Projects on Bridging the Data Gaps
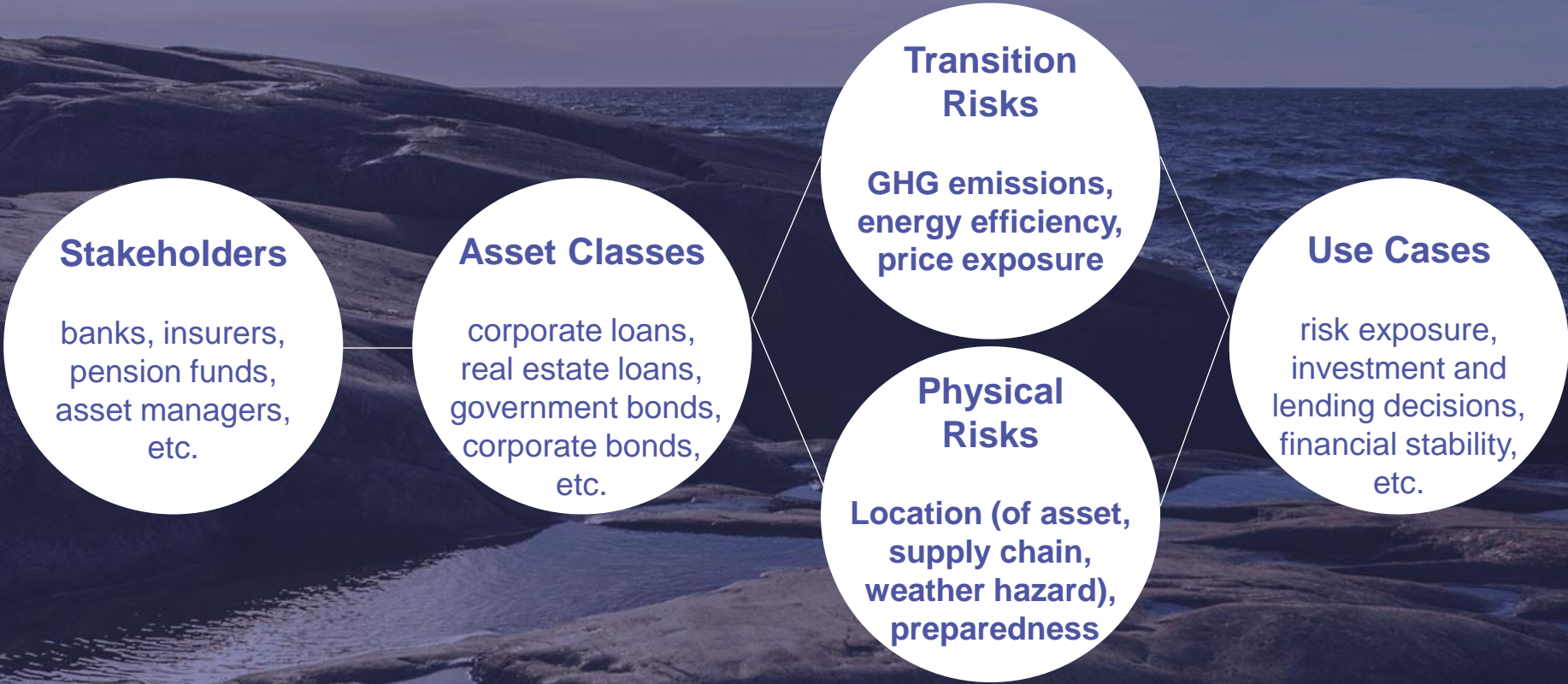
Bank of Finland

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Motivation for Bridging the Data Gaps

- The **need for better data** to

  - **analyse** of climate-related **risks and opportunities**

  - and to **identify and scale up** of green finance**.**

- The **physical limits** to the planet result the need to **measure emissions**, when **transforming** towards low-carbon, sustainable economy.

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Examples of Climate-Related Data Needs

Transition Risks

GHG emissions, energy efficiency, price exposure

Stakeholders

banks, insurers, pension funds, asset managers, etc.

Asset Classes

corporate loans, real estate loans, government bonds, corporate bonds, etc.

Use Cases

risk exposure, investment and lending decisions, financial stability, etc.

Physical Risks

Location (of asset, supply chain, weather hazard), preparedness

Data needs are granular and forward-looking.

Source: NGFS, Progress report on bridging the data gaps, May 2021.

Building Blocks to Bridge the Data Gaps

Source: NGFS, Progress report on bridging the data gaps, May 2021.
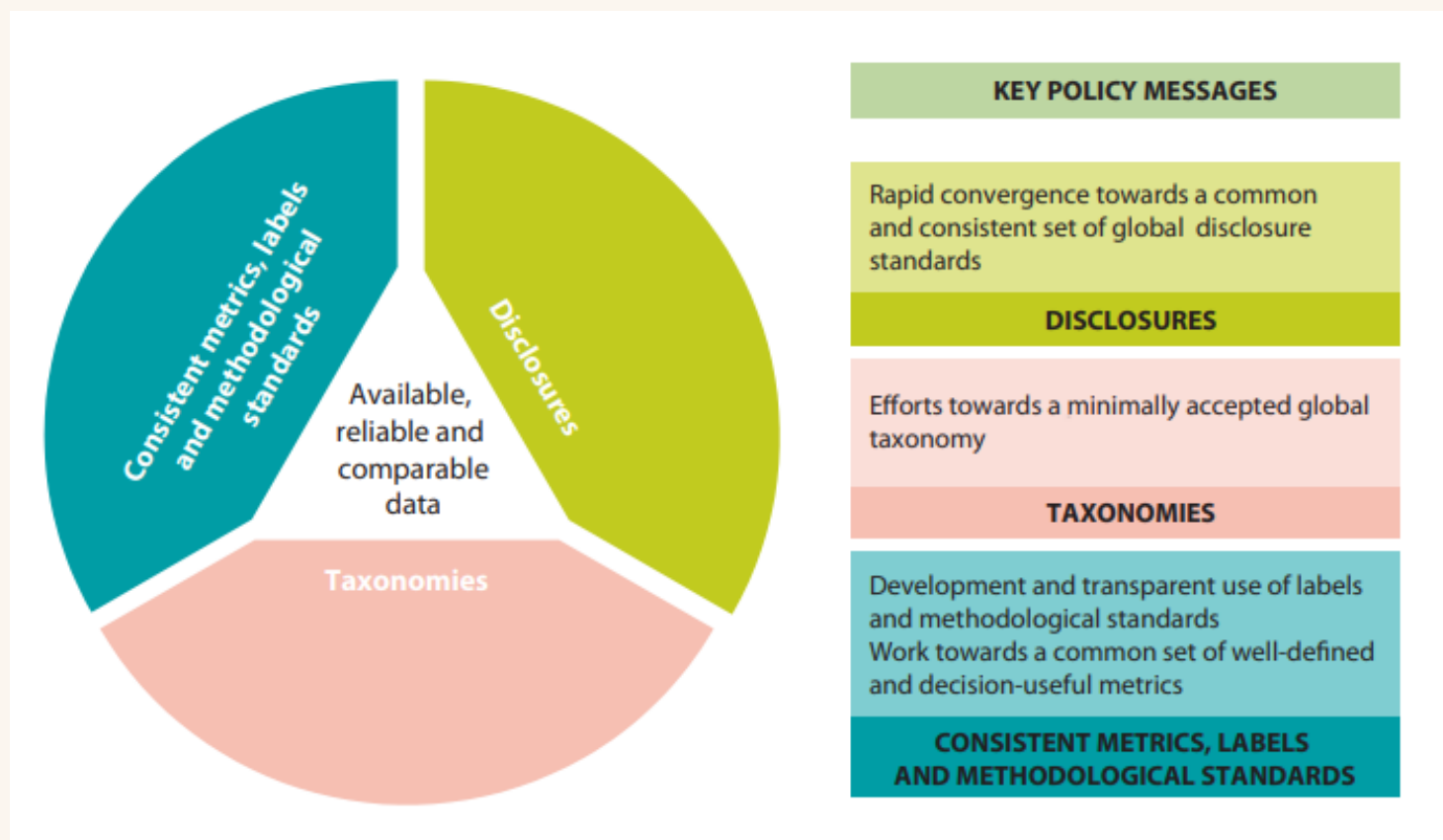
- Disclosure standards

- Taxonomies

- Consistent
  - Metrics
  - Labels
  - Methodological standards

- And data assurance

Projects on Bridging the Data Gaps

Bank of Finland contributing to the **EU cooperation**

1. Expert Group on Climate Change and Statistics (ECB Statistics Committee)
2. Task Force on the statistics on sustainable finance and climate related risks (CMFB)

Bank of Finland **own projects**

3. Analysis of **real estate** collaterals in the **coastal flood risk** areas
4. Experimental **carbon footprint** indicator for the **domestic corporate loans** based on granular data

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# 1. Expert Group on Climate Change and Statistics (ECB Statistics Committee)

- **Phase I** – The Expert Group **identified 3 sets of statistical indicators** as a priority (during 2020)

- **Phase II** – 2 workstreams **developing statistical indicators** on
  - **carbon footprints and**
  - **physical risks.**

- Phase II activities
  - **Exploring and testing** data sources, indicators, compilation, and methodological choices
  - Where possible, translated into **guidelines**

2. Task Force on the Statistics on Sustainable Finance and Climate Related Risks (CMFB)

- The Task Force produced **6 recommendations:**

1. Building and maintaining a sustainable finance **data catalogue.**

2–4.: Harmonisation and standardisation of the presentation of the data sets

    2. The **Energy Performance Certificates** (EPCs)

    3. The **EU Emission Trading System** (ETS)

    4. European Pollutant Release and Transfer Register (E-PRTR)

5. Need for **insurance data on economic losses** related to environmental changes.

6. Cooperation on consistent methodological developments, etc.

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3. Analysis of Real Estate Collaterals Located in the Areas of Coastal Flood Risk (Bank of Finland Bulletin)

- Analysis of chronic physical risk

- Climate change increases the risk of coastal floods in Finland.

- Only a small part of housing loan collateral is in areas of coastal flood risk.

- The coastal flood risks of commercial real estate collateral are concentrated in certain postcode areas.

Value of collateral located in flood risk areas, EUR million

0   10   20   30
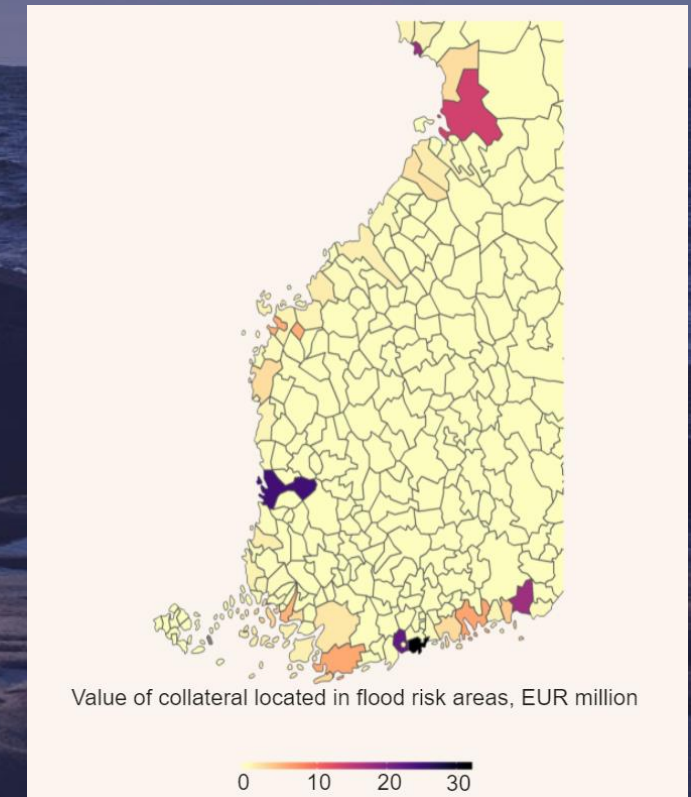
Source: Bank of Finland Bulletin (January 2021). Increased flood risk caused by climate change will also affect banks, https://www.bofbulletin.fi/en/2021/articles/increased-flood-risks-caused-by-climate-change-will-also-affect-banks/

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4. Experimental Carbon (CO2) Footprint for the Domestic Corporate Loans (Bank of Finland)

- Analysis related to **transition risk**

- **Granular** approach

- **Methodology** based on the <u>Global GHG Accounting and Reporting **Standard by the PCAF**</u> (November 2020), and Proposed Guidance by the <u>**TCFD**</u> (June 2021).

- Data sources on emissions:
  - Scope 1: National Emission Trading System **ETS data** (the Energy Authority)
  - Scope 1: **Emissions into air by industry** statistics (Statistics Finland)
  - Scope 2: **Input Output** statistics, i.e. supply and use tables (Statistics Finland)

- Data sources on corporate loans:
  - Business Registry for the population of domestic corporations (Statistics Finland)
  - National **AnaCredit database on corporate loans** (Bank of Finland statistics)

*Some industries excluded from the calculations.

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4. Experimental Carbon (CO2) Footprint for the Domestic Corporate Loans (Bank of Finland)

Domestic NFCs that have loans emitted 34 million tons of CO2 in 2019, of which 5 million tons is allocated to NFC loan stock

Mill. t CO2-eq.
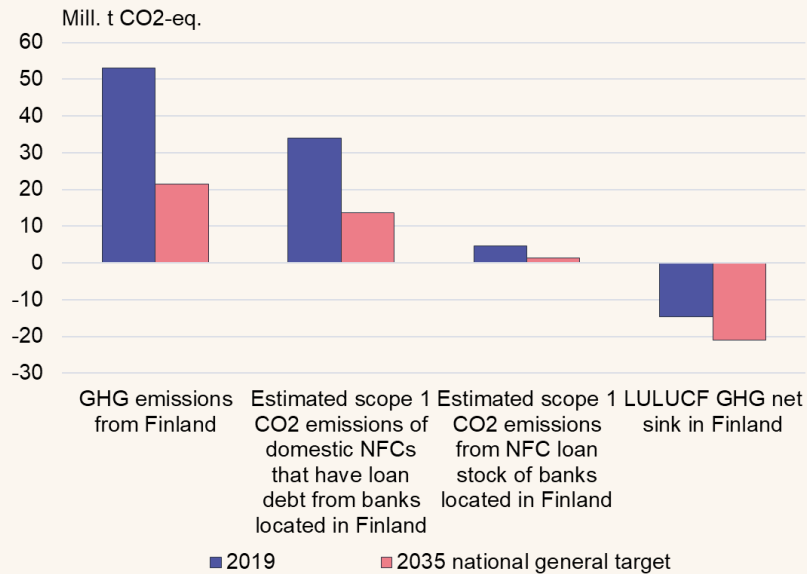
Source: Bank of Finland calculations, Statistics Finland

Scope 1 and Scope 2 emissions by the NFCs loan financed by Finnish banks
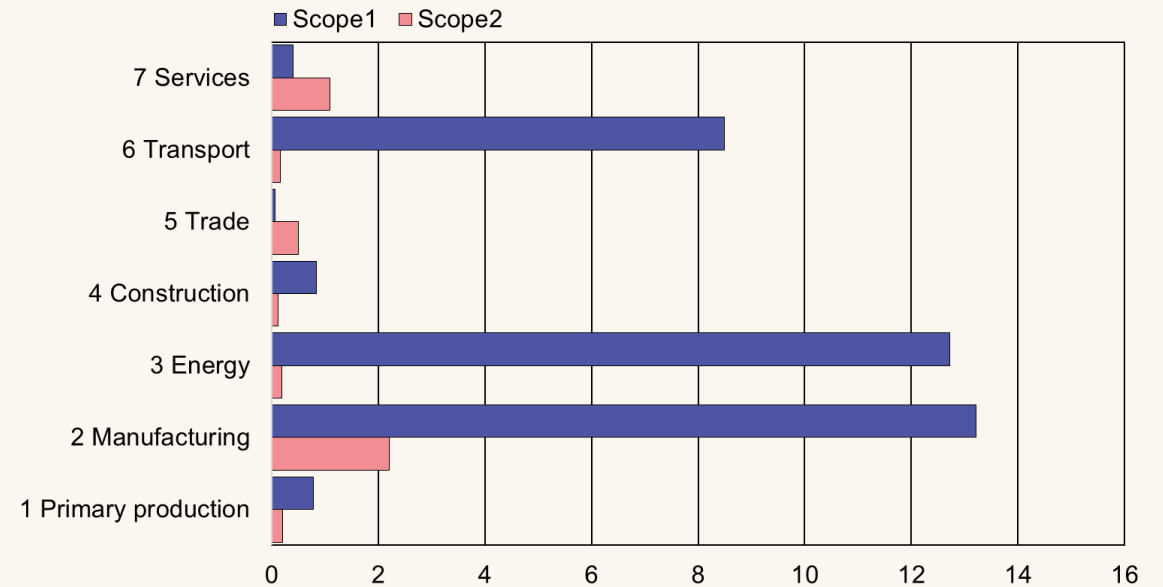
Source: Bank of Finland calculations

Million tons

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Summarizing on Bridging the Data Gaps

- **Ongoing projects for better use of existing data** –
  - experimenting statistical indicators and data sources
  - to create statistical guidance
  - to measure financed emissions, transition risks and opportunities, and
  - physical risks.

- New data tools such as machine learning and artificial intelligence may be useful.

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Thank you.

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