

Report Type

End of Award Report

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Project Title

Sustainability and Financial Stability: What are Regulators' Priorities?

Project Abstract

An "Expert Dialogue" conference was organised on the 27-28 April in Cambridge bringing together an international audience of global financial regulators, practitioners and scientists. The objective was to create a private space for a group of prominent experts from the financial and scientific communities to explore how forward-looking scenarios can best be constructed to help regulators and practitioners better understand the relationship between environmental and social drivers of risk and financial stability in the banking system.

The Expert Dialogue was convened in direct response to recommendations that came out of the 2014 CISL-led Study, entitled "Stability and Sustainability in Banking Reform – Are Environmental Risks Missing in Basel III?". One of the recommendations of this report was that scenarios can be a useful tool to help estimate the potential financial stability impact of supplying credit to environmentally unsustainable or sustainable activities over time.

Activities and Achievement

The event was attended by thirty representatives of global banking regulators, banking practitioners, economists and scientists including representatives from the following countries: Brazil, China, Central Europe, Peru, South Africa, Sweden, Switzerland, United Kingdom and the United States.

A) Key findings (aims and objectives of the project covered in the project abstract):

- Collective appreciation that the timing and likelihood of environmental drivers of risk impacting financial stability are nearer and greater respectively than commonly understood by finance sector leaders;
- Collective realisation that correlations and accumulations of environmental risks are particularly magnified through consequent social unrest or disorderly financial market responses to an incident, which can be as impactful as the initial risk itself;
- Particular collective concern that environmentally driven risks align closely with the classic characteristics of 'chaotic' and unpredictable systems;
- Consensus that environmental and social issues could represent a material threat to banking stability.

B) Impact on policy/practice:

Attendees at the Expert Dialogue agreed to the following actions to build towards

policy and practice impact:

- Produce an externally facing Briefing Document to be published later in 2015 with the objective of extending the learning created through the Expert Dialogue beyond the communities of science, finance and economics that attended to reach out to the broader finance and policy community. It is hoped that a number of central banks will actively promote the distribution of this document to their peers.
- Work with scientists and economists to develop a common set of scenarios that would serve as an educational device to a wider set of regulator and practitioner stakeholders to illustrate how environmental risks can affect financial stability. Certain regulators indicated that such an exercise could help to improve stress testing of the banking system.

Dissemination

External Briefing Document: It is hoped that this key part of the dissemination strategy (referenced above) will be launched in Brazil in late September to support engagement of a wider circle of banks, regulators and other stakeholders.

Briefings: In addition, since the Expert Dialogue, many Financial Regulators have requested private briefings on the outcomes of the Expert Dialogue. The Expert Dialogue team has already engaged with more international banks and stakeholders regarding this.

Video: A 10-minute video of Professor Alexander summarising the key findings of the report has been published to aid further distribution and has been made available to all Expert Dialogue participants and for all eleven BEI Member Banks to use. A web link to the video is available in the web link section below.

Outputs

The External Briefing Document entitled 'Banking and Sustainability: Time for Convergence' will become available in late September as a key output following the Expert Dialogue. Once this Briefing Document has been published, a copy will be sent to CERF as the final key output for this report.

Major Difficulties and Any Other Issues

Not Applicable

Web Links

Video of Professor Kern Alexander at the Expert Dialogue:

<http://www.cisl.cam.ac.uk/business-action/sustainable-finance/banking-environment-initiative/programme/Financial-regulation>

Additional Information

Declaration

This award has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.