

Latvijas Banka and Financial and Capital Market Commission's pledge on climate change action

On the occasion of the 2021 United Nations Climate Change Conference (COP26), Latvijas Banka and the Financial and Capital Market Commission (FCMC) jointly make this pledge to contribute, within their field of responsibility, to decisive policy action to implement the Paris Agreement and mitigate the consequences of climate change.

Latvijas Banka's mission is to promote sustainable economic development. As a member of the Eurosystem and the Network for Greening the Financial System (NGFS), we have expressed our commitment to sustainability by contributing to the achievement of both the Eurosystem's and NGFS goals.

The FCMC's mission is to promote the stability and development of the financial and capital markets. To that end, in 2021 the FCMC approved its Sustainability strategy and defined sustainable finance as a strategic direction.

On 8 July 2021, the ECB's Governing Council decided on an action plan with an ambitious roadmap to further incorporate climate change considerations into its policy framework [\[link\]](#). Today the NGFS published a Declaration [\[link\]](#) to accelerate the collective global efforts of central banks and supervisors towards greening the financial system and managing climate-related risks. Our pledge complements the NGFS declaration.

As per the Eurosystem's statement [\[link\]](#) and Latvijas Banka's statement on 4 February 2021, Latvijas Banka will start climate-related financial disclosures on non-monetary policy portfolios by the first quarter of 2023. The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) will serve as the initial framework. Although the Eurosystem's decision relates to euro-denominated investments, Latvijas Banka has decided to broaden the scope and disclose information on all of its financial investments.

Latvijas Banka's primary financial investment goals are capital preservation, liquidity and return; however, integration of sustainability is increasingly important. Besides the work on climate-related financial disclosures, Latvijas Banka is currently designing changes in its equity portfolio. Two principal objectives for this portfolio are carbon neutrality by 2050 at the latest and the portfolio's alignment with the Paris Agreement.

In addition, Latvijas Banka will develop new models and conduct empirical analysis to monitor the implications of climate change and related mitigation policies for the economy, the financial system and the transmission of monetary policy through financial markets and the banking system to households and companies. In its research activities, Latvijas Banka will also focus on social aspects related to climate change and will engage in policy debate to facilitate a smooth transition towards the achievement of climate objectives.

Latvijas Banka commits to continue developing and running its own climate scenario exercises based on the NGFS scenarios to better identify the exposure of Latvian financial sector to physical and transition risks.

On its part, the FCMC will keep assessing whether the financial sector participants' risk management and disclosure practices are aligned with supervisory expectations and whether appropriate follow-up action is taken. The FCMC will further develop the supervisory methodology and all related supervisory requirements.

We, Latvijas Banka and the FCMC, will continue to identify and monitor climate-related vulnerabilities and risks to the economy and the financial system through appropriate reporting frameworks.