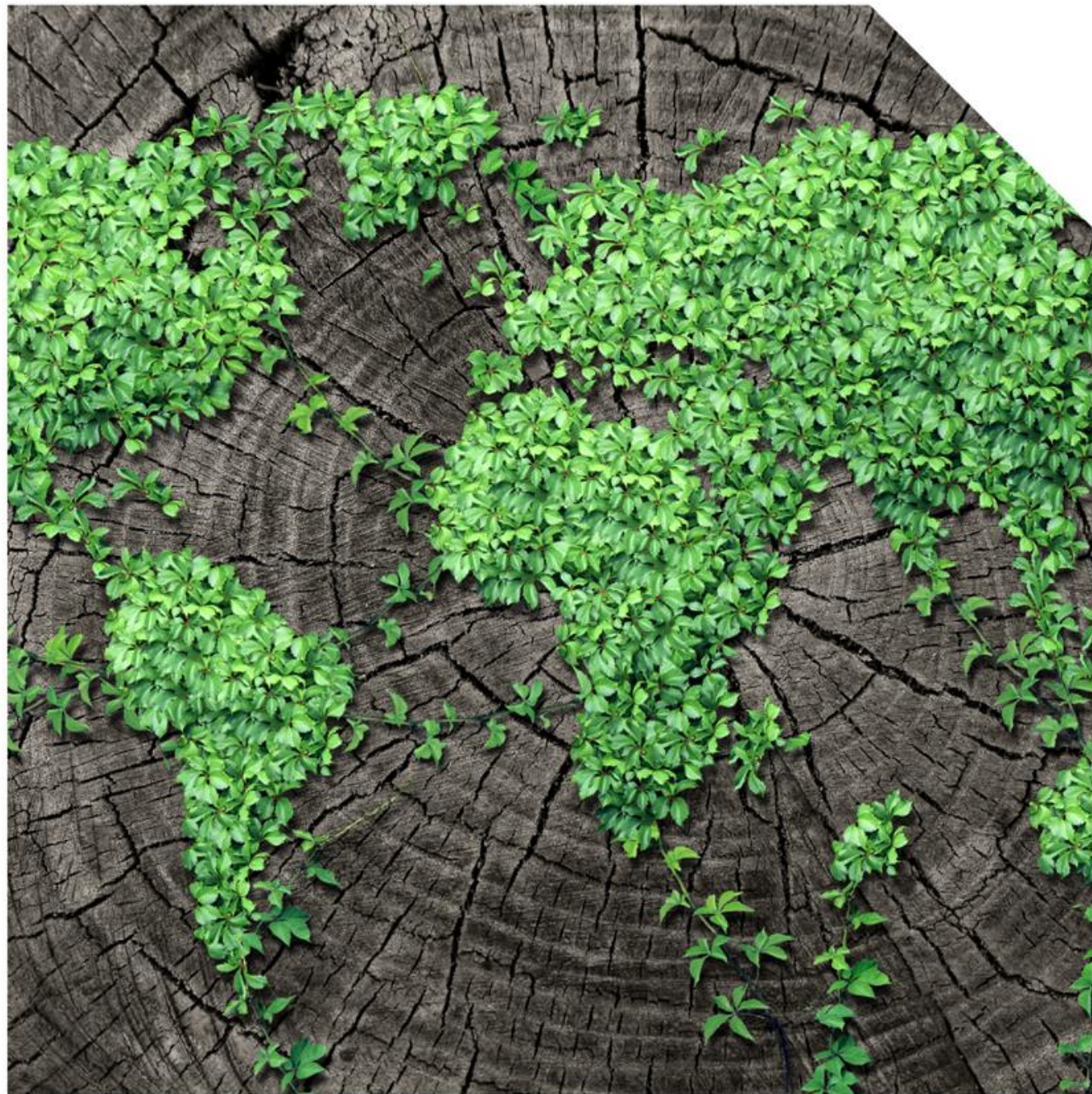


BC+ Sustainability

September 8, 2020



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 employee

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

*Delmas, M. and Pekovic, S. (2013), "Environmental standards and labor productivity: Understanding the mechanisms that sustain sustainability", Journal of Organizational Behaviour, Volume 34(2), pages 230-252.



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*

Regulator

Market entities



Green Protocol
Voluntary
guidelines first
adopted by five
state-owned banks

Other participants
joined later

1995

Resolution 3,545
Mandatory environmental
compliance for accessing
rural credit in Brazilian
Amazon Rainforest Area

2008

Resolution 3,896
Rural Credit –
Low Carbon
Agriculture/
Agribusiness

2010

Resolution 4,327
BCB's Policy for
Socio-environmental
Responsibility
(PRSA)

2014

2014
Febraban
Socio-environmental
Risk Policy (SARB14)
Self-regulation framework

Supervision
Monitoring the
drought
effects and its
impacts on SFN

2015

2016
Green Bonds Guide
Released by Febraban
and the 'Brazilian
Business Council for
Sustainable
Development' (CEBDS)

First issuance of
Green Bonds

CMN Resolution
Risk Management
A + S

2017

2018
Guidelines for
voluntary
implementation
of TCDF/FSB
Released by
Febraban and
Sitawi

Supervision
Monitoring the
Brumadinho
Event's effects and
its impacts on SFN

2019

2020
BC#

2020



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

* *TCDF - 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 cross-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*



	ACTIONS	TARGET DATE
BCB's Social and Environmental Responsibility	Strengthening the internal culture of environmental awareness	2021 – Jun
	Inclusion of S&E Responsibility in the BCB's Museum of Economy	2022 – Jun
	Reduction of the money cycle's environmental impact	2023 – Dec
	BCB Integrated Risk Management	2021 – Jun
	Recommendations of TCFD – BCB as a supporting entity	2020 – Sep
	Review of the Policy for Socio-Environmental Responsibility (PRSA) within BCB	2020 – Oct
Partnerships	BC joins the Network for Greening the Financial System (NGFS)	2020 – Mar
	MoU – BCB and Climate Bonds Initiative (CBI)	2020 – Sep
Policies	Creation of the 'Green Liquidity Facility'	2021 – Dec
	International reserves management criteria	2021 – Apr
Supervision	Enhancement of the collection of information on socio-environmental risks	2021 – Dec
	Monitoring of climate risks and stress tests	2022 – Abr
Regulation	Regulatory enhancement of the PRSA (Resolution Nº. 4.327/2014)	2021 – Jun
	Regulation to increase transparency based on recommendations issued by TCFD*	
	First stage: regulation on disclosure of risk management, governance of risks and strategic policies	2021 – Jun
	Second stage: regulation on disclosure of targets, metrics and risk assessments	2022 – Dec
	Creation of the Green Rural credit Bureau	
	First stage: regulation on sustainability criteria	2021 – Jul
	Second stage: regulation on compliance levels for sustainability criteria	2022 – Jul
	Establishing incentives for 'Green rural credit'	2021 – May

* TCFD - Task Force on Climate-related Financial Disclosures



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Thank you.