

MEETING NOTE

Bank for International Settlements, Basel, Switzerland
19th January 2015

Context

Following an invitation to speak at the launch of the report *Stability & Sustainability: Are Environmental Risks Missing in Basel III?* at UNEP FI's 2015 Annual Meetings, Mr. Karl Cordewener invited UNEP FI and partners to come to Basel to present and discuss the findings of the report.

This meeting note seeks to capture the main points of the discussion, rather than provide a set of comprehensive minutes. Their main purpose is to offer a record of the first interaction between UNEP, the University of Cambridge and the Basel Committee for Banking Supervision that might form a helpful basis for future interactions.

Participants

Basel Committee on Banking Supervision (BCBS)

William Coen, Secretary General
Karl Cordewener, Deputy Secretary General

UNEP Finance Initiative (UNEP FI)

Charles Anderson, Director
Careen Abb, Banking Commission Coordinator

The University of Cambridge Institute for Sustainability Leadership (CISL)

Professor Kern Alexander, University of Zurich and CISL Fellow
Andrew Voysey, Director, Finance Sector Platforms (including the Banking Environment Initiative)

UNEP Inquiry

Nick Robins, Co-Director

Meeting Points

A. Summary of the findings of the report

- There is evidence suggesting that correlations exist between environmental / social sustainability and financial stability
- Some documented examples include the dust bowls of the 1930s in the United States and the more recent occurrence of hurricanes in the Caribbean and south-eastern United States – all of which resulted in severe bank losses and contagion-like effects in the financial economy.
- A review of the Basel III Accords finds only limited treatment of environmentally driven risks (Pillar I requirements in relation to due diligence vis a vis collateral).

- Further analysis suggests that there is untapped potential for the Basel Accords to help the banking sector identify and manage environmental and social drivers of instability. In particular it is suggested that Pillar II is underutilized in this regard.
- An investigation into the existing practices of individual central banks, especially in emerging markets and developing countries, indicates that a number of banking regulators and supervisors have already acknowledged the materiality of environmental and social risks, and are taking steps to address them. Notable examples include Brazil, China and Peru.
- Finally, the report issues a set of recommendations based first and foremost on the need for an acknowledgment of environmental and social issues as a material source of risk in the context of the Basel Accords and for a global, harmonised effort towards providing common definitions and guidelines on the management of these risks.

B. Summary of BCBS comments and reactions

- The BIS (and by extension the Basel Committee) remains by nature a member-driven entity.
- Environmental and social issues have not been brought forward to the BCBS Secretariat by members with the recent exception of one.
- The focus on Pillar 2 rather than Pillar 1 (and on capital requirements in particular) was strongly welcomed, on the basis that this provides a flexible, exploratory and forward-looking approach to a topic that is both new and potentially difficult to treat on a quantitative basis.
- All topics addressed by the Basel Committee focus on the preservation of the safety and soundness of the banking system.
- A recent new area of focus has been the topic of financial inclusion.
- A further relevant development has been the review process of the BCBS' Corporate Governance Principles for Banks.
- Environmental and social issues may constitute a topic that warrants further investigation.
- In light of the Basel Committee's progressive expansion (broader membership), and its widening role as a standard-setter, it would be possible for the Committee to play a role in raising awareness within its membership on environmental and social risks.
- A stock-taking exercise was considered to be the most appropriate starting point for this, in line with the BCBS's usual approach to new topics, and acknowledging the current difficulty in envisaging any form of expansion of the Committee's work plan via the constitution of a fully fledged task force or working group.
- This stock-taking exercise might be proposed in the context of the BCBS's Policy Development Group as well as the Basel Consultative Group.
- It was suggested that the partners pursue their efforts to substantiate and to make evident the pertinence and materiality of environmental and social risks. It was further suggested that efforts be made to show immediate and existing linkages, rather than pointing to potential, hypothetical risks in the future.
- At the same time, the challenge and possibly limited availability of quantitative data and proof by numbers was acknowledged.

Agreements and follow-up points

- BCBS extended an invitation to comment on the draft revision of the Corporate Governance Principles for Banks.
- CISL & UNEP FI extended an invitation for the BCBS Secretariat to participate in the private meeting to be held end of April in Cambridge.
- UNEP FI offered to facilitate introductions to the Secretariat of the IFC's Sustainable Banking Network as a further source of input, especially with regard to the stock-taking exercise.
- It was agreed that the Director of UNEP FI would act as the focal point for future communications with the BCBS.

Not for Circulation