

UiO : **Department of Private Law**
University of Oslo

Assessing climate related financial risks in a central bank perspective – the TCFD framework

Oslo, 22 March 2022

Trude Myklebust, UiO

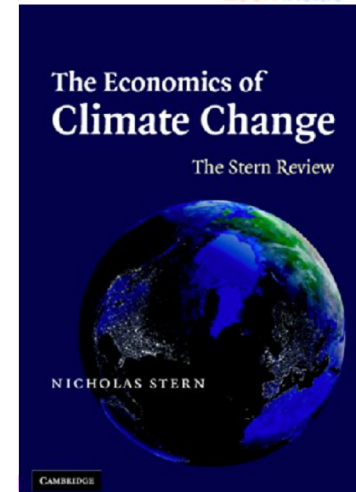


Climate change as a financial stability-related concern



A quick tour of history

The Stern Review, 2006



**The investor perspective,
NBIM 2010**



Climate change and financial stability – a rapidly growing regulatory concern



If climate change issues are not adequately addressed—if we keep running those nice energy subsidies, if the price on carbon is not adequately set, if policymakers don't have it on their radar screens—then financial stability in the medium and long-term is clearly at stake.

Christine Lagarde, 2013

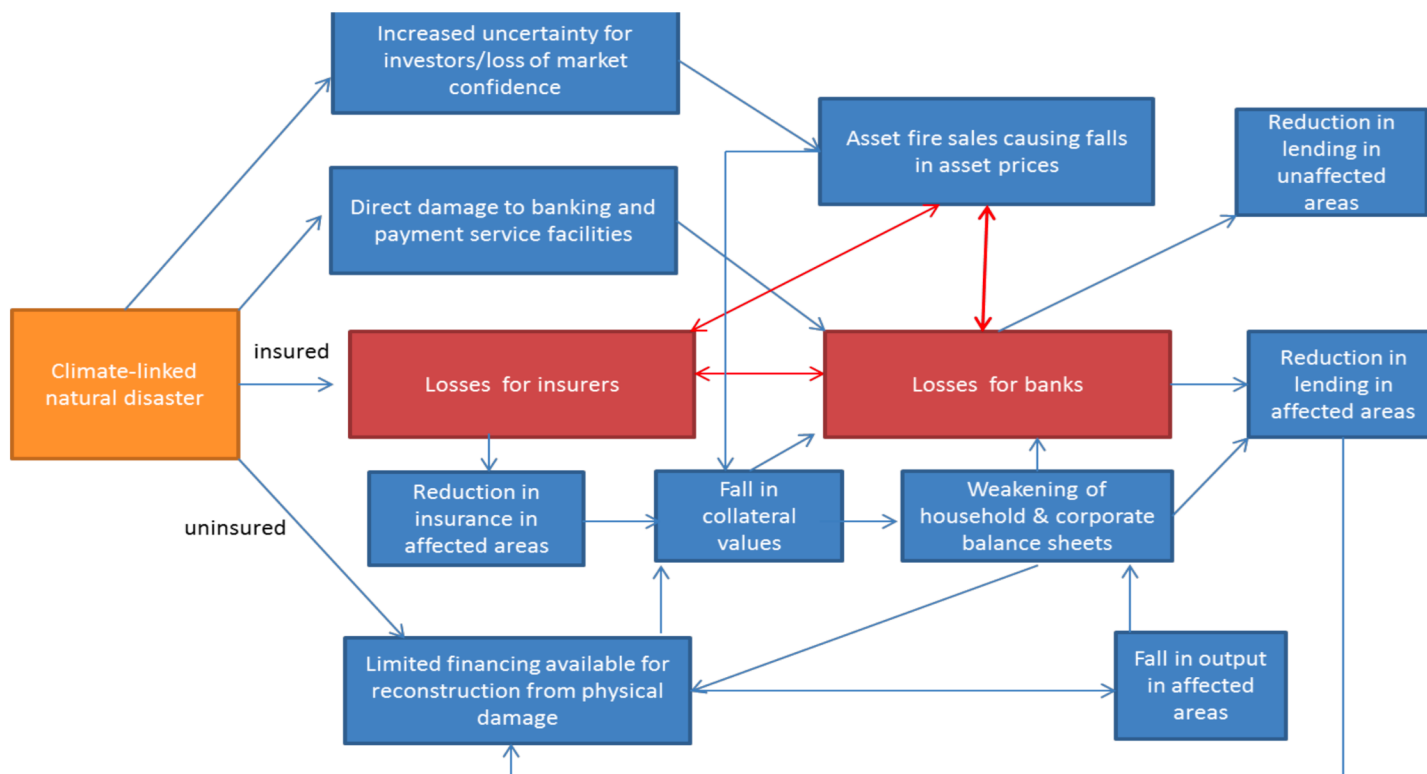
BoE Governor Mark Carney – the 'Lloyd's Speech' 2015

The screenshot shows a Bloomberg Businessweek article titled "Carney Warns Investors They May Undervalue 'Huge' Climate Risks". The author is Scott Hamilton. Below the article is a video player showing Mark Carney speaking at a podium. The video player has a play button in the center and a progress bar at the bottom showing 00:14 / 02:56. The video title is "CARNEY'S WARNING ON CLIMATE CHANGE".

One Bank Research Agenda
Discussion Paper | February 2015

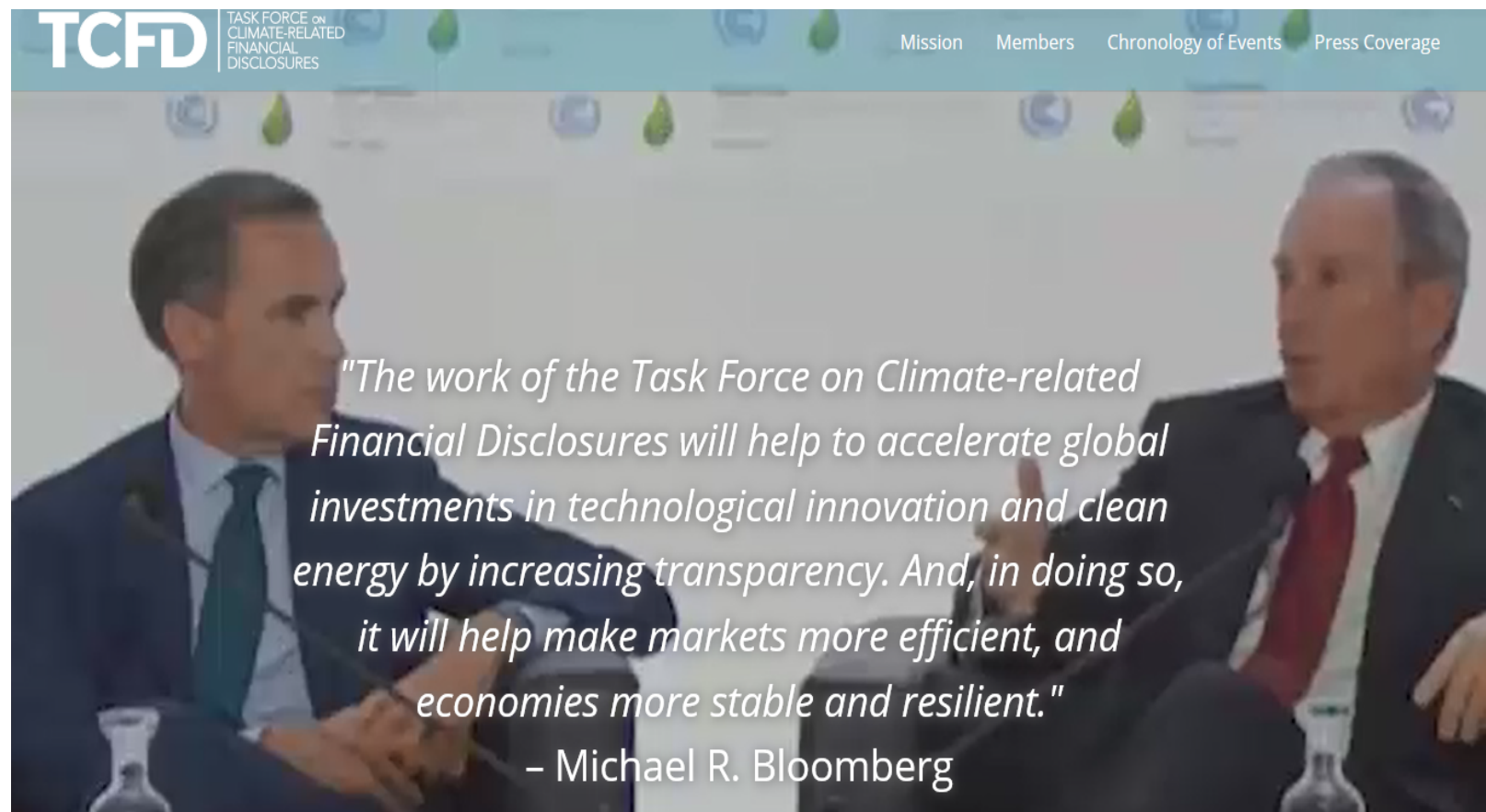


Transmission channels in the financial system



BoE 2016, 'Let's talk about the wheather'.

The G 20 asked the FSB to consider the issue (2015) – formed the TCFD



The TCFD framework for assessment of climate-related financial risks

- Physical risk
- Transition risk
- Liability risk



Main tool – improved disclosure

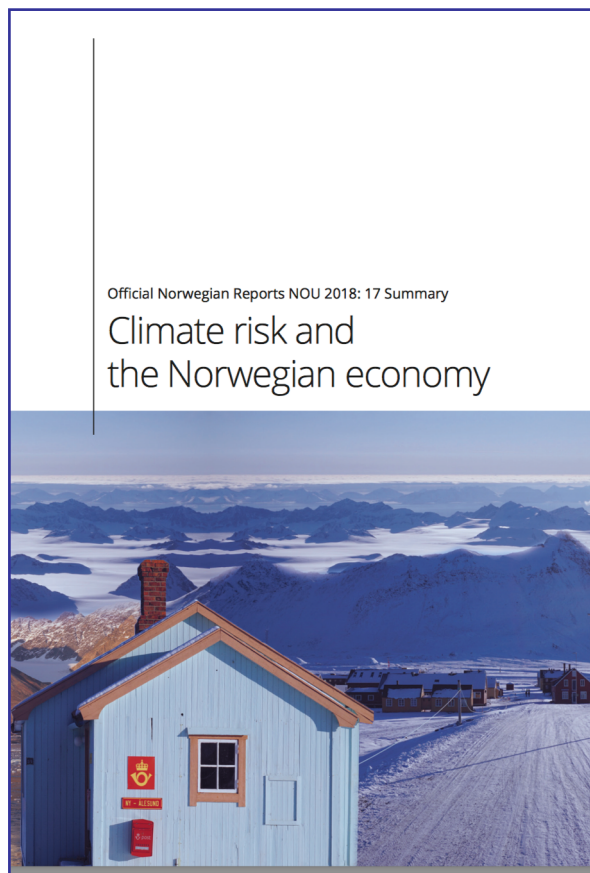
Transition risk?



‘Stranded
Assets’

- The financial risks which could result from the process of adjustment towards a lower-carbon economy.
- Changes in policy, technology and physical risks could prompt a reassessment of the value of a large range of assets as costs and opportunities become apparent.

The Norwegian climate risk commission – applied the TCFD framework



Preliminary and unofficial translation from
Norwegian – please do not circulate

Annex 7 Climate change, financial markets and financial stability

Trude Myklebust and Mirella E. Wassiluk, 22 November 2018

Summary

Climate change and measures targeted to tackle climate change influence the operating conditions and risks associated with economic activity. This article discusses how this may affect the objectives of financial stability and well-functioning financial markets. Looking at the role of the financial system in the wider economy, the article concludes that financial stability is a precondition for a well-functioning real economy. The article then discusses the potential impact of climate-related risk factors on financial stability, considering recent literature and market-based and regulatory initiatives in the field. The ultimate impact of climate risk on financial stability is uncertain and highly contingent on the time horizon applied. However, it seems climate-related risk factors have the potential to pose a systemic risk to the financial system. Given the serious consequences that may follow should a systemic crisis be triggered, it is important to gain as good an understanding of these risk factors as possible. The same applies to the impact that climate risk could have on the ability of financial markets to contribute to an appropriate allocation of social resources in the short and long term. The article emphasises how important it is that private and public decision-makers build up knowledge and capacity with a view to keep up with international developments in this area.

Note:

This paper is published in 'Norwegian Official Report 2018: 17 Climate risk and the Norwegian economy', which was submitted in December 2018 by an expert committee appointed by the Norwegian Ministry of Finance. The paper served as background for the expert committee's discussions of climate-related risk in the context of financial markets.

<https://www.regjeringen.no/contentassets/c5119502a03145278c33b72d9060fbc9/no/pdfs/nou201820180017000dddpdfs.pdf>

The relevance for central banks

The Network for Greening of the financial system suggests the TCFD framework for central banks' disclosure of their own risks and exposures



Conundrums

The existing prudential
policy frameworks and
their risk categorisation
- a good fit?

