

20 October 2020

In Conversation with Ms Margarita Delgado Tejero

Interview with the Deputy Governor published in the Network for Greening the Financial System (NGFS) website

1 When and why did your institution join the NGFS?

Banco de España joined the Network for Greening the Financial System in March 2018, only three months after the NGFS was created. I have been the member of the Plenary since I became Deputy Governor two years ago, taking it over from my predecessor. We are fully committed with the work of the NGFS and its different workstreams. We participate as members in all of them and contribute actively to their assessments.

The reasons for this level of commitment with the work of the NGFS are quite clear. From an economic point of view, the implications of climate risk are wide and comprise different economic and financial areas. It is important to understand their consequences for the financial system and define the role of Central Banks in this area, but above all, climate change is certainly a global challenge, and we must all contribute to this common endeavor.

We also need to keep in mind that Spain is one of the European countries potentially most affected by climate change according to many scientific studies.¹ This could potentially require important efforts to deal with the consequences of extreme climatic events and to cope with the transition to a low-carbon economy.

Accordingly, the time and resources dedicated by the Banco de España to tackle the climate-change risks in our financial system and in other areas has increased considerably in the last two and a half years. We are developing the tools that should enable us to analyze the implications of climate change for our financial system. As the saying goes, we have also decided to 'put our money where our mouth is', and incorporate sustainable and responsible investment criteria to the management of our Non-Monetary Policy Portfolios.

¹ ESPON Climate (2011). Climate change and territorial effects on regions and local economies. ESPON Programme.

2 Can you share with us the key elements of Banco de España's climate strategy and how it fits into the broader national strategy in your jurisdiction?

Environmental and climate change risks is a novel area for Central Banks and all of us are still learning about their potential implications for the financial system. Among other things, we are analyzing the possible implications from a micro and macroprudential point of view, as well as for the management of our own portfolios.

All these new elements affect many different areas within our organization, so it was clear from the beginning that there was a need for coordination. Thus, at the time when we joined the NGFS, we created an internal group, chaired by our Financial Stability and Macroprudential Policy Department, with staff from the different General Directorates to connect all the activities of Banco de España related to this issue.

In particular, the group involves different areas such as financial stability and risk analysis, supervision, management of our own portfolio, cash management and environmental aspects of the institution. This internal group is a forum to discuss internal developments, for example in the areas of Scenarios or Stress Testing, as well as to share the work of the different international groups that are addressing climate change and other environmental considerations, such as the NGFS and those depending from ECB, SSM, ESRB, EBA, BCBS or FSB.

In addition, as part of the Strategic Plan 2020-2024, Banco de España is putting in place an environmental internal audit of our carbon footprint as an institution. Several activities and initiatives are under way to raise awareness of the importance of this issue internally.

Another important goal is to continue increasing the awareness on climate change and environmental issues. We are following several paths to achieve this. We have organized several high-level meetings with representatives of credit institutions and audit firms, to convey the institutional and regulatory developments in this field and get feedback about how well prepared they are with respect to climate change-related risks. In this regard, we have recently published supervisory expectations for the institutions under our remit, and the SSM is about to do the same thing for the significant ones.

We have also held several technical Workshops to discuss with practitioners and institutions the latest developments regarding environmental risk measurement. In addition, we contribute with the publication of articles and reports, for example, on our Financial Stability Review², occasional papers³ or in our Financial Stability Report⁴.

Regarding the national strategy, the Spanish Parliament is currently discussing the Draft Law on Climate Change and Ecological Transition. This Law sets the future environmental targets, in terms of reduction of greenhouse gas emissions, fostering the improvement of energy efficiency as well as increasing the proportion of renewable energies in the total

² See **Delgado, M. (2019)**. Energy transition and financial stability. Implications for the Spanish deposit-taking institutions. *Financial Stability Review*, Issue 37, pp. 9-40, Banco de España; **Marqués, J. M. and L. Romo (2019)**. The risk of climate change in financial markets and institutions: international challenges, measures and initiatives. *Financial Stability Review*, Issue 34, pp. 111-134, Banco de España; **Gimeno, R. and F. Sols (2020)**. Incorporating sustainability factors into asset management. *Financial Stability Review*, Issue 39, Banco de España.

³ **Alonso, A. y J. M. Marqués (2019)**. Financial innovation for a sustainable economy. *BdE Occasional Paper n°1916*, Banco de España.

⁴ **BdE (2019)**, The financial system and climate change. Box 3.1. *Financial Stability Review*, November 2019, Banco de España.

consumption, with the ultimate objective of achieving *'climate neutrality'* in 2050. The law also establishes obligations for us and the other two Spanish Financial Supervisors - the Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Funds (DGSyFP) - in particular, we will have to elaborate every two years a joint report focused on the implications of climate change risks on the Financial System.

3 To which extent did Banco de España leverage the work of the NGFS in its own domestic journey? Any concrete examples?

As I mentioned before Banco de España is fully committed with the work of the NGFS. We support the spirit of the *'coalition of the willing'* to exchange experiences and learn from others approaches on how to be better prepared for the challenges of climate change for the financial system. This spirit means that, apart from supporting the work, we also leverage extensively on what other members of the NGFS have done and, of course, on the work of the NGFS itself.

Again, this is all very novel, all of us are learning by doing. In our case, we are working to reach a better understanding of these risks through the internal group mentioned before.

I believe I can use the four recommendations elaborated by the NGFS in 2019⁵ to illustrate the work that we have developed so far.

In line with the first recommendation, about integrating climate-related risks into financial stability monitoring and micro-supervision, Banco de España is assessing the implications of climate-related risks for financial stability and the banking entities. We are already developing a supervisory stress test covering climate-related risks. By now, we are focusing on transition risks, particularly for credit risk, and we are considering different interrelated models. We intend to incorporate physical risks at a later stage.

Following the second recommendation, in 2019 we began to apply sustainable and responsible investment criteria in its Non-Monetary Policy Portfolios. We also participate in the open-ended green bond investment fund launched by the BIS also known as BISIP.⁶

As acknowledged by the NGFS third recommendation, data availability is one of the main challenges in this area. In this sense, we are starting to explore the information that is available in our own databases in order to identify data gaps to be covered. In addition, we will look for other possible sources of data such as for example those relating to firms' individual CO2 emissions and to environmental certificates of real assets such as housing.

Finally, Banco de España agrees that building awareness, increasing intellectual capacity, encouraging technical assistance and knowledge-sharing is key to better assess the implications of climate-change. As I've just mentioned, we contribute to increase the knowledge of the banking sector through high-level meetings, thematic workshops and publication of specific articles and reports, but also through the participation in different

⁵ NGFS (2019), *A call for action. Climate Change as a source of financial risk*. April 2019.

⁶ See [press release of 26 September 2019](#).

national and international working groups. Finally, we are also trying to increase the awareness internally. In this sense, we are also organizing specialized courses and training sessions for our staff.

4 One last word?

I wanted to highlight that we still need appropriate information, more detailed data and metrics to be able to implement an appropriate assessment of Climate risk. I believe that a robust and internationally consistent climate and environment-related disclosure is a precondition to tackle these risks

In this sense, we welcome the new NGFS workstreams dealing with data gaps and research. They will certainly add a broader view to the work of the network.

The fight against climate change is a long run race to run where the financial sector has its own role to play and there is no time to lose. International coordination is also key and NGFS provides a splendid forum to join forces to contribute to this objective by Central Banks and Financial Supervisors.

Thank you for the opportunity to share the work that Banco de España is developing in this area.