

Sustainable & Responsible Investment conference 21 September, Amsterdam

"Now the time has come for central banks to "practice what they preach" and to engage in sustainable investing."

On September 21, DNB organised an international conference on Sustainable and Responsible Investment (SRI) for the central banking community under the aegis of the Network for Greening the Financial System (NGFS). More than 100 participants from 48 institutions attended. During the conference, 20 thought-leaders shared their views and experiences in various speeches, panels and workshops. A few key-takeaways are highlighted below.

Why should central banks engage in SRI?

"Sustainable investing is very close to the role and responsibility of central banks as it helps to create a financial system that is fair, aligned, inclusive and resilient."

- **Financial stability:** Climate change and the transition to a low carbon economy may pose risks to the stability of the financial system. As guardians of financial stability, central banks should therefore assess (i) the potential impact of climate change on the broader economy and (ii) the design of risk mitigating actions by financial institutions.
- **Focus on the long term:** SRI is not about limiting choice and restricting returns, but about gaining additional insights in long term risks and opportunities. The integration of Environmental, Social and Governance (ESG) criteria in central banks' investment decisions could enhance the long term resilience of the portfolios.
- **Lead by example:** Central banks can impact market behaviour through their own actions and should therefore act as a role model.

How can central banks help to further develop the market for SRI?

"There is no need to reinvent the wheel. Most challenges faced by central banks also hold for private sector investors. As long as we collaborate, these can be overcome."

- **Harmonise terminology:** The development of an EU-taxonomy for sustainable investments supports the market for SRI and prevents *greenwashing*. Clear definitions help central banks and other investors in setting consistent objectives that can be monitored over time.
- **Boost research:** Academic studies, including by central bank staff, can complement industry research to facilitate a better understanding of the costs, benefits, risks and opportunities of green finance. The relationship between SRI and financial returns still remains ambiguous. Furthermore, the impact of ESG on credit risk and fixed income instruments is underappreciated as research has primarily focused on equity.
- **Develop the markets:** Scaling up sustainable finance requires deeper and more liquid markets. Institutional investors may shy away from sustainable

instruments on account of illiquid and volatile markets. Central banks could support initiatives to broaden and deepen markets for SRI-instruments.

- **Data is key:** Higher quality data is required to enhance our understanding of the SRI market. Central banks can collaborate more closely with the private sector in order to improve the available data.

What can central banks do to integrate SRI in their own investments?

"The shift towards a sustainable investment process for central banks is not a walk in the park. It is a complicated process that requires dedication, the redesign of existing processes and a lot of "out-of-the-box thinking". But it is not impossible..."

- **Mind the core mandate:** Central banks may integrate SRI into their activities as long as it is compatible with their core mandate. In general, objectives related to financial stability and long-term welfare may provide scope to incorporate SRI considerations without undermining central bank independence. Specifically, central banks could augment their investment approach by including ESG-criteria in line with a broad-based risk approach.
- **Learn by doing:** The integration of ESG-criteria is considered a "low hanging fruit" in central banks' pension funds or own funds. The experience gained here can be used to further broaden the ESG-strategy to other portfolios, such as the foreign currency reserves.
- **Sustainable investment charter.** Transparency is key to SRI. A sustainable investment charter can help to explain the public as to why the central bank is integrating SRI in its investment policy, how this is implemented and what benefits it entails to broader society.
- **Sign the Principles on Responsible Investment (PRI).** Committing to the PRI helps to embed sustainability into the investment process and to publicly report on the progress made.