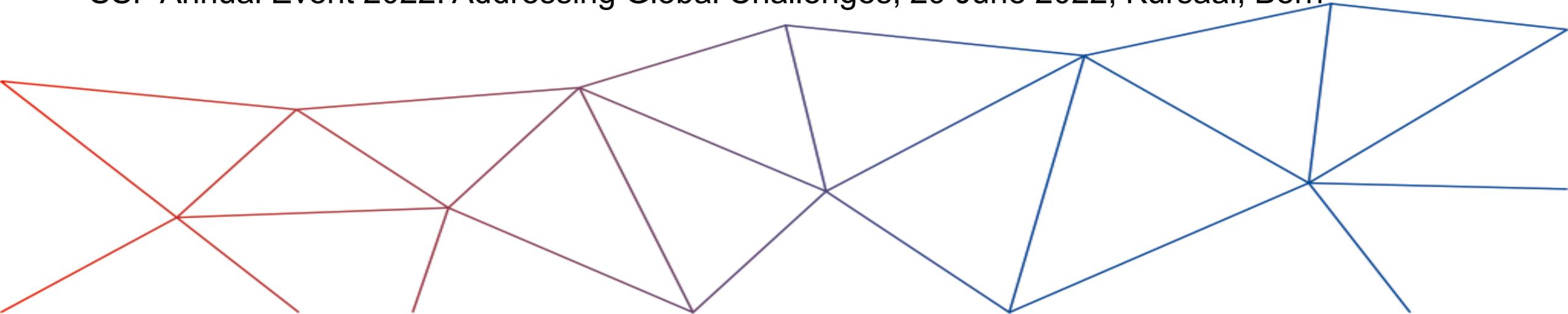

FINMA's Approach to Sustainable Finance

Prof. Dr. Marlene Amstad, Chair FINMA

SSF Annual Event 2022: Addressing Global Challenges, 29 June 2022, Kursaal, Bern



FINMA's approach to sustainable finance

Challenges

- Increased importance now and in the future
- Need for close international collaboration

Stability

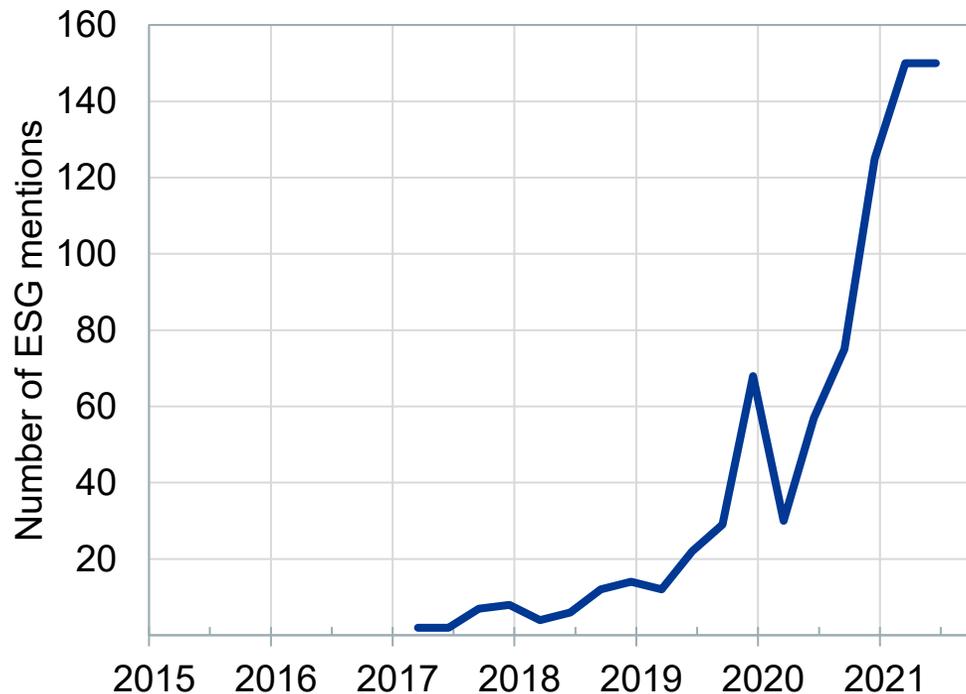
- Climate change: risk driver, not a risk category
- Climate risk map – identify further sustainability risks
- Supervisory concept and transparency

Conduct

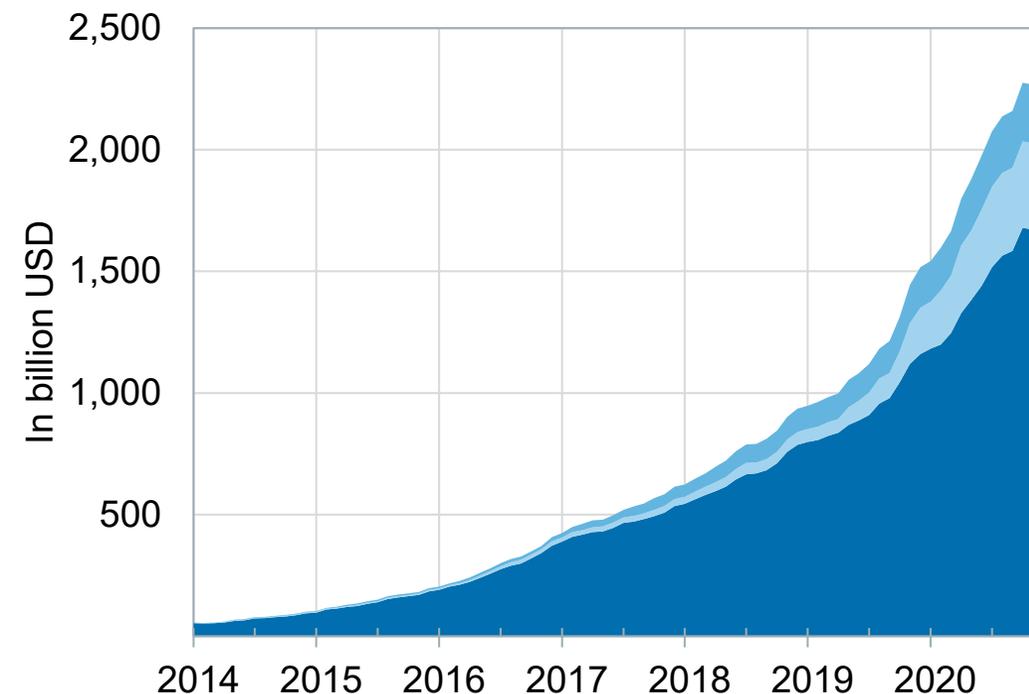
- Preventing Greenwashing

ESG words and deeds increased markedly ...

Number of S&P 500 companies mentioning ESG in earnings releases and volume of bonds labelled



— Number of ESG mentions in earnings releases for S&P 500 companies



Outstanding amounts of labelled bonds:

■ Green ■ Social ■ Sustainability

... and seen as a top 3 risk over the next 10 years

Top 3 global financial risks are all climate-related

“Identify the most severe risks on a global scale over the next 10 years”

■ Economic ■ Environmental ■ Geopolitical ■ Societal ■ Technological



A global problem demands a global solution

Example: Network for Greening the Financial System (NGFS)

Central banks and supervisors

1.



Integrating climate-related risks into financial stability monitoring and micro-supervision.

2.



Integrating sustainability factors into own-portfolio management.

3.



Bridging the data gaps.

4.



Building awareness and intellectual capacity and encouraging technical assistance and knowledge sharing.

Policy makers

5.



Achieving robust and internationally consistent climate- and environment-related disclosure.

6.



Supporting the development of a taxonomy of economic activities.

Two roles for FINMA: a) stability and b) conduct

Stability: prudential

Risk management, governance, disclosure, etc.



Climate risks

(climate-related financial risks)

Conduct: investor and creditor protection

Conduct rules in the advisory process, prohibition of misleading information, etc.



Greenwashing

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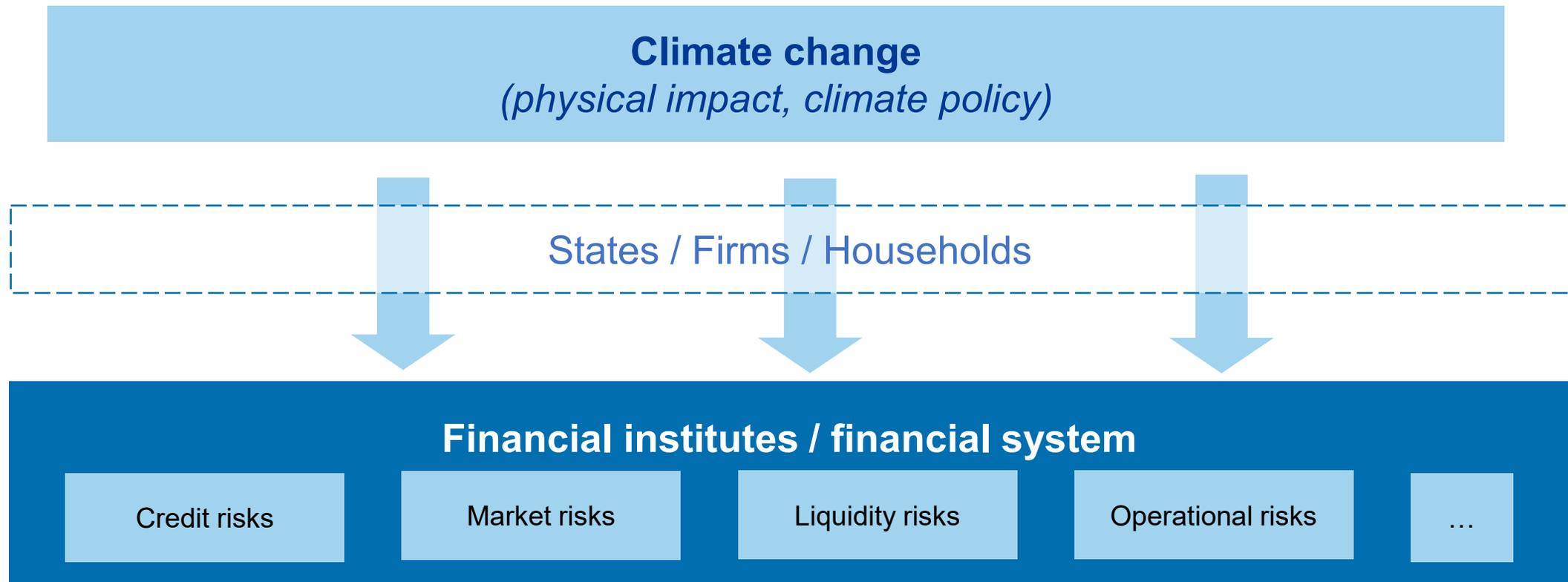
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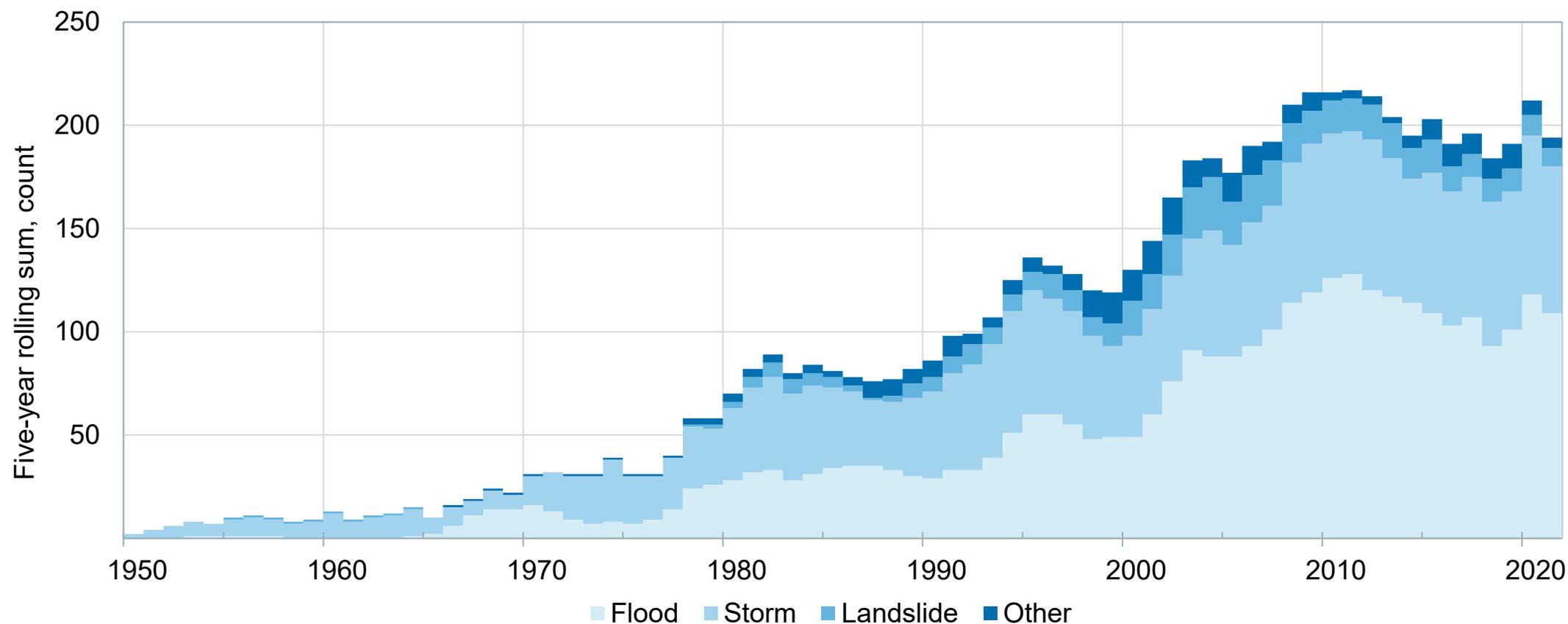
Climate risk: risk driver, not a risk category

Financial institutions can face significant long-term impact



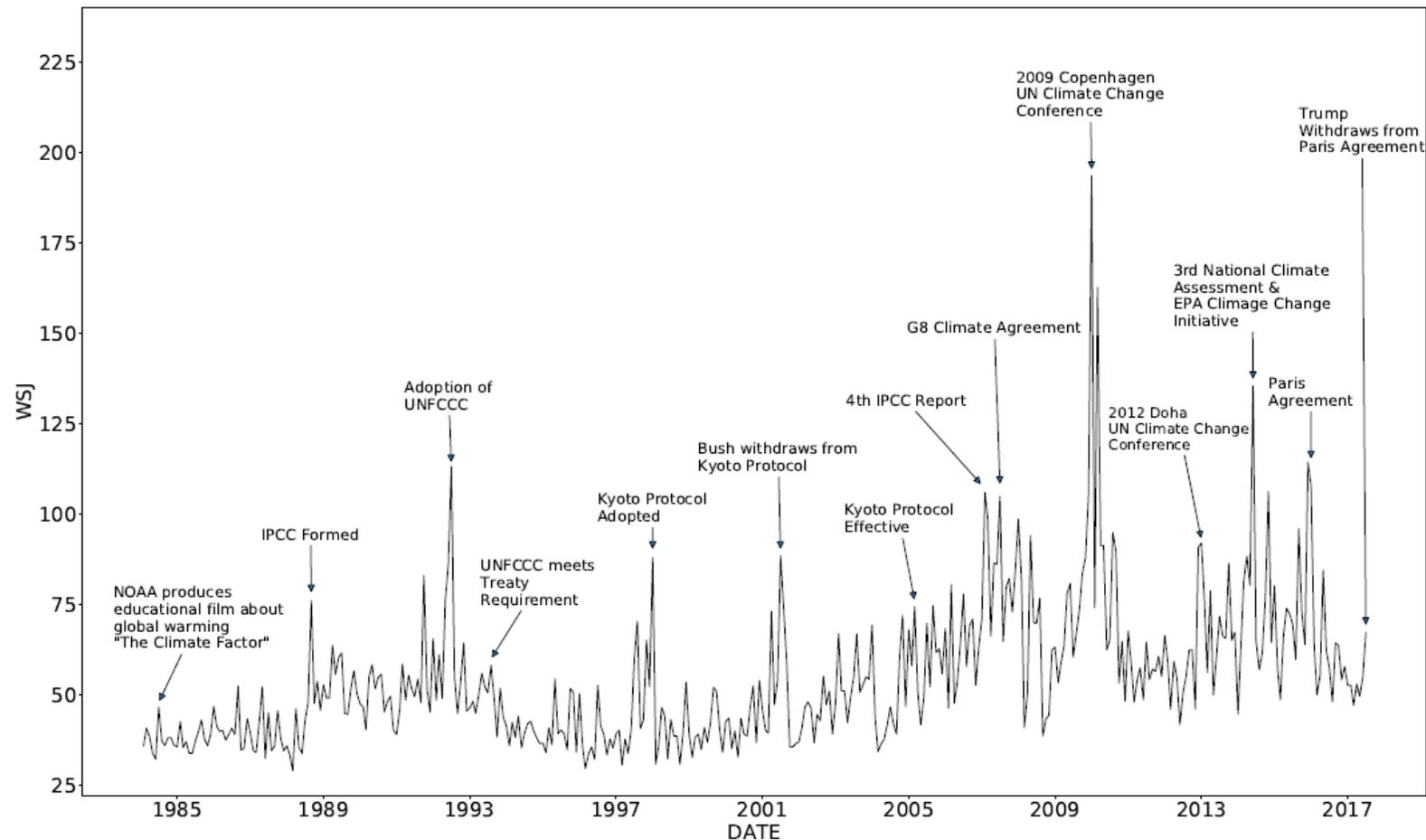
Direct channel

Rolling five-year sum of extreme weather events, count



Indirect channel («transition risk»)

News on climate impacts performance

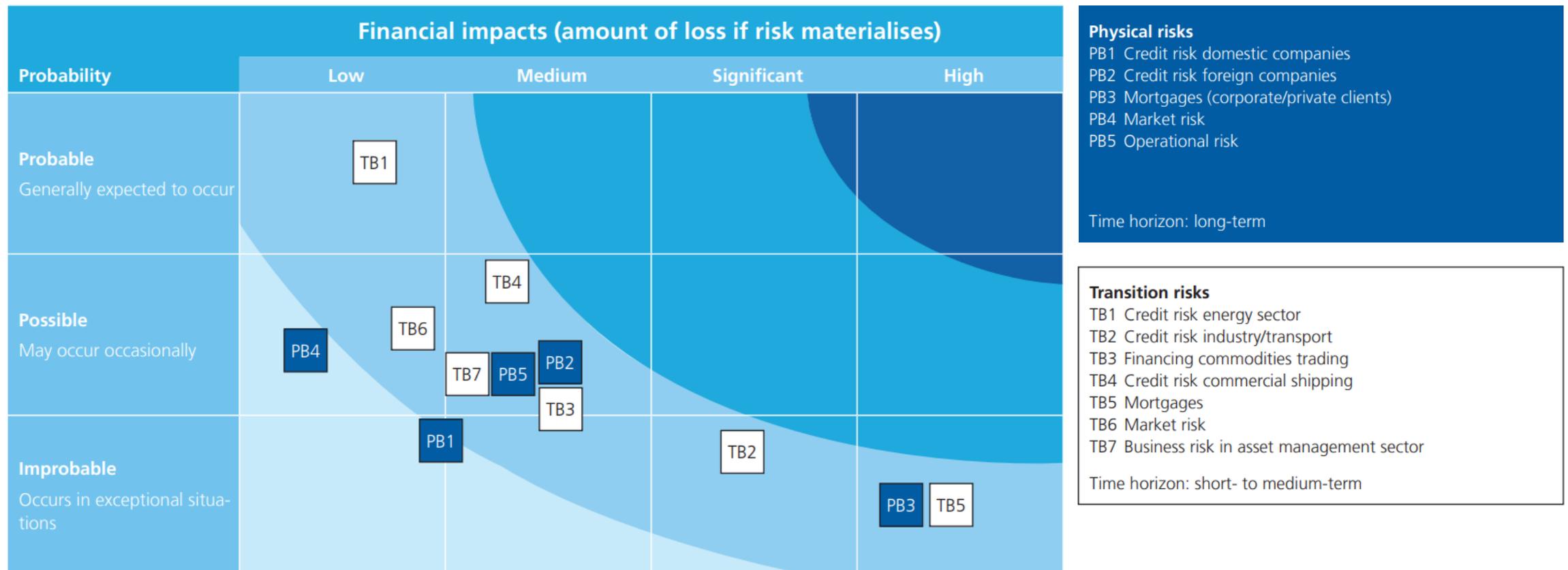


Source: Engle et al (2020) «Hedging Climate Change News».

FINMA developed a heatmap

Identification and assessment of risk

Heat map for Swiss banks



The physical climate risks and transition risks are not directly comparable, in particular due to their different time horizons.

FINMA is developing a supervisory concept

Monitoring

Institution level

- All significant risks must be managed
- Responsibility for comprehensive risk management, incl. climate-related financial risks

Supervisory level

- General supervisory approach also valid for climate-related financial risks
- Risk-oriented approach, with focus on potentially highly exposed institutions
- Intervention if significant deficiencies in risk management

FINMA introduces new transparency rules

Subject: climate risks of the institutions (on their own balance sheet)

Motivation: transparency obligation supports appropriate engagement with risks and promotes comparability and market discipline

Proportional: categories 1 & 2

Principle-based: based on the content of TCFD recommendations

Disclosure content: qualitative and quantitative disclosures

Metrics: disclose relevant metrics (free choice) while making the methodology

Timeline: published in May 2021



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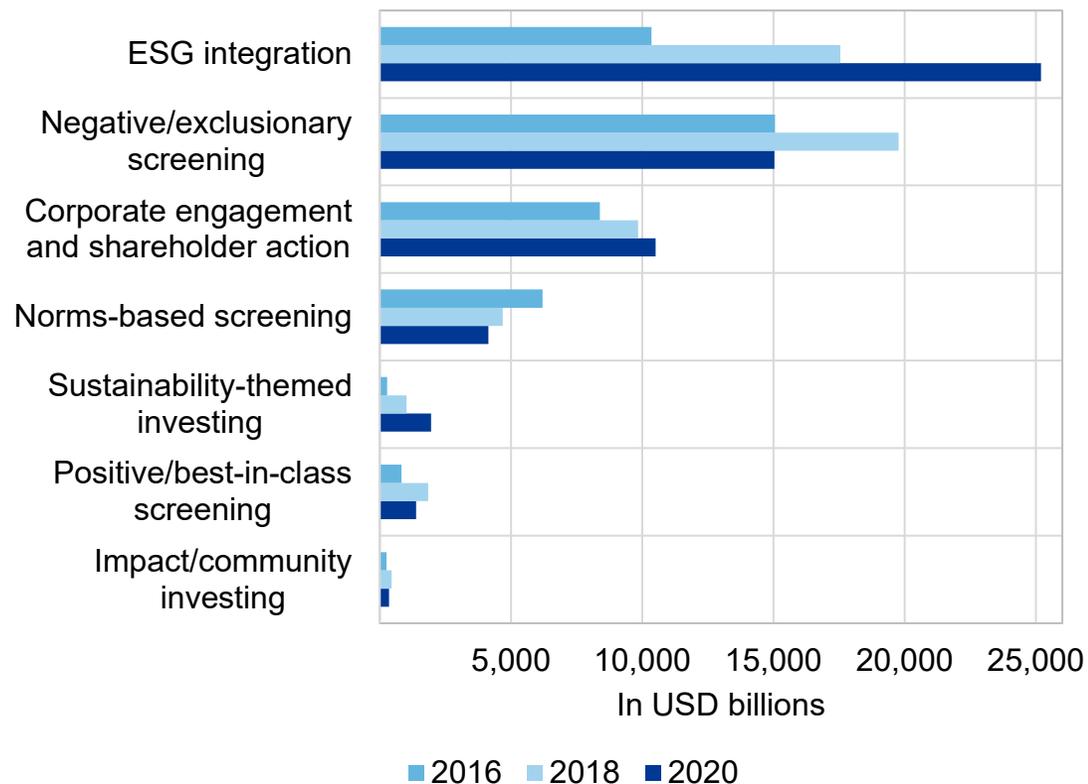
Conduct

- Preventing Greenwashing

As volumes increase, so do risks

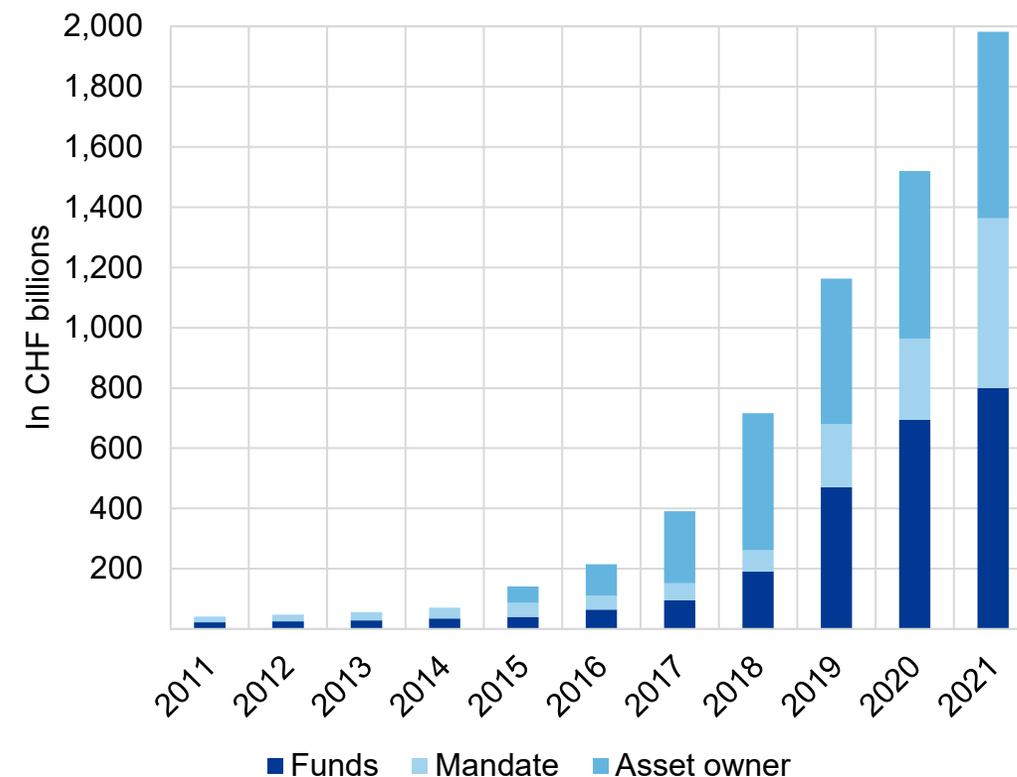
Globally and in Switzerland

Global growth of sustainable investing strategies 2016-2020



Source: GSI Alliance, «Global sustainable investment review 2020».

Development of sustainable investments in Switzerland



Source: SSF, «Schweizer Marktstudie Nachhaltige Anlagen 2022».

Application of current supervisory law

But no mandatory definition of «green» or «sustainable»



Prohibition of misleading information



Minimum requirements regarding the content of fund documentation



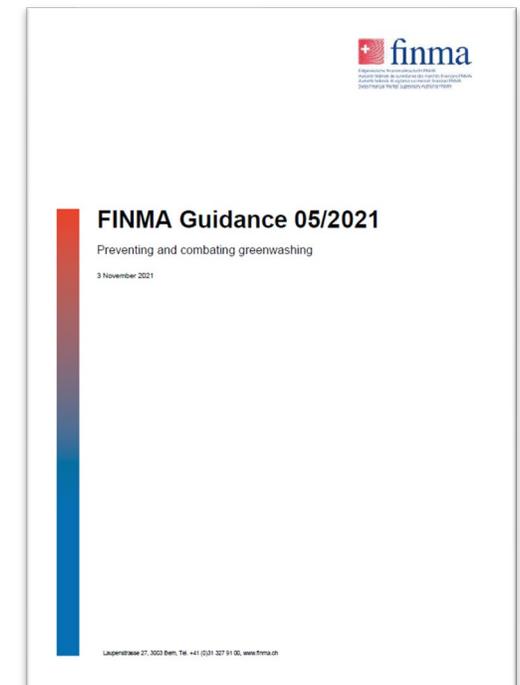
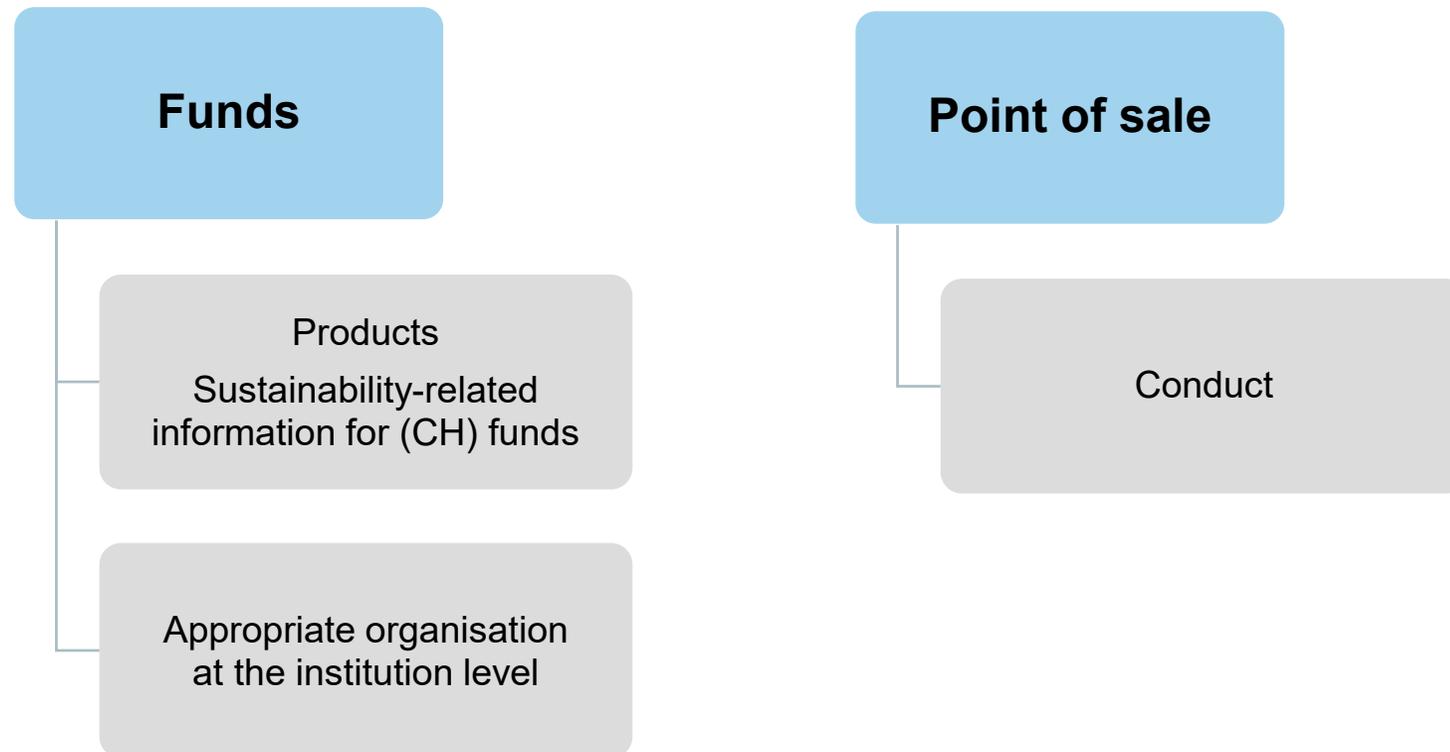
Duties of conduct (CISA)



Organisational requirements of the institutions entrusted with the management

FINMA published its expectations

Principle: «does it do what it says on the tin?»



FINMA Guidance
November 2021

Risks and opportunities

