Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2016 - 2017

Department/Agency: Australian Prudential Regulation Authority
Question: 167
Topic: Climate change risk
Reference: Hansard page no. 7 - 20 October 2016
Senator: Whish-Wilson, Peter

Question:

Senator WHISH-WILSON: I could probably have a very long session with you on decarbonising the economy and climate change risks, New Zealand's sovereign wealth fund recently announced that they are promising to reduce investments in fossil fuels and target investments in clean energy. I know the Future Fund has taken some steps in this direction in the last couple of weeks. Are you doing any work on the risks associated decarbonising and carbon accounting into the future?
Mr Byres: I would not say there is a lot of work going on. We have certainly been talking about the issue; we have an awareness of the issue; we are continuing to be briefed by others about the risks.
Senator WHISH-WILSON: Do you see this as being a risk?
Mr Byres: It is certainly a possible risk, yes. Part of our task is to make sure that the regulating institutions which actually have the risk are conscious of it and are thinking about it. It is not for us to mandate what their strategy should be in response to that risk.
Senator WHISH-WILSON: I would like to get from you on notice whatever you are doing in this area.
Mr Byres: We can send you a short note on that.

Answer:

APRA has been keeping abreast with developments on climate related risks for regulated institutions both in Australian and internationally. Climate change has been attracting focus from prudential regulators such as the Bank of England as climate change risk is seen as a threat to financial stability.

There are three categories of risks that the Bank of England has highlighted. Physical risk which impacts property losses on insurers, liability risks that impact insures with liability claims against individuals such as directors and officers, as well as corporates and finally transition risks that could impact the value of businesses and the resulting asset price impacts on the balance sheets of regulated entities.

These categories of risk are assessed by supervisors for APRA-regulated institutions and feed into an institution’s risk rating and subsequently the intensity with which APRA supervises these institutions.

APRA has been engaged with climate experts to further build on understanding on these impacts of this emerging category of prudential risk and it is an item on the APRA Board agenda.