

MEMORANDUM



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Finansinspektionen's Work in 2018 to Contribute to Sustainable Development

Summary

Finansinspektionen (FI) received a number of specific assignments in this year's appropriation directions that aim to contribute to sustainable development. FI has conducted a number of supervision activities related to sustainability at the same time as the organisation has been partly restructured and received additional resources. During the year, FI's work has focused on integrating sustainability-related matters into its ongoing supervision, a project that will continue and be intensified. We also observed in 2018 that there has been somewhat of a change of intensity in terms of the work at the international level: a project is under way in the EU for the Commission's action plan for the financing of sustainable growth¹ and the cooperation between the supervisory authorities and the central banks with regard to sustainability-related matters has expanded and been intensified (a number of new groups and networks were started and grew in scope). The international work, which is a prerequisite for progressing in a number of important topics in the area, is therefore moving forward, and FI is continuing to take an active role. FI has also noted that the focus continues to lie on climate-related matters due to their close connection to financial stability.

FI's basic premises

FI sees sustainability issues as a natural extension and development of our remit to promote financial stability, good consumer protection and well-functioning financial markets. Sustainability issues represent external risks that must be taken into account and given their due place in the risk assessments conducted by both financial firms and FI. By inducing financial market participants and markets to take sustainability-related risks into account in their day-to-day operations in the same way as they do other risks, FI can promote the stability of the financial system.

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN>

It is also important that consumers and investors have access to relevant information so that those who want to invest sustainably are able to and that the products are actually as sustainable as they claim to be. This can allow the financial sector to support the transformation of the economy that individual savers and investors want to contribute towards.

Stable and well-functioning financial markets are also a prerequisite if the financial sector is to have the ability to effectively support the extensive measures and investments required in order to achieve sustainable development and meet the sustainable development goals that are defined within the framework of the 2030 Agenda. The financial markets and financial supervision thus also have an important role to play from a wider perspective.

The assignments in the Letter of Appropriations

FI's appropriation directions for 2018, issued by the Government, its duties with respect to sustainability, was specified as follows:

3. Assignment

5. Contribute towards sustainable development

Under the reporting requirements, Finansinspektionen shall report on how sustainability is being integrated as a natural part of financial supervision and regulation.

One of the prerequisites for this is access to relevant information.

Finansinspektionen is tasked with taking specific action to increase the transparency and comparability of sustainability-related information and taking action to develop how scenario analysis can be used by financial firms for the purposes of identifying and quantifying various climate-related risk factors on the basis of the inventory of problems set out in the report Finansinspektionen's work in 2017 to contribute to sustainable development (Fi2017/04240/FMASTAB) In this work with scenario analysis, Finansinspektionen shall continue to work in conjunction with the industry and other relevant participants in the Swedish market, but shall also observe and participate in international work that is taking place. This is because internationally supported input values are a prerequisite for such analysis.

The report's contents should include a description of:

1. The work to follow up the implementation of the G20/FSB initiative; Task Force on Climate-related Financial Disclosures (TCFD), the report's recommendations on financial firms' reporting concerning the climate and other relevant sustainability aspects and the use of scenario analysis for the purposes of identifying and quantifying associated risk factors.

2. The work to promote access to relevant and comparable information about sustainability in the Swedish fund market and how the industry's efforts to standardise the information about sustainability that fund management companies and AIF managers have to provide from 1 January 2018 has been followed up.

A report on this assignment is to be submitted to the Government Offices of Sweden (Ministry of Finance) no later than 7 November 2018.

FI's work in 2018

Integration

FI's aspiration in terms of sustainability is for this to be integrated as a natural part of our ongoing supervision, and on the basis of the objective of this supervision – to promote financial stability, good consumer protection and well-functioning financial markets. Over the course of the year, this has been expressed through measures including a new internal organisation and governance structure for sustainability work being put in place, at the same time as additional resources have been allocated. We have also increased our internal information initiatives concerning sustainability issues in order to achieve broad support for and an understanding of the nature and significance of the supervision. FI intends to continue with both general and targeted information and knowledge initiatives.

In recent years, FI has implemented a number of targeted supervision activities related to sustainability. These have largely been expressed in reports and investigations that focused specifically on sustainability aspects. This has been necessary in the initial stage in order to gain an understanding of how financial firms are working with these issues and to identify what role FI can and should have in this area. In the areas where targeted activities are necessary, we will continue implementing such initiatives. However, FI intends to shift the balance in the work to integrate sustainability issues into ordinary supervisory work and thus also into the internal processes and the ongoing supervisory duties within each section. FI has set a process of this type in motion by having included sustainability aspects in a number of ongoing analyses in the supervisory work that has taken place over the course of the year.

The work to integrate sustainability into regular supervision also has important international dimensions, for example with regard to the European supervisory authorities' (ESAs) work on these issues; something that is expressed in concrete terms in the ongoing work with the European Commission's action plan for financing sustainable growth (see below). This past year, the European supervisory authorities have drawn up their own action plans based on the Commission's action plan. Important discussions concerning integration into

supervision and the sharing of experience in this matter are also taking place through the international networks in which FI is involved, such as NGFS and SIF (see below).

The principle task of supervision is to prevent problems. This is especially valid for the field of sustainability, where planning far in advance may be required in many respects or, expressing this in a different way, where there is a need to take action in the near future in order to overcome risks that may only materialise much later. In order for supervision to make the greatest difference and reap the most benefits, it must therefore and to the greatest possible extent be both risk-based and forward-looking. That is why FI has, this past year, begun the work of developing a conceptual framework for the work with sustainability issues on the basis of experience from activities in this area in recent years. Within this conceptual framework, we will be adding greater detail to the description of the sustainability-related factors that are relevant on the basis of the objectives of financial regulation and supervision and of how these can be translated into risks from the perspective of stability or that of the consumer. On this basis, the task is to identify those parts of ongoing supervision where sustainability issues are to be prioritised and integrated. In addition to forming the basis of FI's future efforts to integrate sustainability, the conceptual framework will also be an important tool in the dialogue we are engaged in with financial firms and other stakeholders.

Improved transparency and comparability

One decisive barrier in terms of work with sustainability among both authorities and firms has been, and remains, the lack of transparency; there are no clear and consistent terms or, in important respects, reliable data. The global nature of sustainability issues – in particular climate issues – means that it is necessary for terms and definitions to have international support.

Two important initiatives in this area are the *Task Force on Climate-related Financial Disclosures* (TCFD), an effort initiated within the FSB/G20, the recommendations of which were published in June 2017, and the work with the European Commission's action plan for financing sustainable development, a central aspect of which is the ongoing work on a "green taxonomy" that will make it possible to identify green activities. The taxonomy acts as a starting point for many of the other measures in the action plan, for example with regard to the requirement to report sustainability information, sustainable indices, standards for green bonds and labelling of financial products. FI has worked actively in various ways with both of these initiatives.

Follow-up of the implementation of the TCFD recommendations

Dialogue with the industry reveals that the TCFD recommendations are well known among financial firms. In addition, FI is able to conclude that there are currently thirteen Swedish financial firms that have formally expressed their support for the TCFD recommendations. We can also see that the industry is working actively with issues related to the reporting of climate-related aspects and that the work to develop methods for scenario analysis is ongoing. At the

same time, it is clear that the firms are in the initial phase of this work, which is also FI's conclusion in the survey of the firms' sustainability information that we have conducted over the course of the year (see below). The dialogue with the industry also reveals that there is a need to improve and learn from good examples. Furthermore, if serious progress is to be made with this work, there remains a demand for internationally supported measures, methods, basic assumptions etc.

Since the autumn of 2017, when FI held a seminar about the TCFD recommendations together with SNS (*Centre for Business and Policy Studies*), FI has been monitoring developments and has participated in activities relating to the issues highlighted in the TCFD report. We have held bilateral discussions with firms and trade associations about the work on scenario analysis. This work will continue. For example, we are planning, together with our international colleagues, who are working actively on the implementation of the recommendations, to hold a seminar with industry representatives at the beginning of 2019. FI would like to contribute in this way to expressing in concrete terms how firms can work with and incorporate the recommendations into their operations.

In addition, it is FI's assessment that the work with scenario analysis that is taking place within the international networks in which we are involved (see below), and which will lead to a number of reports over the course of 2019, will be valuable to the work that lies ahead. We intend to continue our involvement in the international work in this area.

Supervisory activities

In 2017, FI conducted an inventory of questions and potential supervisory initiatives within all of its supervisory areas. Based on this inventory, we have, over the course of the year, conducted three supervision-related activities that resulted in public reports², the principal contents of which are described below.

Sustainability Information in Funds

This report constitutes a follow-up of how the industry has worked to standardise the information on sustainability that fund management companies and AIF managers have been obliged to provide since 1 January 2018. In autumn 2017, the industry developed a standard for sustainability information, which has been part of the self-regulation of this area from this year on. In this report, FI describes the results of a survey we conducted in order to investigate how firmly rooted this information standard is and how it is being applied by fund managers. The aim of the new legal requirement is to make it easier for consumers to select funds in line with their preference for sustainability. FI also conducted focus group interviews in order to get an impression of consumers' understanding of the sustainability information provided in the information standard.

² The reports are available on FI's homepage; www.fi.se

All in all, FI concludes that there are good conditions for continued self-regulation in this area, provided the level of ambition in the industry to continue developing and improving the standard remains high. For example, the industry's scope to make its own interpretations needs to decrease so that application becomes more uniform. In addition, the sustainability information needs to be simplified so that an average consumer is able to understand it.

Integration of Sustainability Aspects into Corporate Governance

In this report, FI describes a survey of financial firms' public sustainability information. The survey was based primarily on the sustainability reports firms of a certain size have been obliged to publish since financial year 2017, but also on other sustainability-related information such as sustainability overviews and sustainability accounts. If work with sustainability is to become a natural part of financial firms' business models and risk management, one prerequisite is that firms' take sustainability-related aspects into account in their corporate governance. This is why FI has used this survey to look at how financial firms describe how they deal with sustainability aspects in their corporate governance and how these issues are integrated into operations.

FI concludes that it is difficult in many cases to determine how sustainability policies are integrated into operations. For example, only around half of the firms describe how policies are applied in practice in day-to-day operations. This makes it difficult to determine how firms' sustainability policies have an impact on operations. In addition, the descriptions of how the risks are identified and managed are often unclear. Only around one-third of the firms clearly state that they have procedures for identifying and managing sustainability-related risks. This indicates that the firms have progressed to varying degrees in their efforts to manage these risks. Finally, it is often difficult to compare sustainability-related information as there are no standardised structures for the presentation of this information. The sustainability information is also often spread out across a large number of different documents.

Follow-up of sustainability perspectives in lending to corporates

In the autumn of 2015, FI conducted a survey looking at how nine large banks took climate-related and other sustainability-related risks into account in their corporate lending. Over the past year, FI has conducted a follow-up of this survey. The conclusion is that the banks are taking sustainability-related risks into account to a greater extent than was the case in 2015. For example, this is apparent through which sustainability aspects the banks address in their internal governance documents and the detail in which they describe their work with sustainability. We see the greatest change in the governance of issues linked to climate and the environment, while changes are not so clearly evident in governance documents concerning social issues and governance issues. The banks have also expanded the resources allocated to work with sustainability and have increased the transparency in terms of how they are working with these issues, for example in the form of the sustainability overview, an initiative of the Swedish Bankers' Association. The sustainability overview is

used by eleven Swedish banks to present, publicly and in a relatively uniform way, how they are taking sustainability issues into account when lending to corporates.

Nevertheless, there are areas where further development is required. For example, it is important that the banks communicate in a clearer way both how they are undertaking advocacy work and also what the implications are of the fact that they are adhering to international guidelines. Accordingly, FI welcomes continued initiatives on the part of the banks to make their descriptions of how sustainability is integrated into their operations even clearer.

International work

Working internationally is necessary to make progress on a number of important issues. During 2018, there has been a clear increase in activity in various groupings and on several different levels. The focus continues to be largely on the issue of climate change due to its close connection to financial stability.

Over the past year, FI has increased its international work and has also begun pushing for more to be done in terms of, for example, work with scenario analysis and transparency. We believe there is much value to be gained from continuing our active participation in international work, both to contribute to its development and to study and learn from others' experience in this area. Hence, this work is also an important contribution to our internal integration efforts. A number of the initiatives in which FI is actively participating are described below.

Work with the European Commission's action plan

In close collaboration with the Ministry of Finance, FI has been following and analysing many of the questions and proposals that are included in the European Commission's action plan and, prior to that, in the investigatory work preceding the action plan within the *High-Level Expert Group on Sustainable Finance* (HLEG). FI is also working actively with sustainability issues within the scope of the European supervisory authorities, for example through participation in the working groups that are working with the various parts of the European Commission's action plan. Within the scope of the European Insurance and Occupational Pension Authority (EIOPA), FI, as chair of the *Policy Steering Committee*, also has an important role in terms of overall responsibility for the management of the authority's sustainability work.

Central Banks and Supervisors Network for Greening the Financial System An international network consisting of eight central banks and supervisory authorities, FI among them, was formed in the autumn of 2017 and was subsequently named the *Central Banks and Supervisors Network for Greening the Financial System* (NGFS). Over the course of 2018, this network has been expanded to 19 members and 5 observers. The aim of the network is to share

experiences and information and to document and develop good examples in this area.

Even at this stage, the work has resulted in valuable insights and both opportunities and challenges. This past year, the network has operated within the scope of three working groups, with FI having been involved in the working group that focused on supervision-related issues. In the future, FI will also be leading the work of a sub-group that will be analysing the issue of potential risk differentials between different types of “green” and “brown” assets, respectively. The network publishes its first status report in October. A final report is planned for April 2019.

European Systemic Risk Board

Ahead of 2018, FI, together with the French central bank, took the initiative to form a working group within the European Systemic Risk Board (ESRB). This working group is working with the question of how scenario analysis of climate-related risks could be used in the work to assess risks to financial stability. This work started in the summer of 2018 and the group has since taken stock of the questions, methods and problem areas pertaining to, for example, model approaches, the use of climate scenarios and opportunities to chart financial firms’ exposures. This work is taking place within the scope of three sub-groups, with FI being responsible for the group that took stock of different ways to obtain data concerning exposures. A report will probably be ready in the first quarter of 2019.

IOSCO Sustainable Finance Network

In spring, FI instigated the creation of a sustainability network within IOSCO, the global organisation for cooperation between supervisory authorities in the field of securities. As a standard-setting global body, IOSCO has an important role, and its members cooperate within this organisation on matters including the development of standards in the field of securities, improving protection for investors and information-sharing.

In October, IOSCO’s board approved a proposed mandate that FI had drawn up for this network, which is called the *Sustainable Finance Network*. This mandate states that the network will provide a platform for IOSCO’s members to share their experiences and discuss sustainability-related issues in a structured way. The network is an important stage of IOSCO’s work with sustainability issues.

FI’s Director General was elected as chair of the network and FI will also be acting as its secretariat. FI will therefore be appointing a coordinator for the network, who will be responsible for initiating and running the work within the network.

Sustainable Insurance Forum

FI has been a member of the Sustainable Insurance Forum (SIF) since 2017. The SIS is a global network of supervisory authorities in the field of insurance

that are working together with regard to how to deal with relevant sustainability issues. The forum was convened by the UN Environment Programme (UNEP). In March, the SIF published a report on the risks in the insurance market that are linked to climate change. FI has contributed to this report, the content of which includes descriptions of case studies and pertinent examples of issues and challenges that supervisory authorities are working on within the field of sustainability.

In the second half of 2018, the SIF began working on a bank of questions that will act as a tool for supervisory authorities to use in order to understand insurance companies' exposure and strategic position with respect to climate-related risks and opportunities. FI is also participating in this work, which is an important step on the road to developing and expressing in concrete terms how sustainability can be integrated into supervision.

Other supervisory cooperation

In the past year, FI has been engaged in frequent discussions with other European supervisory authorities on sustainability-related issues. This has taken place both bilaterally and through an informal network that primarily dealt with sustainability from the perspective of the market and conduct. At the Nordic level, we have also addressed sustainability-related issues in a number of existing supervisory networks.

The 2030 Agenda and the global goals

Every Swedish authority is responsible for making a contribution towards achieving the 2030 Agenda and the global sustainable development goals. Since 2016, FI has been part of the GD-Forum, which brings together the CEO's for just over 60 Swedish authorities under a statement of intent to include the three dimensions of sustainability in their respective operations. FI has been working actively this past year as part of the GD-Forum, both on the group's internal work, but also in partnership with the 2030 Agenda delegation and the Government Offices in the work on the national action plan.

FI has also held internal training programmes on the 2030 Agenda at both the administrative officer level and among senior management. This is part of the process of integrating sustainability into day-to-day operations. Our intention in future efforts in this area is to identify more clearly the links between our operations and the global goals and make these links visible.

FI's future work

As stated, FI is planning to change how we work with sustainability; making a transition from conducting specific investigations towards integrating sustainability aspects to a greater extent into ongoing supervision.

Ahead of the planning process for the supervisory activities for 2019, FI has identified a number of areas where sustainability aspects are relevant and will continue working on how the issues are to be integrated. In addition, we intend

to continue working actively in the rapidly emerging international cooperation pertaining to supervision and sustainability, something which is also closely linked to integration issues.