BC# Sustainability

• Strategic and dynamic agenda for socio-environmental (S&E) sustainability
• Promoting sustainable finance
• Proper management of S&E and climate risks within the National Financial System (SFN)
• Incorporation of sustainability variables in the BCB decision-making process
In focus
Relevance of socio-environmental sustainability

BCB’s sustainability-related actions – Background

BCB's new agenda for E&S sustainability
• BCB’s socio-environmental responsibility initiatives
• Partnerships
• Policies
• Supervision
• Regulation
Environmental awareness matures through stages in our society
Environmental awareness stages

Clean energy mix

• Increasing demand for clean energy technology
Environmental awareness stages

Clean energy mix
• Increasing demand for clean energy technology

Clean agricultural practices
• Sustainable agribusiness that not compromises the environmental base
Environmental awareness stages

Clean energy mix
• Increasing demand for clean energy technology

Clean agricultural practices
• Sustainable agribusiness that not compromises the environmental base

Sustainable finance
• Environmental issues as part of investors’ decision-making processes
  - Funds
  - Private equity
  - Infrastructure funds
  - Real estate funds
Sustainability and productivity are not exclusive

Sustainable practices generate:

- Waste reduction
  - Development of new processes, less intensive in terms of resources and raw materials.
- Efficient operations, which increase productivity and reduce costs
  - New operations can be costly to deploy, but profitable over the medium and long term.
- Strengthening the workforce: increase training and engagement; as well as attract talented employees

The adoption of sustainable practices is associated with increases in employee productivity*

Climate variables and the BCB's mission

Monetary policy

- Climate shocks are hard to predict
- Affect supply, posing challenges for monetary policy
  - Harvests, food and energy prices, among others.
- Uncertainty about the persistence and magnitude of climate shocks
- Risk of recurring shocks and/or lingering effects
Climate variables and the BCB's mission

Financial stability

• Potential climate risks for the financial sector
  - Physical risk - higher frequency of extreme natural disasters (e.g. drought/flood affecting agribusiness or the real estate industry)
  - Transition risk – arises from the gradual shift to a low-carbon economy

• Financial system vulnerabilities
  - Changes in asset prices and related losses
  - Macro-financial linkages (financial variables and economic activity)
Common aspects for an economic recovery

Sustainable and inclusive growth
BCB’s sustainability-related actions

Background
A New Sustainable Agenda
BCB’s S&E responsibility
Strengthening internal environmental awareness

- Encouraging the use of bicycles and pooled rides, reducing the use of plastics, encouraging recycling, selective waste collection

Inclusion of the theme in the Museum of Economy

- Thematic exposition of ‘sustainable finance’ at the BCB’s Museum of Economy, to strengthen the visitors’ related awareness

Reduction of the environmental impact of the money cycle*

- Identification of stages that could be economically, energetically, and environmentally optimized
- Analysis of environmental impacts of issuance, distribution, collection and sanitation
- Full allocation of residues for cement production

* issuance, custody, distribution, handling by trade, collection, and disposal
Review of the BCB’s S&E Responsibility Policy (PRSA)

- Adoption of internal processes with sustainable management of natural resources and their byproducts

Task Force on Climate-related Financial Disclosures (TCFD) - Recommendations

- Implementation of the TCFD’s recommendations
- BCB as a supporting institution

BCB Integrated Risk Management

- Enhancement of the socio-environmental risk assessment
- Yearly accountability to society – creation of the BCB’s Socio-Environmental Risk Report
Partnerships
BC joins the Network for Greening the Financial System (NGFS)

- Exchange of experiences and best practices of central banks about S&E issues
- Improvement in data analysis and mitigation of S&E risks in the financial system
- Strengthening partnerships with other central banks and international organizations

Memorandum of Understanding with the Climate Bonds Initiative (CBI)

- Exchange information regarding the promotion of sustainable finance and the proper management of S&E and climate risks within the financial sector
Policies
Creation of the ‘Green liquidity facility’

• Feasibility study, analysis and subsequent implementation of new facilities for financial institutions, whose collaterals can be private credit operations or private securities

International reserves

• Inclusion of sustainability criteria for the selection of counterparties in the management of international reserves and for investment decisions.
Supervision
Structuring and broadening the scope for collecting information on S&E risks

• Creation of document to collect qualitative data on both ‘S&E responsibility’ and ‘climate risk assessment’ carried out by financial institutions for selected operations, whose eligibility will be based on criteria for allocation to sensitive segments, value, purpose and/or situation.

• Automation of crossing exposure data with public information related to S&E risk

Monitoring of climate risks and stress tests

• Inclusion of climate risk scenarios in new and improved stress tests performed by BCB, in line with international recommendations and best practices
Regulation
Policy for S&E Responsibility (PRSA) implementation by financial institutions and other entities authorized to operate by BCB

Regulatory enhancement of Resolution No. 4.327/2014

- Inclusion of the concept “climate risk”
- Improvement of the definition of S&E risk
- Inclusion of requirements applicable to all types of risk:
  - Risk appetite statement
  - Stress tests
  - ‘Business Continuity and Governance Plan’
Improved transparency based on TCFD* recommendations

• Improvement of criteria for climate-related financial disclosures by financial institutions, focusing on the risks and opportunities related to climate-related issues

• Studies on TCFD recommendations’ specific aspects that can be incorporated into the BCB’s prudential regulatory framework

*TCFD - Task Force on Climate-related Financial Disclosures
Creation of the ‘Green Bureau’ for rural credit

- Transformation of Sicor in the ‘Green Rural Credit Bureau’, based on an open banking framework
- Implementation of criteria to classify green operations
- Inclusion of multi-criteria analysis that are crossed-referenced with other databases
- Use of georeferencing data

Results

- Faster and more accessible certification processes, fostering the issuance of green bonds
- Creation of standards certification for levels of adherence to specified sustainability criteria

Establishing incentives for green rural credit

- Up to 20% increase in upper limits for rural credit operations that meet sustainability criteria

*Sicor - Rural Credit Operations and Proagro System*
## Sustainability Dimension

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* TCFD - Task Force on Climate-related Financial Disclosures
Thank you.