



3 November 2021

Individual Pledge to COP26 Central Bank of Iceland

As a member of the Network for Greening the Financial System (NGFS), the Central Bank of Iceland is pleased to announce its support of the network's declaration to the 26th annual UN Climate Conference (COP26).

The Central Bank of Iceland commits to uniting around the goal of a more sustainable planet. Climate change is the biggest challenge of our times, posing an existential threat to human welfare and prosperity. Climate risks, including the risks inherent in a transition to a carbon-neutral economy, present substantial challenges for the management of the economy and the financial system. No responsible economic actor can stand idly by.

While it is governments that are primarily responsible both for implementing policy and committing resources to the mitigation of climate risks and for facilitating an orderly transition to carbon neutrality, there are areas where central banks can and must contribute. It is of the utmost importance that central banks respect their mandate and act responsibly in the face of a threat of this enormity.

Understanding the potential risks and impact of climate change on the macro-economy and on the resilience of the financial system falls within central banks' purview and responsibilities. This underscores the importance of identifying, monitoring, and assessing climate risks for the financial system.

Likewise, it is important that any central bank demonstrate leadership in moving its own operations and activities towards carbon neutrality.

The Central Bank of Iceland commits to the following:

- The Bank commits to achieving carbon neutrality in its own operations, starting a determined process in that direction in 2021. The Bank has also set a goal of a 40 percent carbon footprint reduction by 2030, so as to support the Icelandic Government in meeting its international climate commitments. An action plan to achieve this goal will be published as part of the Bank's 2022 *Annual Report*, and the progress made in meeting the commitments will be communicated publicly each year.
- The Bank will introduce supervisory guidance for its supervised entities, with the aim of effectively identifying, measuring, and monitoring the climate risks to which they are exposed. The Bank will work with financial institutions to better understand climate risks to the financial system and the wider economy, both physical risks and those related to a transition to a net-zero economy.

- The Bank commits to including climate risk in the stress testing of the financial system and financial market participants, based on NGFS scenarios. The Bank will use the results to raise awareness among financial market participants and other stakeholders about the potential impact of climate risk on financial stability.
- The Bank will develop minimum standards for the incorporation of climate risks into its reserve management policies and practices.
- The Bank commits to sharing knowledge based on its experience and expertise on climate-related topics with financial firms and other authorities so as to enable them to scale up their climate work more effectively.
- The Bank will make use of NGFS training material to provide its employees with the necessary skills and knowledge of climate-related risks, with a view to efficient implementation of appropriate and relevant NGFS recommendations.