P R O M E M O R I A

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Agenda 2030 – measures taken by Finansinspektionen (FI) (the Swedish FSA)

During 2015 and 2016, FI has undertaken a number of activities related to the goals of Agenda 2030. Naturally, these have been focused on issues related to financial markets and financial firms. In terms of the goals defined for the Agenda 2030, they primarily have been focused on goals no 12 and 13.

In 2015, FI got a special remit from the Ministry of Finance to discuss issues focused on the impact of climate change on financial stability and on the way Swedish banks deals with these issues in their credit policies.

To this end, we delivered two reports, one in November 2015 describing and discussing bank's handling of climate risks, and one in March 2016, discussing the way climate risks and climate policies may affect financial stability.

In the **first** report, FI surveyed the bank's internal rules regarding credit granting to companies from the perspective of the environment and sustainability.[1] The survey covered nine banks that together account for the majority of total corporate lending in Sweden. FI also reviewed the legal conditions applicable in this context.

The survey showed that the banks' internal rules do take environmental risk into account, as part of the credit risk, in their credit assessments when lending to companies. It is thus a question of an assessment from a financial aspect, where a higher environmental risk can lead to a poor deal for the bank. The banks' internal rules also show that environmental risk should be taken into account also with respect to their own ethical guidelines, prestige and reputational risk. But we also could see a need for banks to be more transparent, not least towards their customers, on how climate issues are involved in their processes.

In the **second** report, we could note that Swedish financial institutions have relatively small exposures to climate risks.[2] This means that the current risk that climate changes will cause problems for financial stability is low. However, we could also see that

[1] "Environmental and sustainability perspectives in credit granting to companies", November 2015
[2] ”Climate change and financial stability", March 2016

there is a need for more information as well as improved transparency surrounding climate-related risks within the sector. Financial institutions also need to develop stress tests and analyse scenarios in order to identify and assess consequences that could arise from these risks, and how such consequences could be prevented. Also, in a wider and more long-run perspective, climate risks will affect the economies, and hence the financial sector, in a number of ways. We cannot rule out the possibility of changes that may be dramatic. So, from a supervisory perspective, it is fair to say that climate risks represent yet another reason why it is important to have good resilience in the financial system, for example through large capital buffers held by the banks.

For 2016, we have got a new remit in this field from the Government. The issue now is, in a way, more “pro-active” – e.g. to discuss if and in what ways the financial system and financial regulation can foster and contribute to the adaption to climate changes and mitigation of climate risks.

To this end, we have initiated two projects. The first one will make an empirical investigation what financial firms (banks, insurers, fund managers etc) actually do today to manage these issues, what problems and restrictions they experience, and if they see need for regulatory changes etc that could facilitate their work, and ultimatly, contribute more efficiently. We have recently received the answers to a questionnaire that was distributed to around 25 financial firms, and we aim to publish a report early October.

The second project is to discuss and develop a sort of policy-framework for us, as a financial supervisor, on how to deal principally with climate and other sustainability issues. Issues here are, for example, if there are any possible conflicts with our basic goals such as systemic stability or consumer protection, under what circumstances financial regulation may or may not be an efficient way of dealing with sustainability issues etc. This part of the work will be finalised in November.