

# A SUPERVISORY FRAMEWORK FOR ASSESSING NATURE-RELATED FINANCIAL RISKS



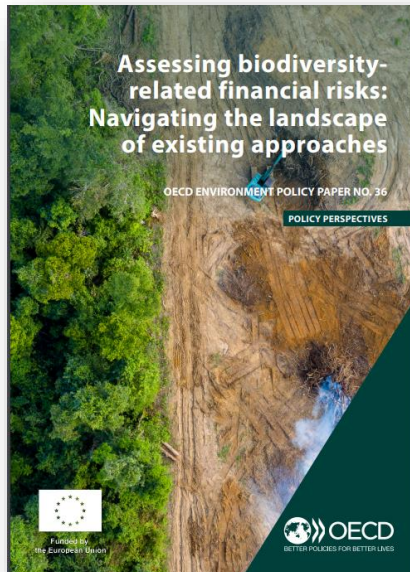


# Project Overview

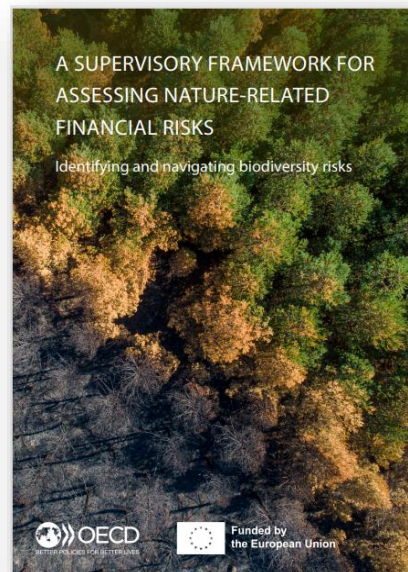
## PROJECT OVERVIEW

### Phase 1: Research and Development

**Output 1: Mapping Existing Tools and Metrics**



**Output 2: Developing a Supervisory Framework**



### Phase 2: Implementation

**Output 3: Applying the Framework**

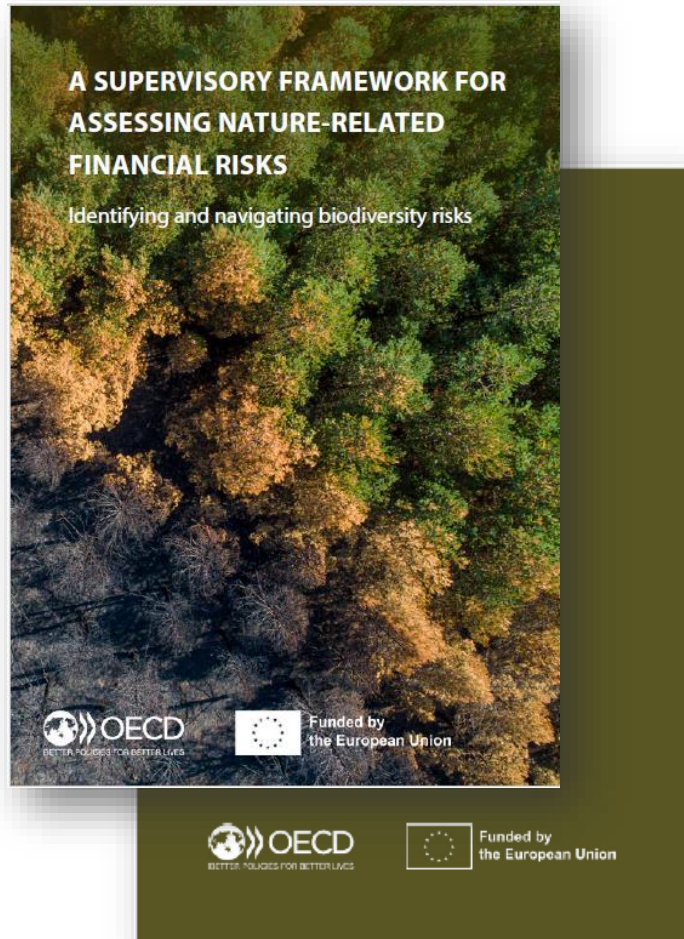
Implementation of the Framework to the Hungarian financial sector

**Output 4: Capacity Building and Knowledge Sharing**

Capacity building and knowledge sharing with key stakeholders



# A Supervisory Framework for Assessing Nature-related Financial Risks



- The Framework was published on September 28, 2023.
- The Framework provides technical guidance for central banks and financial supervisors to identify, assess, and monitor nature-related financial risks.
- The project is undertaken jointly with the Hungarian Central Bank and the European Commission.
- The Framework is aligned with and complementary to the work of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) as well as Taskforce on Nature-related Financial Disclosures (TNFD).

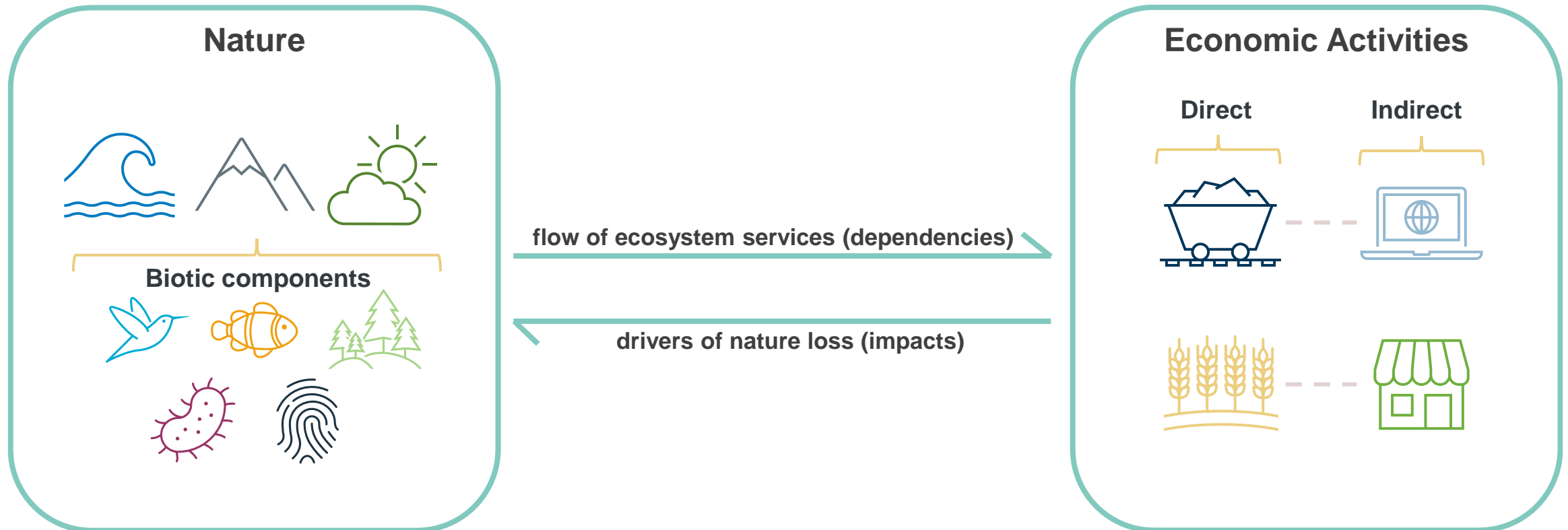


## **Biodiversity, and the interlinkages with economic and financial risk**



# Interlinkages between nature and the economy

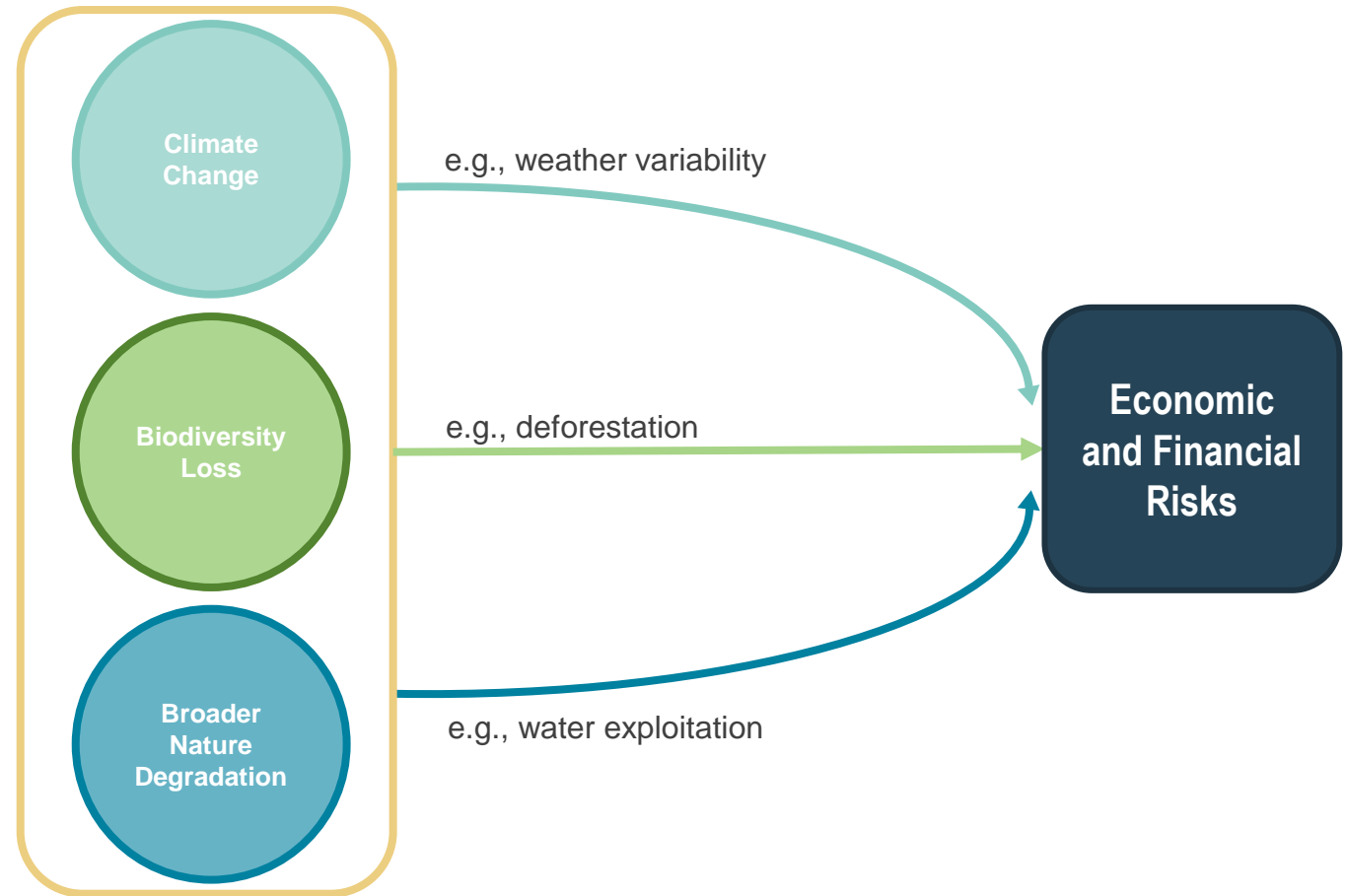
Economic activities in the economy are connected to nature through their dependencies and impacts on ecosystems and the services they provide – either directly or indirectly through their value chain.





# An integrated approach to nature-related risks

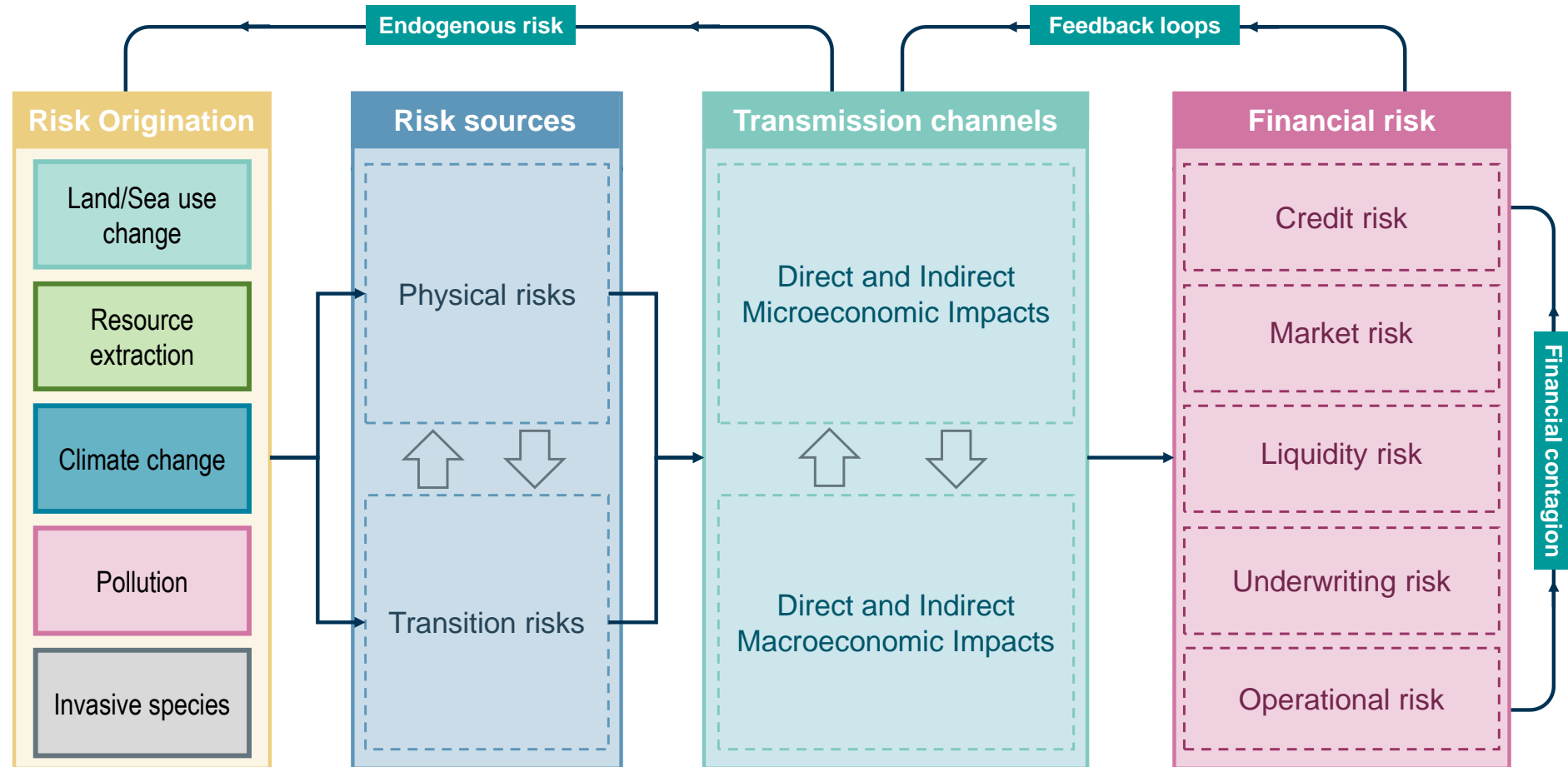
- Biodiversity loss, climate change, and broader nature degradation all interact to exacerbate the risks.
- There are four ways climate change, biodiversity loss, and broader nature degradation may interact:
  - I. Climate change as a driver of nature degradation;
  - II. Unintended consequences of climate change mitigation or adaptation as a driver;
  - III. Nature degradation as a driver of climate change;
  - IV. Nature restoration as a mitigator of climate change.





# Overview - Conceptual framework of nature-related financial risks

Nature-related financial risks can enter the economy through two main channels: physical and transition risks. Subsequently, these economic risks may spill over into the financial sector.







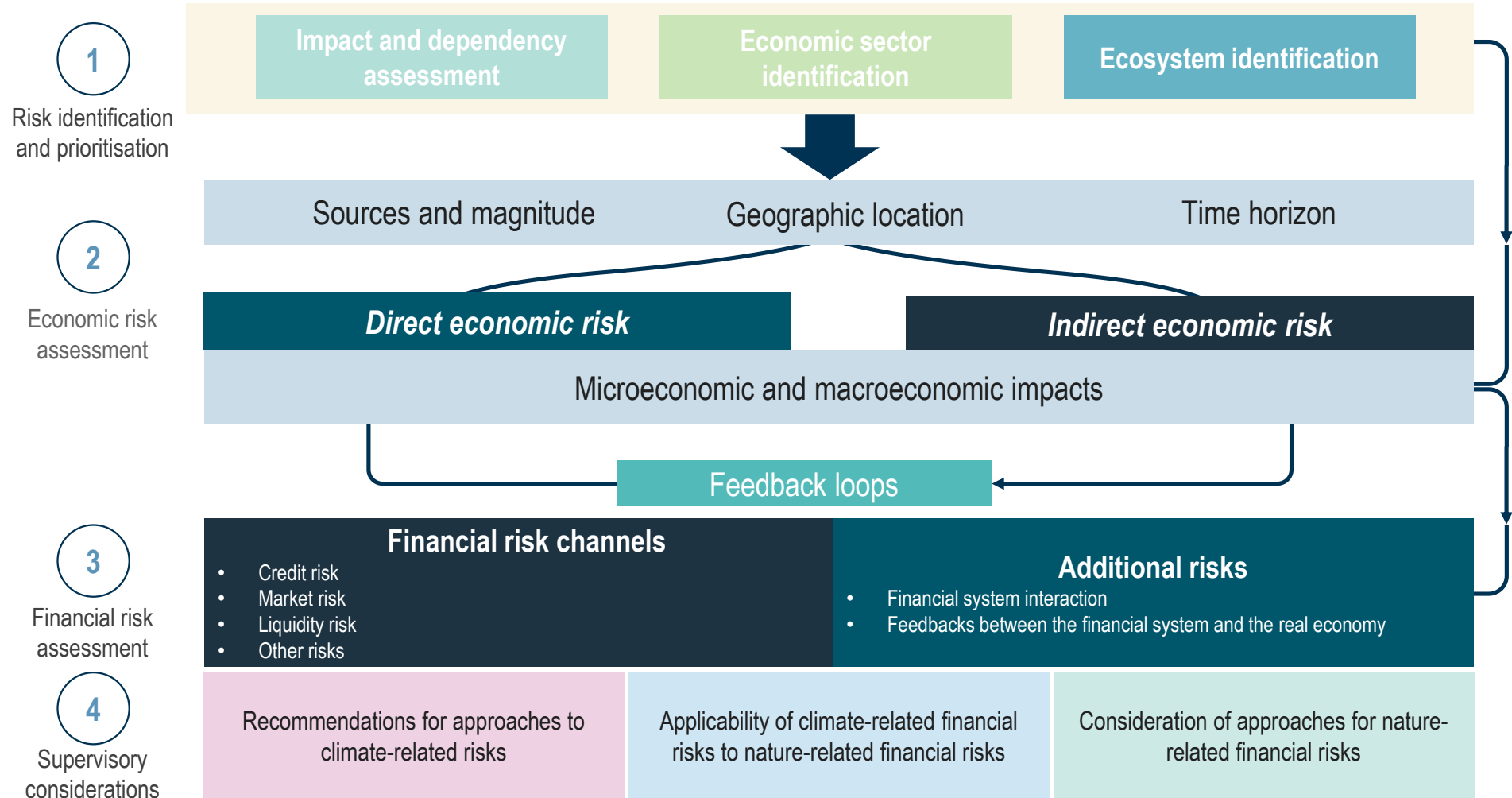
## **Supervisory Framework on Nature-related Financial Risks**





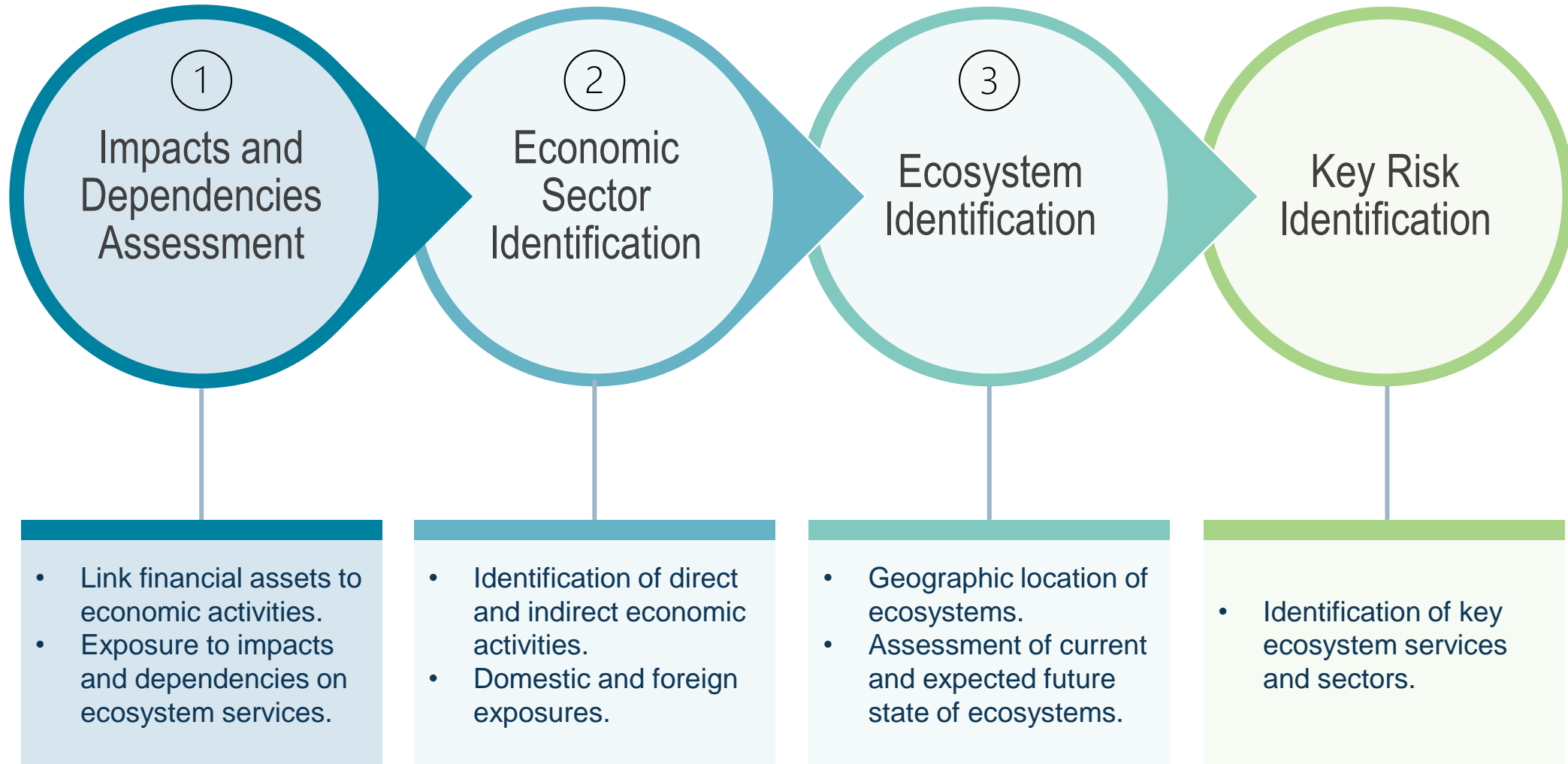
# OECD supervisory framework overview

Following a four-step approach, the framework aims to enable financial authorities to identify, conceptualise, and assess nature-related financial risks



# Step 1: Identification and Prioritisation

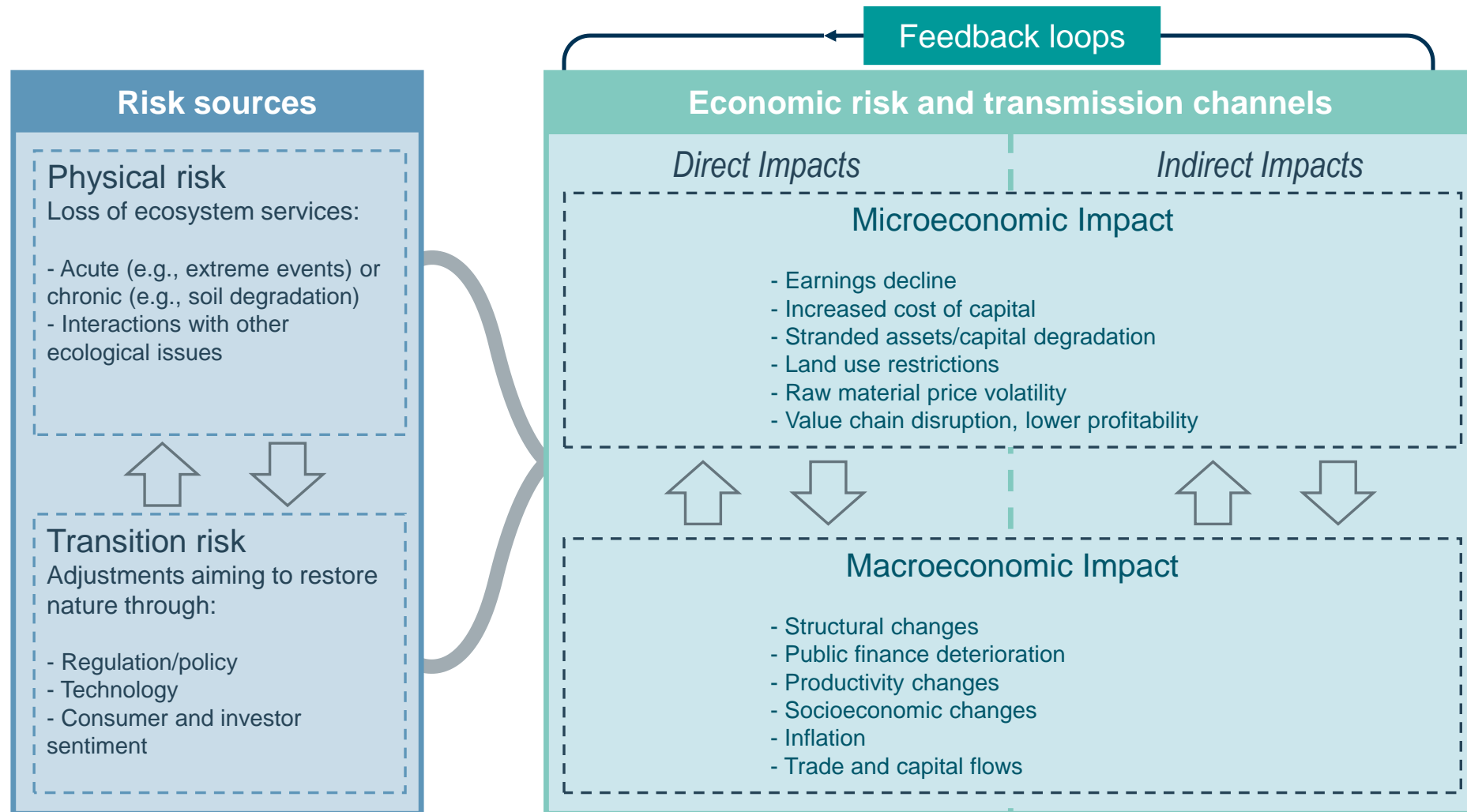
A three-phase approach to identify and prioritise the most relevant risks for financial materiality.





## Step 2: Economic risk assessment

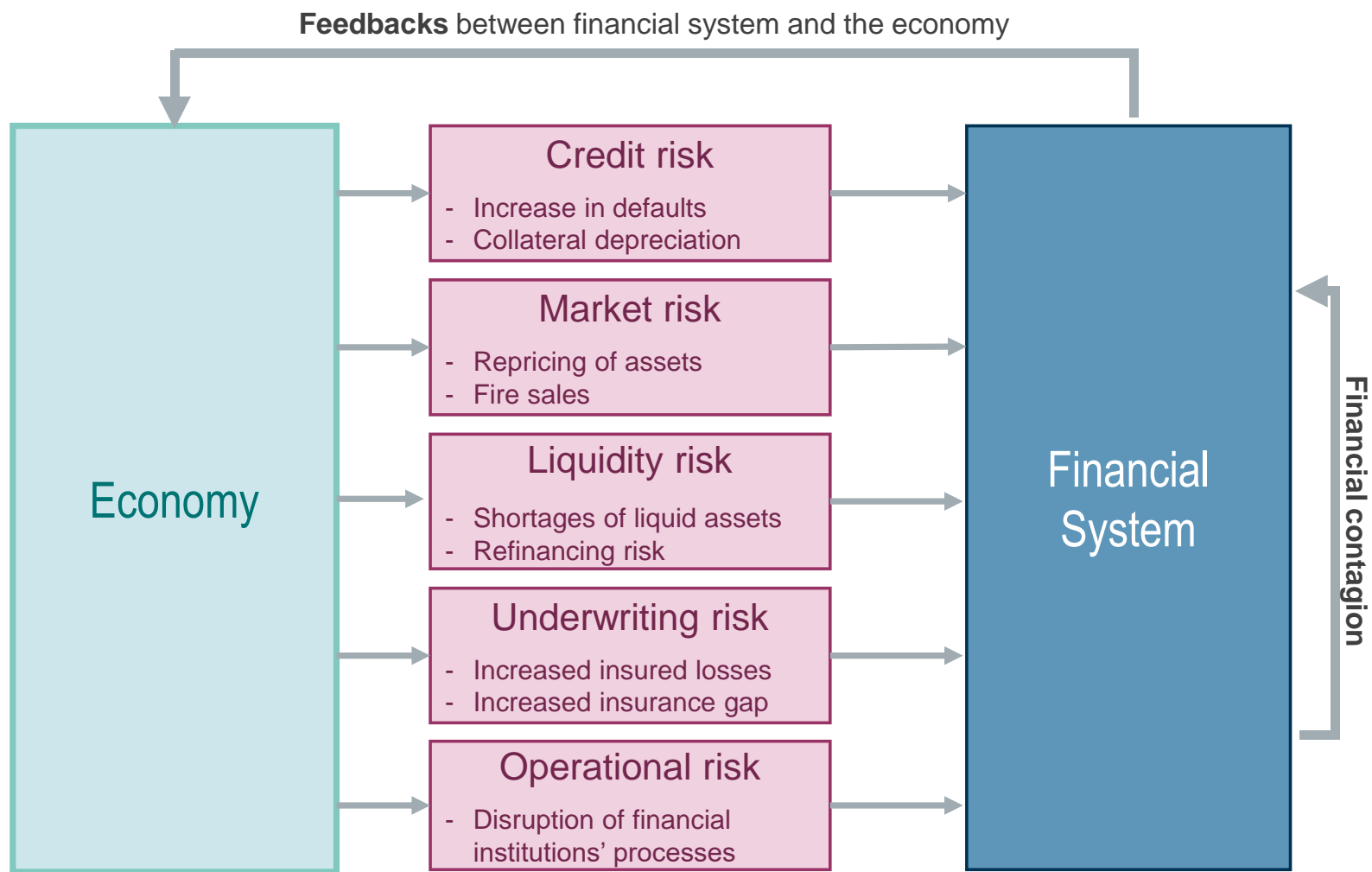
The economic risk assessment proposes (i) understanding the risk sources; (ii) conceptualizing the risk materialisation ; and (iii) exploring the risk propagation.





# Step 3: Financial risk assessment

The Framework conceptualises financial risk channels including credit, market, liquidity and underwriting risks, which may present new risks for the financial system



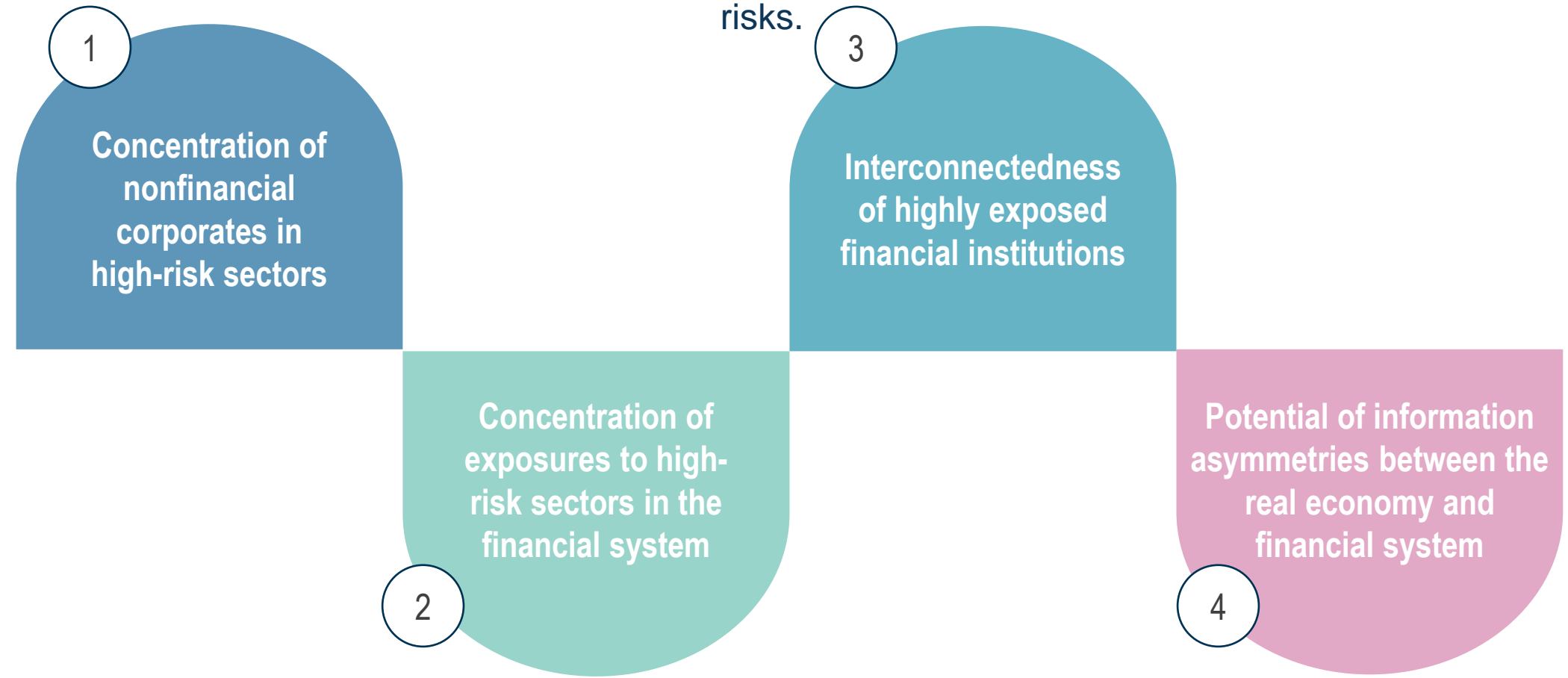


## Step 3: Financial risk assessment



Four considerations for the potential for financial contagion stemming from nature-related financial risks.

Additionally, there are two feedback loops between the financial sector and real economy: (i) financed activities which exacerbate nature-related risks; (ii) market responses to the materialization of nature-related financial risks.





## Step 4: Links to supervisory framework - considerations

The Framework outlines high-level considerations regarding possible steps for financial authorities to monitor nature-related financial risks.

### Short term considerations

- Accelerate efforts on data needs and key metrics.
- Establish common definitions and language.
- Global coordination towards common regulatory frameworks.
- Consider widespread risks across the financial system.
- Engage across jurisdictions to establish best practices.

### Medium term considerations

- Develop supervisory expectations on governance, processes, and controls on relevant data.
- Supervisors to request qualitative information from financial institutions.
- Expand scenario analysis to account for nature-related risks.
- Consider credit, market and other risk channels.

### Long term considerations

- Design nature scenarios tailored to domestic contexts and inform a system-wide view.
- Joint scenario exercises to help inform cross-border risks.
- Make use of future nature scenarios which are developed for financial institutions.



## The risk identification and prioritisation approach's alignment with the TNFD LEAP approach

Phase	Alignment with the TNFD's LEAP Approach			
<b>Impacts and Dependencies</b>	L2 Nature interface	E2 ID of dependencies and impacts	E3 Dependency analysis	E4 Impact analysis
<b>Economic Sector</b>	L1 Span of the business model and value chain	L2 Nature interface	L4 Sector identification	A1 Risks and opportunity identification
<b>Ecosystem Service</b>	L2 Nature interface	L3 Priority location identification	E1 ID of relevant environmental assets and ecosystem services	A1 Risks and opportunity identification





**Thank you**

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