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Climate action by financial sector supervisors:

The CNB's view

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CNB’s general approach to SF:

- **to set appropriate tools** – the financial market regulation (FMR) should lead towards the prudent behaviour of supervised entities and consumer protection; more effective and appropriate tools can be found to combat climate change than FMR;
- **to keep risk-based approach** – all risks arising from sustainable investment should be taken into account; financial risks related to these investments products should not be overshadowed in pursuit of fulfilment of high-level political goals in the area of sustainability – beware of preferential treatment;
- **to avoid unintended consequences** – any inappropriate approach to sustainability could have significant and unintended consequences, especially in the area of financial stability and dealing with customers;
- **to arrange consistent regulatory framework** – clarify rules for investing in sustainable finance that would contribute to resolving information asymmetries; the intention to win the race in creation of the SF regulation reflects in its quality;
- **to take aim of SF regulation** – primarily at financial market participants that are active in sustainable financing

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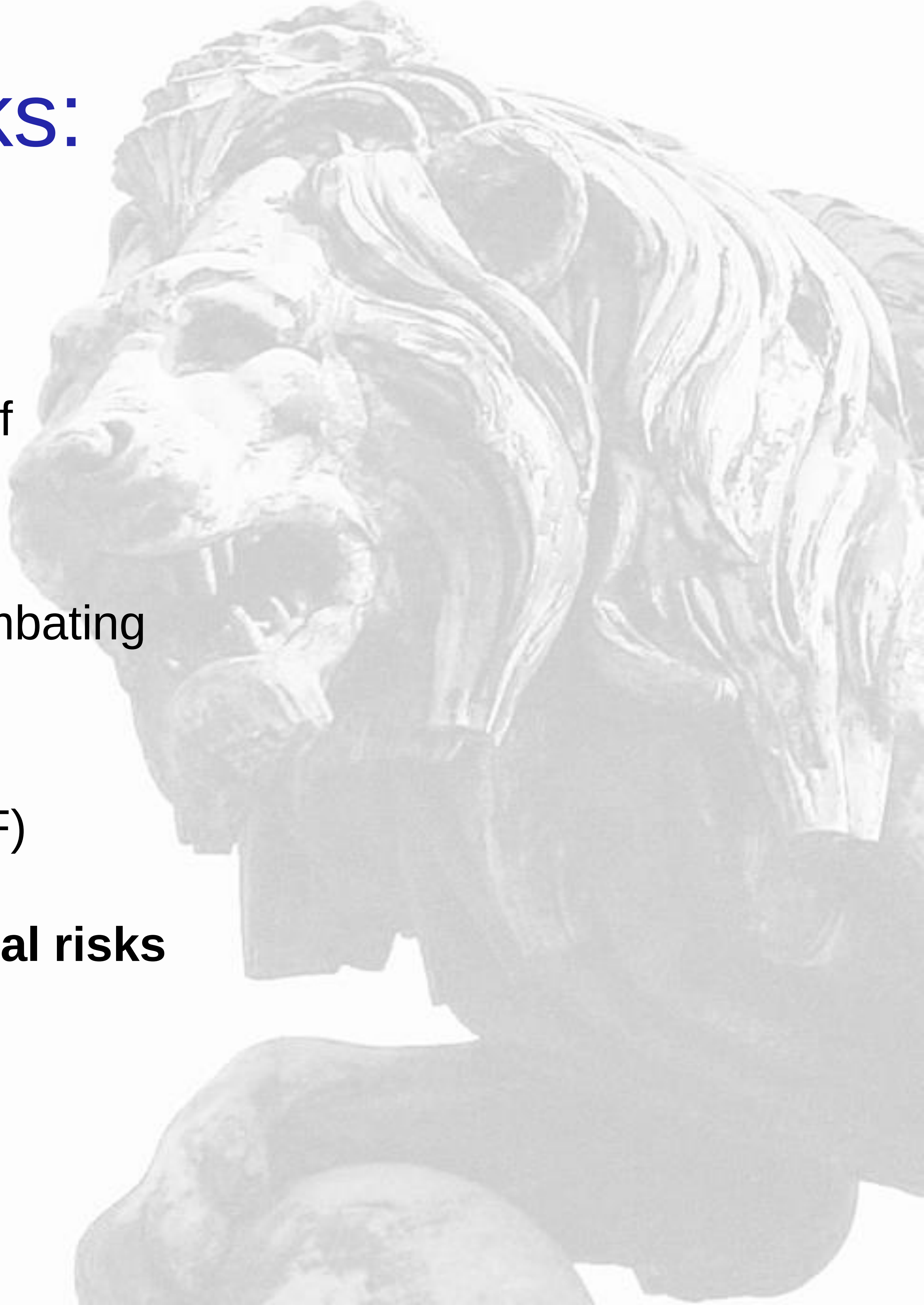
CNB’s approach to climate/environmental risks:

- We are clearly in favour of a **strictly prudent, risk - oriented approach**
- We do not question potential significance climate / environmental risks as factors of traditional financial risk categories, but **we remain vigilant**
- We are **not in favour of proactive role of CB and supervisors** in the area of combating with climate change
- **Some initiatives** to adjust prudential regulation **appear to be premature** (eg. GSF)
- „Excessive“ emphasis on **supporting SF or ESG risk can increase other financial risks**



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Regarding **incorporation of climate-related risk**, the CNB proceeds from following assumptions:

- As sources of climate-related risks come from areas beyond financial sector – what is the most effective mitigation?
- In principle, climate related risks should be considered as any other type of the risk factors, with regard to their specific nature
- The key attribute of effective risk management framework is the real risk evaluation (i.e. including climate-related risks evaluation) for all asset categories; transition-path risks related to greening economy should be accounted
- The CNB is vigilant of integration climate-related risks into risk management, especially with regard to unintended weakening or distortions of the impact of fundamental financial and performance indicators. Traditional financial risks do not have to be overshadowed.
- Important questions of integration climate-related risks in the cases, where such risks are relevant, are also proportionality and potential unnecessary administrative burden without obvious added value.

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What are we doing right now?

- Focusing on methodologies for defining and identifying risks (including ESG data)
- Incorporating the impacts of SF regulation into the stress testing framework
- Involved in discussion on integration of sustainability (or climate-related) risks to financial market regulation and supervision through participation or monitoring in numerous ESAs activities
- **Pilot exercise in FSR 2020/2021**: thematic analysis on „*Greenhouse gas emissions in the Czech non-financial corporations sector*“

Conclusions:

- *We do not question significance of climate or environmental risks.*
- *We need to be fully aware of all the potential impacts and (unintended) consequences that may arise from any inappropriate approach dealing with sustainability.*
- *Sustainability risks should be treated equally to any other categories of risks.*
- *Further, the proportionality principle for market participants to implement the requirements arising from sustainable finance initiatives is needed.*

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Thank you for your attention!