Green Finance – A New Frontier for the 21st Century

International Climate Risk Conference for Supervisors
Amsterdam, 6 April 2018

François VILLEROY de GALHAU, Governor of the Banque de France
1. From physical risks to transition risks, and from a snapshot to a video

2. Converting our quantitative and qualitative challenges into unprecedented opportunities
Physical risks are more visible but transition risks may be more financially relevant

**Physical risks**
Risks linked to the exposure to the physical consequences of climate change (sea level rise, heatwaves, droughts, ...)

**Transition risks**
Risks induced by the transition towards a low-carbon economy (evolution in regulations, mitigation policies, markets, ...)

**Less relevant for banks and developed countries but mind the protection gap**

**Exposures of banks and insurers are significant**
TACKLING CLIMATE-RELATED RISKS IN THE FINANCIAL SECTOR

Priorities

- Disclosure (voluntary/compulsory)
- Risk indicators

- Forward-looking analyses
- Stress-tests

« Snapshot of risks »

« Video of risks »
THE QUANTITATIVE CHALLENGE: GROWING BUT STILL INSUFFICIENT FINANCIAL FLOWS

Reaching the 2°C objective requires financing a major economic transition

The boom of the green bond market shows the implication of the private sector

BUT still insufficient: more green loans and green financing

Establish an innovation-friendly framework
(securitisation, covered bonds, crowdfunding, private equity...)

Source: CBI, 2018
Harmonized taxonomy and common standards

- A very much welcome EU Action Plan proposal for a common taxonomy
- The purpose is to reconcile the different standards & labels: CBP + CPI + independant evaluation of impact

Central Banks should infuse sustainability into their own activities

- An illustration with the Banque de France Responsible Investment Charter