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COP 26 Individual Pledge by Banco de España as NGFS Member

Climate change poses substantial challenges for the economy and the financial system and has consequences for central banks' activities and mandates. The Banco de España is committed to delivering on the recommendations issued by the NGFS to tackle these challenges.

Climate change is a global phenomenon with far-reaching consequences for our planet and livelihoods. Transitioning to net-zero carbon emissions societies and keeping the increase in global mean temperatures below 2°C is an extraordinary challenge that humankind will have to face over the next decade.

Central banks have a fundamental role to play, within the scope of their mandates, supporting policymakers in the pursuit of these ambitious goals. First, they can contribute to the understanding of the impact of climate change on the macroeconomy and financial stability and, more importantly, they can ensure climate-related risks are properly managed by financial institutions. This will require the development of suitable analytical tools, continuous monitoring of the drivers of climate-related risk for the financial system and the adoption of coherent regulatory initiatives in a coordinated manner at global level. Of no less importance, to achieve leadership and support for these goals, is working towards embedding climate-sustainability considerations in central banks' own operations, whether in the area of portfolio management or working infrastructure.

The Banco de España is committed to advancing on all of the above-mentioned fronts as detailed below in this document.

NGFS A Call for Action Report Recommendation n°1 – Integrating climate-related risks into financial stability monitoring and micro-supervision

Use of scenario exercises and dedicated analyses

- The Banco de España has committed to running top-down supervisory climate stress testing exercises for banks under its macroprudential supervision in 2021, using as a basis the NGFS scenarios for physical and transition risks. The first, partial, stress test will be published in November 2021. Additional climate risk impact channels will be incorporated and published over the next few years.
- The Banco de España commits to continuing to undertake analyses to better identify vulnerabilities related to climate risks in firms' balance sheets and business models, and gaps in firms' capabilities for measuring and managing

climate-related financial risks, and to better understand vulnerabilities and gaps within its supervisory approach.

- The Banco de España commits to carrying out an analysis of climate-related risks in a dedicated report drafted jointly with other supervisors of the financial system within the country's macroprudential authority (made up of representatives of the Banco de España, the securities markets supervisor (CNMV) and the Ministry of Economy and Digital Transformation). The report will be published in 2023.

Microprudential actions

- In October 2020, the Banco de España set supervisory expectations for its supervised entities to effectively identify and monitor the climate-related risks they are exposed to.
- In 2021 Q3, the Banco de España engaged with its supervised entities through a questionnaire to find out where they stand in relation to the implementation of its supervisory expectations. In the first half of 2022 it will follow up the improvements achieved and the potential obstacles identified by the entities to make sure that no entity is left behind.
- Since 2020, the Banco de España has been organising joint conferences with firms on topics related to sustainable finance and climate risk management and commits to continuing to do so over the coming years to promote the communication and sharing of information with supervised firms.

NGFS A Call for Action Report Recommendation n°2 – Integrating sustainability factors into own-portfolio management

Integrating sustainable practices into central bank portfolio management

- At the beginning of 2021, the Banco de España adhered to the decision adopted by the Eurosystem to establish a common stance on sustainable investment in non-monetary policy euro-denominated portfolios. The principles adopted by the Eurosystem are in line with the action already taken by the Banco de España to pursue a climate-friendly investment policy.
- The Banco de España currently has direct green bond investments in different currencies and participates in the open-ended investment fund for US dollar-denominated green bonds launched by the Bank for International Settlements (BIS) in 2019. The Banco de España also participates in the second sustainable fund created by the BIS in January 2021 for investments in euro-denominated green bonds. The Banco de España commits to maintaining and, potentially, enhancing these policies in the future.

NGFS A Call for Action Report Recommendation n°3 – Bridging the data gaps

Improving the resources for the analysis and knowledge of climate risks: implications for the economy and agents

- The Banco de España commits to deepening the analysis of all the implications that climate change and the transition towards a more sustainable economy can have — in the short, medium and long term — for the economy as a whole and, at a more disaggregated level, for the different economic sectors, regions, firms

and households. Among other tasks, achieving this objective will involve a systematic econometric analysis of the environmental information available in different databases, the construction of new databases and sustainability indicators, and the development and calibration of various macro-financial models specifically designed to assess the impact of the different physical and transition risks of climate change on the economy.

NGFS A Call for Action Report Recommendation n°4 – Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing

On assessing the effects of climate change on the economy

- The Banco de España highlights the macroeconomic consequences of climate change for the domestic economy and commits to developing its modelling tools to better understand the potential effects of climate-related physical and transition impacts. The development of the climate change website will contribute to improving communication in this regard.

Other initiatives

- The Banco de España has committed itself to reducing its own carbon footprint, in line with the Paris Agreement objective of limiting global warming to 1.5°C. Over the past few months it has enhanced its action plan to achieve this goal and published its sustainability policy.
- The Banco de España has also revised and adapted its waste management procedures for its various premises and identified further improvements that it is committed to carrying out. An environmental management workgroup has also been created in order to coordinate and agree on the regulations and protocols that must be applied to achieve the internal decarbonisation goals.
- The Banco de España commits to publicly communicating progress on the above actions and potential future ones through its annual reporting, its climate change website and its other publications.