **Daniela Rodríguez Novoa,** Banco de la República (Colombia)
13:45 -13:55 (10 min)	**Conclusion and next steps** This closing session will recap the previous two days and return to the objectives laid out at the beginning of the conference. In addition, activities to be developed in the Climate Financial Risk Center's 2024 work plan will be announced.

	Matias Ossandon Busch, Director of Financial Stability, CEMLA **Mercedes G. Fariña,** LAC Policy Lead, UNEP FI
13:55	**End of the conference**