



Regulador y Supervisor Financiero de Chile

Sustainable Bonds

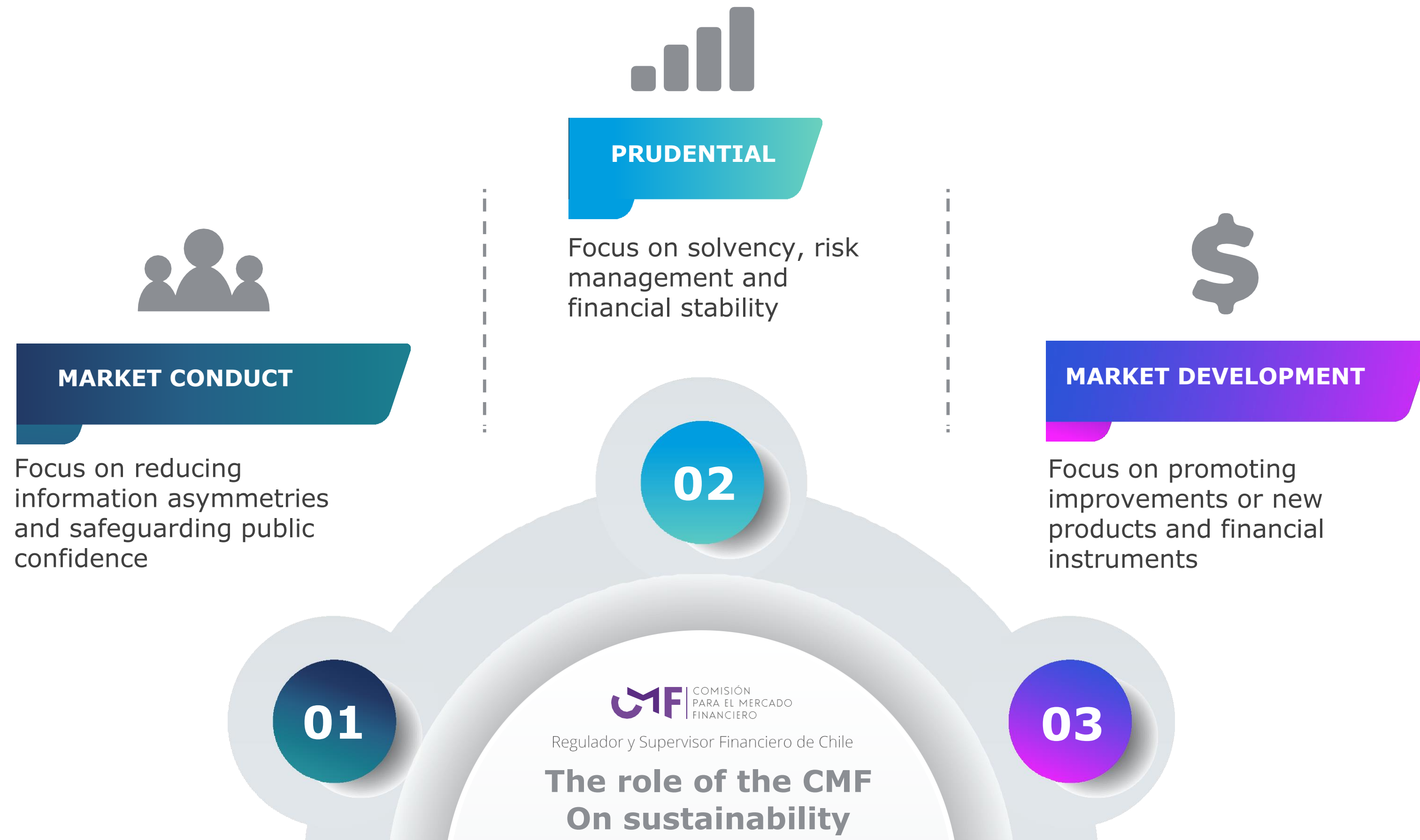
The experience in Chile

Solange Berstein

Chairwoman
Financial Market Commission

May 2024

Our role and commitment to sustainability comes directly from our mandate



Growing interest in ESG factors within financial markets

Increasing awareness: Entities affect the environment and at the same time the environment changes impact entities

Investors

- Rising interest in investing in sustainable enterprises.
- More attention to non-financial information (ESG)
- Higher demand for “sustainable financial products”

Greenwashing Risk!



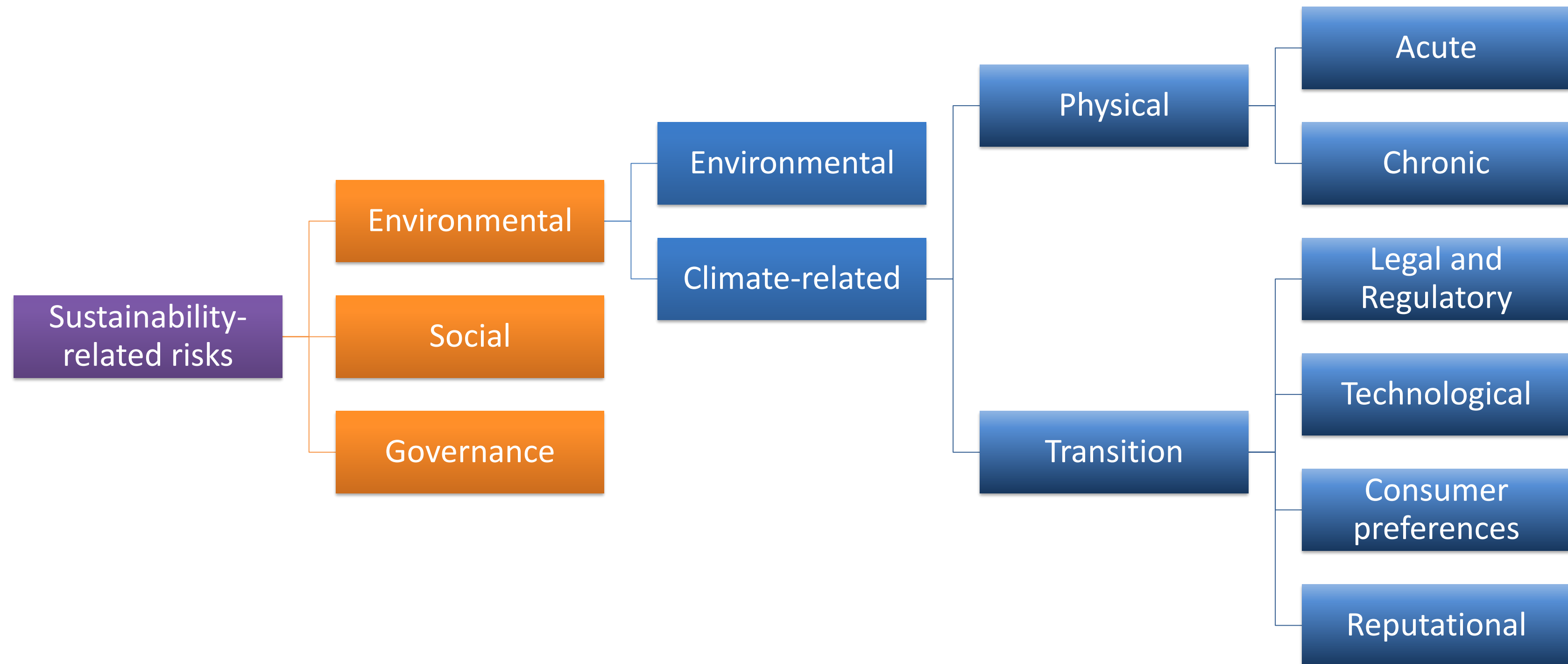
Enterprises

- Sustainable development entails integrating ESG topics into internal management, including corporate governance and risk management.
- Considering ESG criteria for assessing risks and opportunities enables companies to enhance their resilience, reputation, and competitiveness in an increasingly complex and interconnected world.

IOSCO has explicitly recognized the relevance of information disclosure on ESG aspects, and that these aspects could have material impact on the performance of Securities Issuers, and on the decisions and results of investors.

(Statement on Disclosure of ESG Matters by Issuers, IOSCO 2019).

The CMF is addressing several sustainability-related risks, among which climate-related risks are a major concern



In September 2020, the Commission issued its Strategy to Face Climate Change

The Strategy states that climate change is:

- is a source of financial risk;
- it poses a threat to financial stability, efficiency and integrity of financial markets; and
- It can impede its proper development.



The Strategy has three pillars:

1. Promote the **disclosure** of climate-related risks
2. Promote the integration of climate-related risks into the **risk management** of the financial system
3. Promote the **development of a green financial market**: which includes market for sustainable bonds.

For the green financial market to develop, it's imperative that we implement the first two pillars: the establishment of robust disclosure mechanisms ensuring the reliability of sustainability information; and second, the adoption of effective risk assessment and management practices by institutional investors such as banks, insurance companies, and asset managers.

Our efforts concerning ESG are part of a broader national commitment



Paris
Agreement



Climate
Change
Framework
Law



Financial
Strategy to
face Climate
Change



Public-private
Roundtable on
Green Finance



Green
Agreement



Other
Policies

Regionally, sustainability takes precedence, and Chile has emerged as a leader in the realm of sustainability bonds

80-90%

- of LATAM annual issuance is from Brazil, Mexico and Chile*

45 - 55 bn USD

- Is the forecasted sustainable bond issuance in LATAM for 2024*

28%

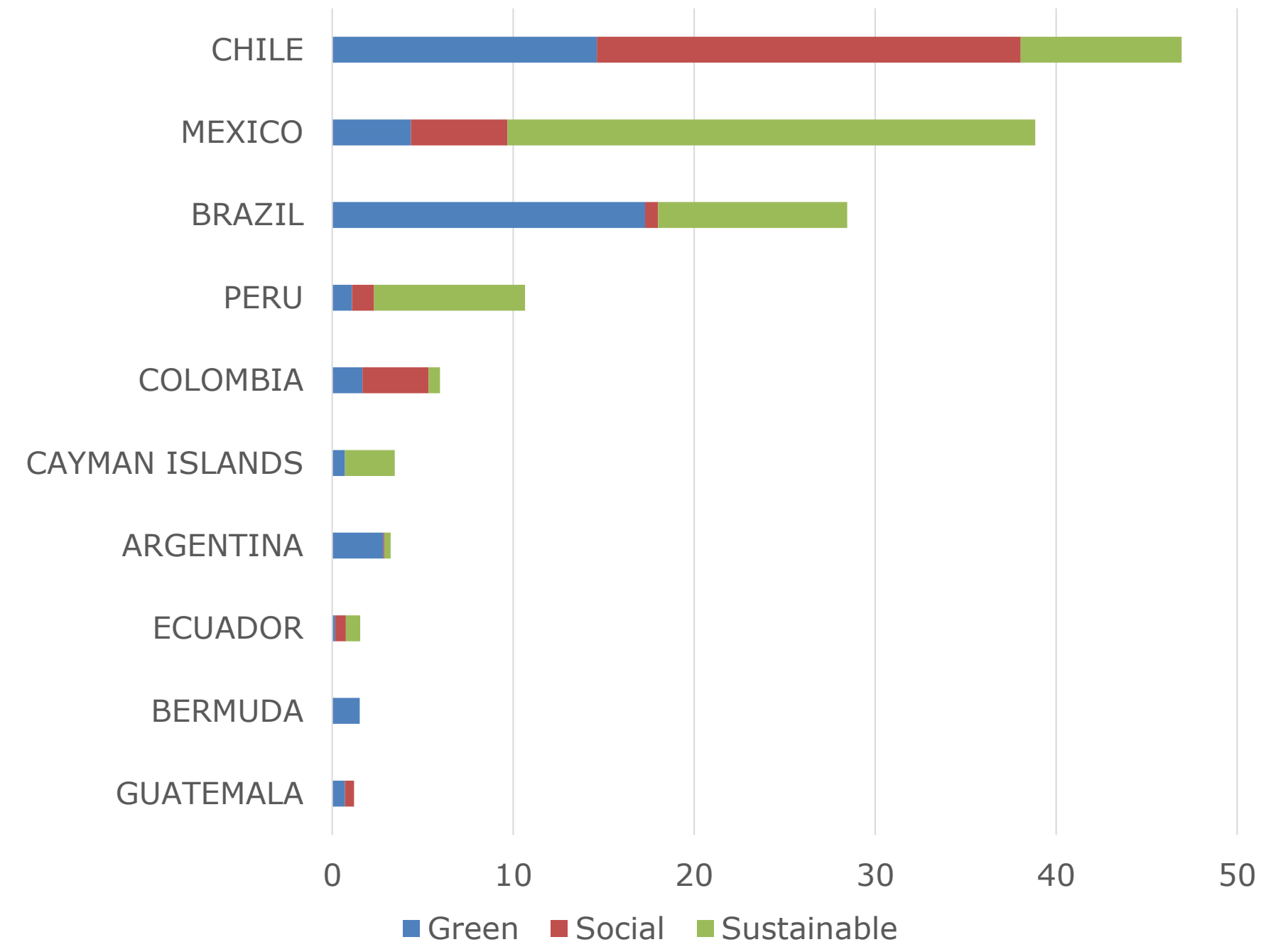
- of total bond issuance was of sustainable class in 2023 *

30%

- Is the forecasted sustainable share of total bond issuance in 2024 *

*[S&P Sustainability insights](#)

Green, Social and Sustainable issuance in LAC as of Dec 23 (bnUSD)

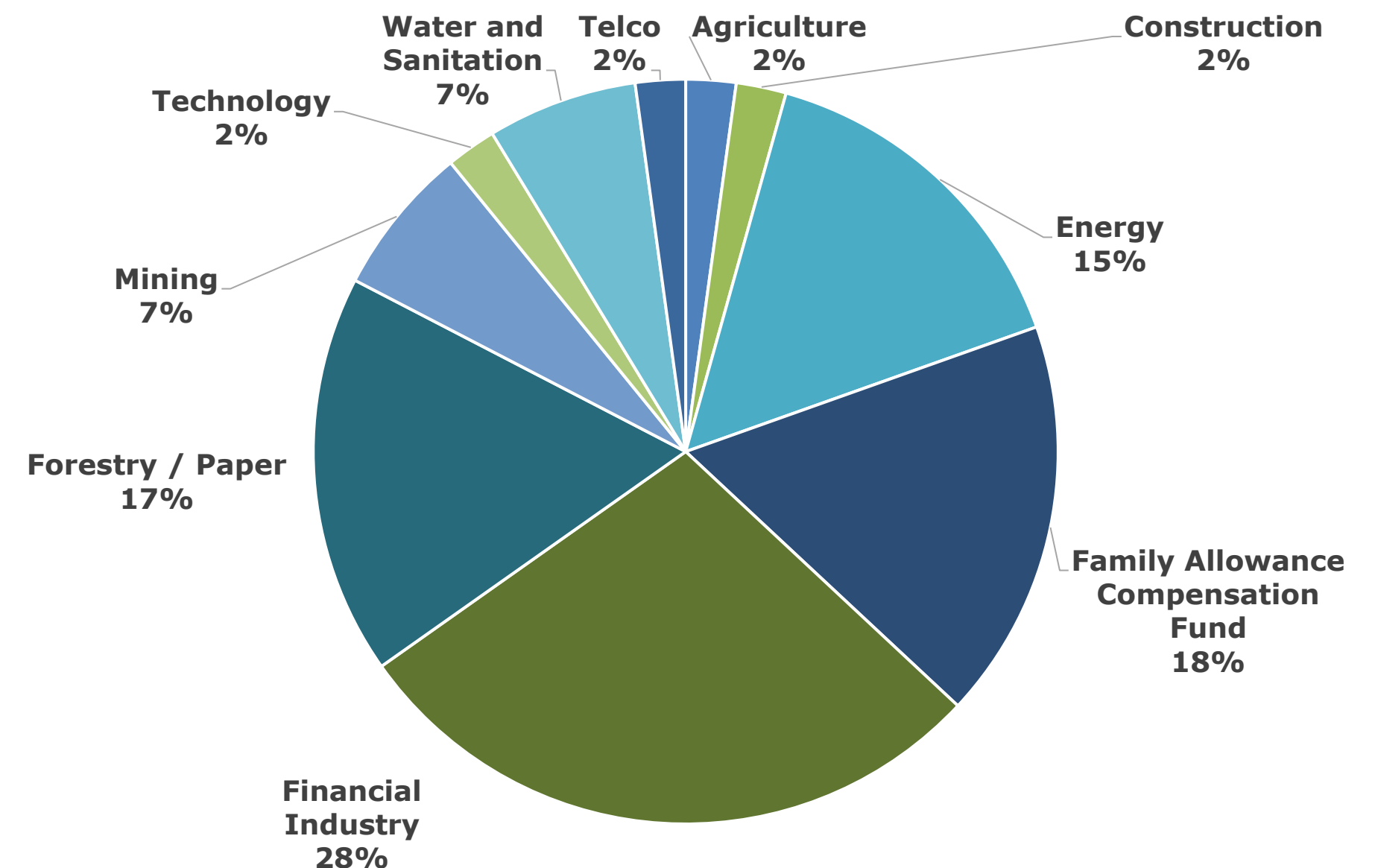


Source: [Climate Bonds Initiative](#)

The attraction of sustainable bonds in Chile has been steadily growing, with increasing issuance from private sector companies

- **The first Green Bond from a Chilean private company was placed in 2017 in foreign markets.**
- **In 2023, two private SLBs were issued, linked to GHG emission reduction**
- **As of April 2024,**
 - 25 private issuers.
 - 9.4 bn USD
 - 75% green bonds
 - 17% sustainable bonds
 - 6% social bonds
 - 2% SLB
- **Diversity of projects (some examples)**
 - Energy, waste recycling, water treatment, GHG control, reforestation
 - People financial inclusion and empowerment
 - SMEs funding
 - Social Credit funding

Industry share of GSSSB issued by Chilean companies, by No. of instruments, as of Apr 2024



Source: CMF, compiled from Santiago Stock Exchange, ICMA, Green Bond Transparency and Annual Reports

Domestic GSSSB issuance at Santiago Stock exchange is a growing market, which is addressing diverse funding purposes

- Green and sustainable bond started on the Santiago Stock Exchange in 2018 and reached 1.96 bn USD by April 2024.
- Accounts for approximately 21% of the total private sector issuance.

Standards accepted by Santiago Stock Exchange



Green Bond Principles (ICMA)



Climate Bond Standards (Climate Bonds Initiative)

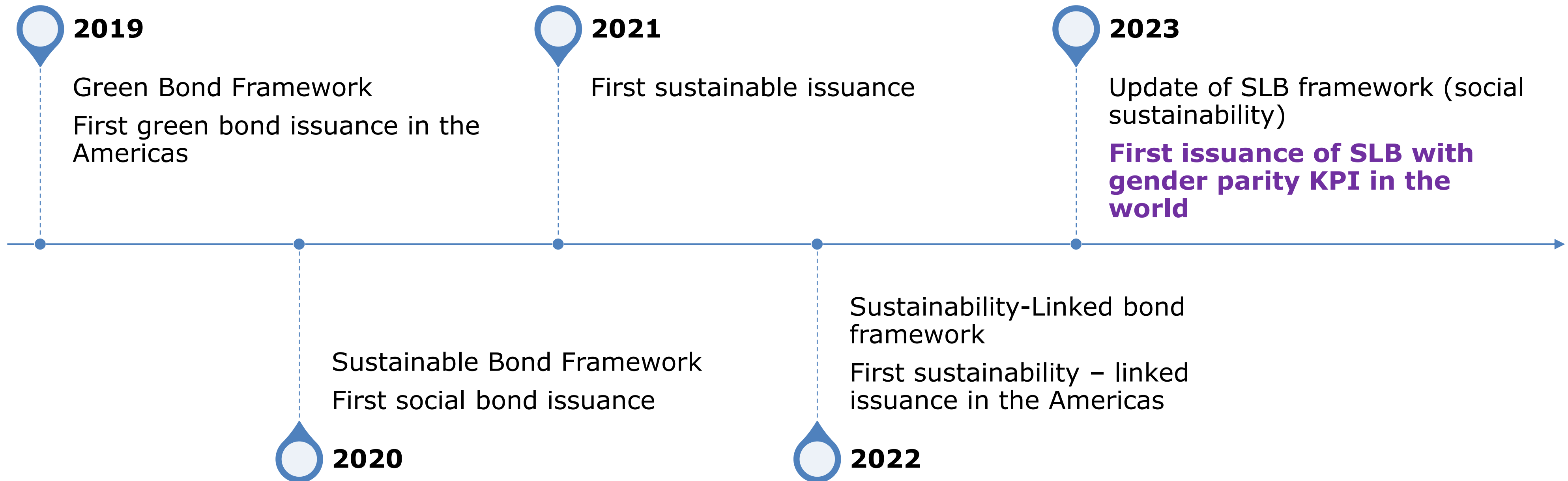


Social Bond Principles (ICMA)



Sustainability-linked Bond Principles (ICMA)

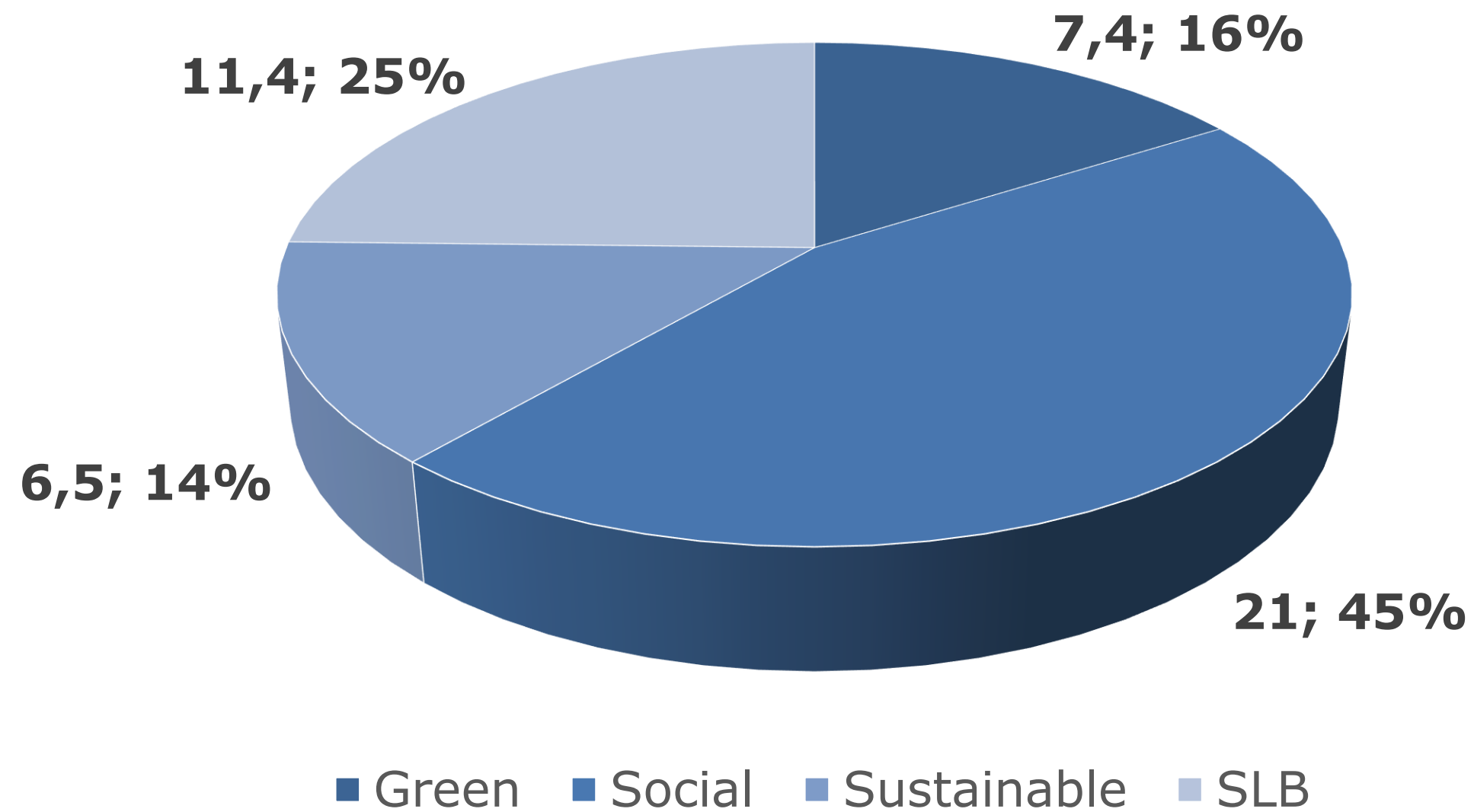
Chile is at the forefront of sovereign issuance, with continuous innovation



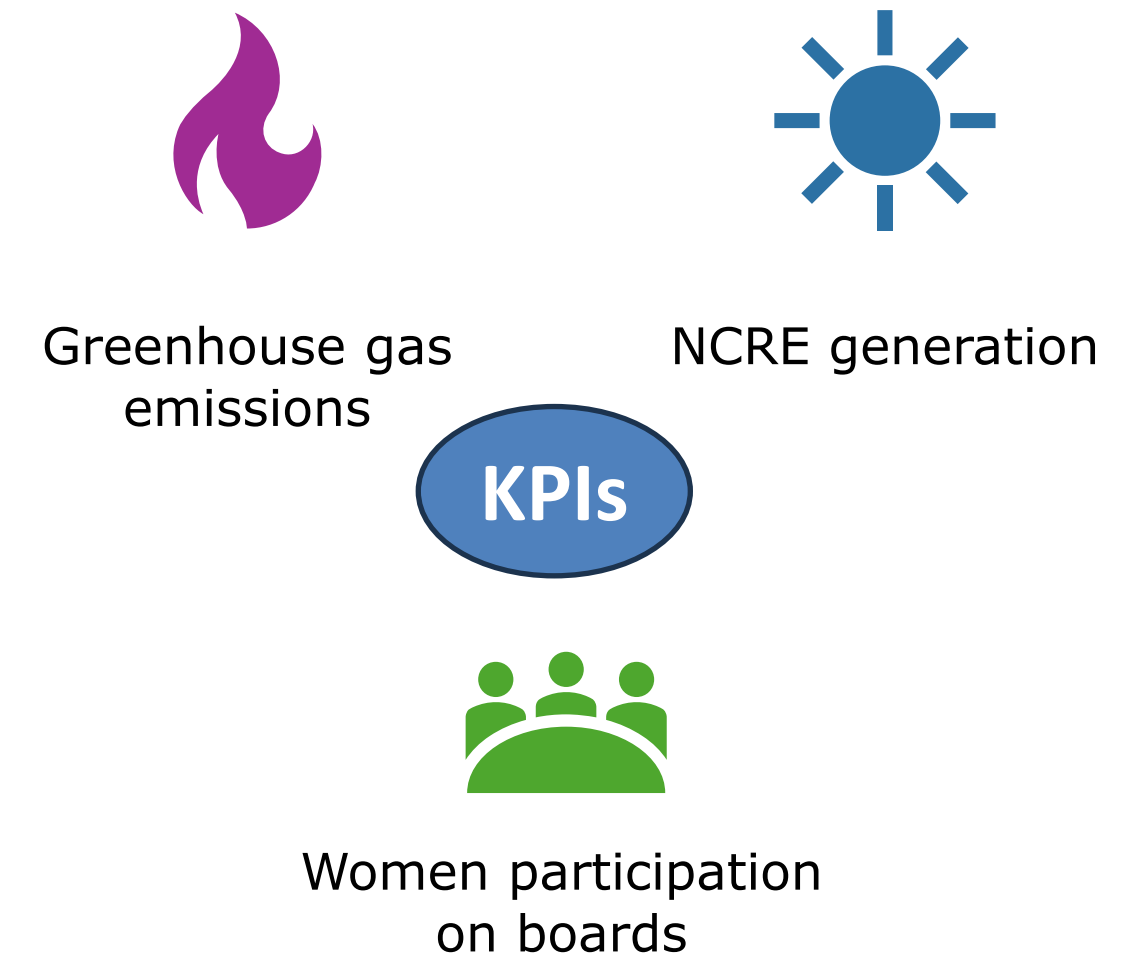
Sustainable sovereign debt- Numbers and some highlights

As of December 2023, GSSSB sovereign issuances amounted to 46.4 bn USD, 36% of public debt.

Sovereign GSSSB issuances in Chile - % and bn USD



Chile's latest innovation: the issuance of Sustainable-linked sovereign bonds



We have made strides forward, though there is still a missing link



We have made relevant advancements in disclosure, encouraging all market participants to consider ESG aspects in their work.



We have a growing public and private GSSSB market.



Institutional Investors are also including ESG criteria

- Pension Funds are required to include ESG considerations in their investment decisions.
- A recent study from the CMF showed that 91% of Fund Managers consider ESG principles as a relevant matter.

Further efforts are needed to encourage investment, facilitate comparison and reduce greenwashing risk

To encourage investment, facilitate comparison and reduce greenwashing risk, we are working on a Taxonomy

- Currently under development → In charge of the Ministry of Finance
- Technical screening criteria-based taxonomy: quantitative thresholds and screening criteria for economic activities and their compliance with the specific objectives.
- Same approach than EU, Colombia, South Africa.

Why is it important?

Common language for what is sustainable

Reduces greenwashing

Supports ambitious sustainable development goals

Strengthens investor confidence

Final remarks

- In particular, with regard to the role of the financial market in general, to the extent that investments are channeled into sustainable activities, we will be better prepared to deal with climate change and other environmental challenges. Sustainable bonds play an important role.
- Information and standards are needed to boost this market and enhance resilience of the financial sector.
- Continue raising awareness, disclosure requirements, data availability for stress testing (NGFS scenario analysis), risk management, investment decisions is critical. And it will also help for the development of this market.
- Disclosure standards as it is the case with recently published ISSB and Assurance Standards are important.
- Regional Taxonomies would need to be aligned to international standards for comparability and built in a way that prevents conflicts of interest.
- Taxonomy and labeling standards and preventing greenwashing is critical.
- Sustainable bonds serve as a crucial part within a broader ecosystem that requires construction according to the highest international standards.



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