

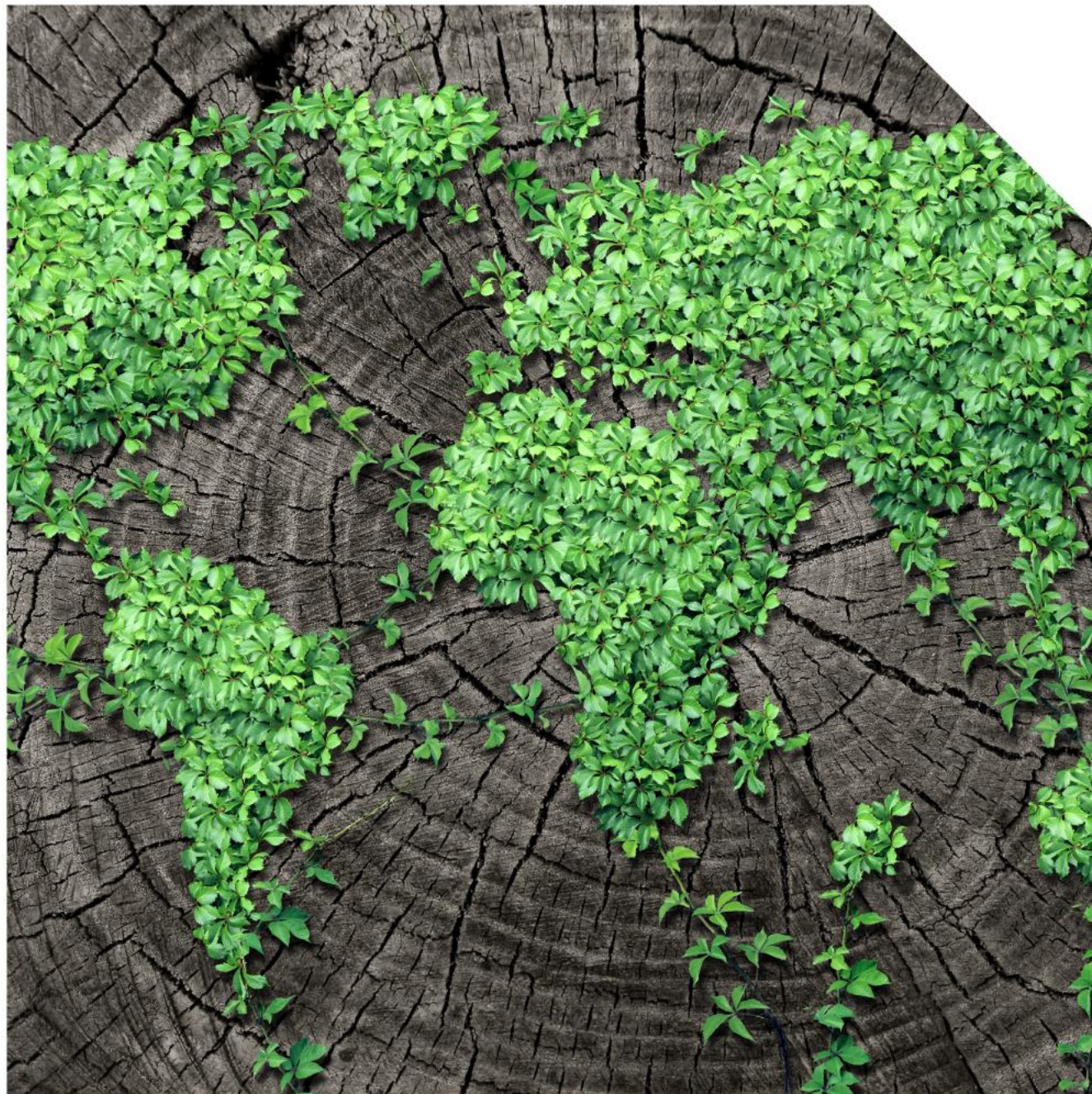


BCB's Sustainability Agenda

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Going green: Stages of society awareness

Renewable (clean) energy

- Demand for renewable (clean) energy

Clean agriculture

- Production of food respecting the environment

Sustainable finance

- Investors with ESG guidelines
 - Investment funds
 - *Private equity*
 - Infra-structure funds
 - Real estate funds

Climate and environmental risks and CB's mission

Climate-related shocks affect relative prices



Harvests, food and energy prices, other relative prices



Monetary Policy



Recurring shocks with uncertain persistence and magnitude



Climate and environmental shocks can have disruptive effects on the CB's mission of ensuring low inflation and a sound financial sector:

Financial Stability

Climate and environmental risks and CB's mission



Climate and environmental shocks can have disruptive effects on the CB's mission of ensuring low inflation and a sound financial sector:

Monetary Policy

Potential risks for the financial sector



Real estate, delinquency rates, solvency

Financial Stability



Financial system vulnerabilities



Changes to asset prices and related losses



Macro-financial linkages

Sustainability

Society demands a recovery that is both **sustainable** and **inclusive**.

Central banks have three major roles with respect to this topic:



Regulator



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

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

Supervision
Monitoring the
drought
effects and its
impacts on SFN

2015

CMN Resolution
Risk Management
A + S

2017

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

2019



2020/21



Market entities

Other participants
joined later

1995



2014

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

2016

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

First issuance of
Green Bonds



2018

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



BCB's sustainability agenda objective

Within the BCB's mandate, our objective is to induce the conditions for:

- The development of sustainable finances in the national finance system;
 - Including the best international practices related to sustainable finance;
- Greater availability of financial system resources for sustainable enterprises; and
- Better management of social, environmental and climate risks.



BC# Sustainability

Measures:

- Internal initiatives
- Partnerships
- Policies
- Supervision
- Regulation



BCB Internal initiatives



BCB internal initiatives

- Strengthening the culture of sustainability
- Review of the BCB's Policy for Socio-Environmental Responsibility (PRSA)
- Publishing of the BCB's Report on Social, Environmental and Climate-related Risks and Opportunities
- Inclusion of environmental and social theme in the Museum of Economy
- Reducing environmental impact of banknotes processing
- Inclusion of social and environmental issues in the BCB's Integrated Risk Management Policy

Partnerships



Partnerships

BCB at Network for Greening the Financial System (NGFS) and as a TCFD supporter

- Exchange of experience and central banks' best practices within the social and environmental scope
- Enhancement of data analysis and mitigation of social and environmental risks within the financial system
- Potential partnerships with other central banks and international organizations.

Memorandum of Understanding with the Climate Bonds Initiative (CBI)

- Partnership with the objective of exchanging information related to the promotion of sustainable finance and management of social, environmental and climate-related risks within the financial sector

Technical cooperation with the German Agency for International Cooperation (GIZ)

- Green and Sustainable Finance Project (Finanças Brasileiras Sustentáveis – FIBraS).

Policies



Policies

Creation of the sustainable financial liquidity facility

- Study, viability analysis and implementation of new credit lines for financial institutions using corporate green bonds or operations as collateral

International Reserves Management

- Inclusion of sustainability criteria for selecting counterparties selection and for investment decisions.

Supervision



Supervision

Structuring and broadening the scope for collecting information on social, environmental and climate-related risks

- Resolution BCB 151/2021: enhancement of data collection to better capture the exposure of financial institutions' assets to counterparties whose economic practices, projects or activities:
 - Present the potential to cause degradation of the environment, violate human rights or harm collective interests;
 - May be affected by changes in weather patterns resulting from human intervention or by the process of transition to a low carbon economy.

Monitoring of climate risks and stress tests

- Use of scenarios of climate risk in new and improved stress tests, following international best practices.

Regulation



Risk management and Social, Environmental and Climate Responsibility Policy (PRSAC)

- BCB has sought to dialogue with society;
 - Public consultations
- ESG risk management (Resolutions 4,943/2021 and 4,944/2021);
 - Extends regulatory requirements applicable to the management of traditional risks to social, environmental and climate-related risks;
 - Establishes an integrated risk management
- Social, Environmental and Climate Responsibility Policy (Resolution 4,945/2021);
 - Improves the requirement that financial institutions develop and disclose a Socio-Environmental Responsibility Policy, including climate-related responsibility

Social, Environmental and Climate Disclosure

- Incorporation of TCFD recommendations* in the prudential framework
 - Widening the scope to include social and environmental aspects
 - Standardization of the requirements (GRSAC Report).
 - Gradual and proportional implementation, allowing both the banking sector and the BCB to adapt.



TCFD core elements

Phase 1

- Mandatory disclosure related to governance, strategy and risk management.
 - **Qualitative aspects** of the recommendations
 - Resolution BCB 139/2021

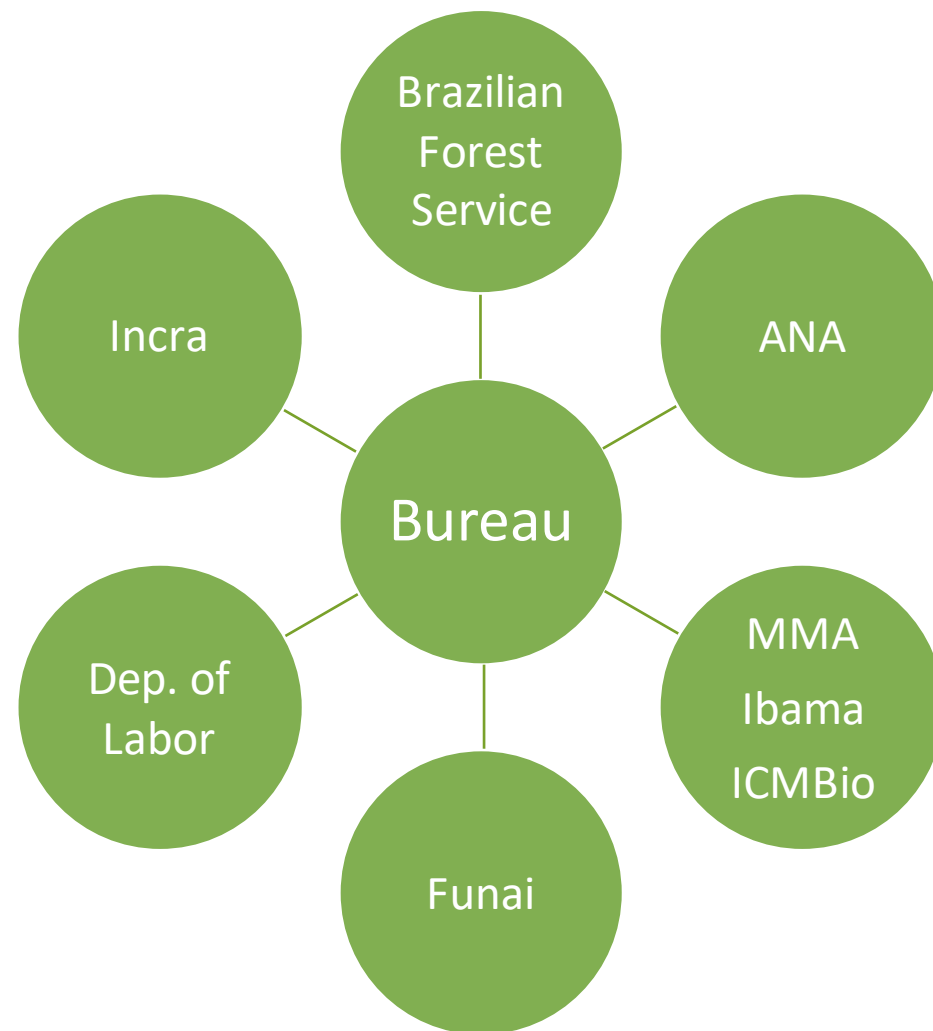
Phase 2

- Mandatory disclosure related to the metric, goals and measuring of climate risks.
 - **Quantitative aspects** of the recommendations
 - To be announced until December 2022

* Only recommendations considered appropriate to the financial sector will be incorporated to the prudential framework.

Green *Bureau* of Rural Credit

- Integrates databases from government agencies
 - Introduces fields with sustainability information
 - Better management of financial institutions risks
 - Access to new sources of resources - open finance
 - Better asset pricing, which will benefit credit conditions and provide incentives for the adoption of practices with social, environmental, or climatic additionalities.
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- Resolution BCB 140/2021 prohibits credit to agents with illegal social, environmental and climate practices.



New integrated database

Summary of initiatives

Measure	Deadline	
Internal Actions	Strengthening the culture of sustainability	Mar/23
	Inclusion of ES themes in the Museum of Economy	Jun/23
	Reducing environmental impact of banknotes processing	Dec/23
	Inclusion of social and environmental issues in the BCB's Integrated Risk Management Policy	Done
	Publishing of the BCB's Report on Social, Environmental, and Climate-related Risks and Opportunities	Done
	Review of the BCB's Policy for Socio-Environmental Responsibility (PRSA)	Dec/21
Partnerships	BCB at NGFS and as a TCFD supporter	Done
	MoU with the Climate Bonds Initiative (CBI)	Done
Policies	Creation of the sustainable financial liquidity facility	Dec/21
	Inclusion of sustainability criteria for selecting counterparties and for investment decisions in international reserves management	Dec/21
Supervision	Structuring and broadening the scope for collection information on S, E and Climate-related risks	Dec/21
	Monitoring of climate risks and stress tests	Apr/22
Regulation	Improvements to the regulatory framework on risk management and E, S and Climate responsibility	Done
	New regulation on E, S, and Climate-related risk disclosures, based on TCFD recommendations	Done
	Phase 1 – Qualitative aspects; Phase 2 – Quantitative aspects.	Dec/22
	Creation of the Sustainable Rural Credit Bureau and incentives to the sustainability of rural credit	Jun/22

Final Remarks

- Looking ahead, climate transition is likely to pose increasing costs and challenges for the economy and the society.
- In order to face this transition in a more appropriate way, BCB will support the development of proper financial market instruments, since these instruments are able to promote a more efficient resource allocation.
- The set of measures in the BCB's Sustainability Agenda is extensive, but by no means exhaustive.
- Ultimately, BCB will seek to continue at the frontier of the knowledge and actions linked to social, environmental and climate-related issues.
- The institution will act, within its mandate, to address present and future challenges related to these topics, as these are fields in constant evolution.