COMISIÓN PARA EL MERCADO FINANCIERO

Regulador y Supervisor Financiero de Chile

Issuer Sustainability-related Reporting and Implementation Considerations for Regulators

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The role of the Financial Market Commission

- The Financial Market Commission is the integrated financial supervisor and regulator of Chile, overseeing banks, insurance companies and the securities market.

- The **Commission's legal mandate** is to ensure the correct functioning, development and stability of the financial market, which entails three objectives:

- **Climate change threatens the achievement of each of these objectives**, and therefore, it is part of the legal mandate of the Commission to face it.

The Commission’s Strategy to face Climate Change

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

The Strategy states that climate change is:

- a source of financial risk
- a threat to financial stability
- A threat to the efficiency and integrity of markets and their proper development.

The Strategy has three axes:

1. To promote the disclosure of climate-related risks.
2. To promote the integration of climate-related risks into the risk management of the financial system.
3. To promote the development of a green financial market.

Promotion of Climate-related risks Disclosure: GR 461

- In 2021 the Commission issued **General Rule N° 461** (GR 461), which updated disclosure requirements for issuers and financial institutions establishing **sustainability-related mandatory disclosures.**
- The GR 461 requires companies to disclose climate-related risks, following **the TCFD recommendations.**
- The GR 461 also requires companies to disclose sustainability accounting standards **according to the Sustainability Accounting Standards Board (SASB),** which will soon be integrated to the International Sustainability Standards Board (ISSB) established by IFRS.

Expected Impact:

- More informed decision-making.
- Adoption of improved ESG practices.
- Integration of ESG risks.
- Greater international visibility for the local market.

Which entities are required to report?

Entity	Application
Publicly Traded Corporations	Yes
Public Securities Issuers	Yes (Voluntary for those companies whose consolidated assets are less than CLF 1 million (~USD $40 million).
Banks	Yes
Insurance Companies	Yes
Asset Management Firms (AGFs)	Partially. Do not report SASB.
Stock Exchanges	
Commodities Exchanges	
Securities Depositories	
Companies Managing Financial Instrument Clearing and Settlement Systems	
Public Entities and Companies	
Residential Leasing Real Estate Companies and Others	Voluntary
Other Special Corporations Not Registered in the Securities Registry	No

Implementation Schedule

2022

Voluntary reporting

2023

Public Companies whose consolidated assets are higher than CLF 20 million (~USD $800 million)

2024

Public Companies whose consolidated assets are higher than CLF 1 million (~USD $40 million)

2026

Public securities issuers not considered in the abovementioned groups (Debt issuers, Banks, Insurance Companies, General Fund Managers, Exchanges and Financial Infrastructures, etc.) whose consolidated assets are higher than CLF 1 million.

New SASB

2027

ISSB S1 and S2 standards application

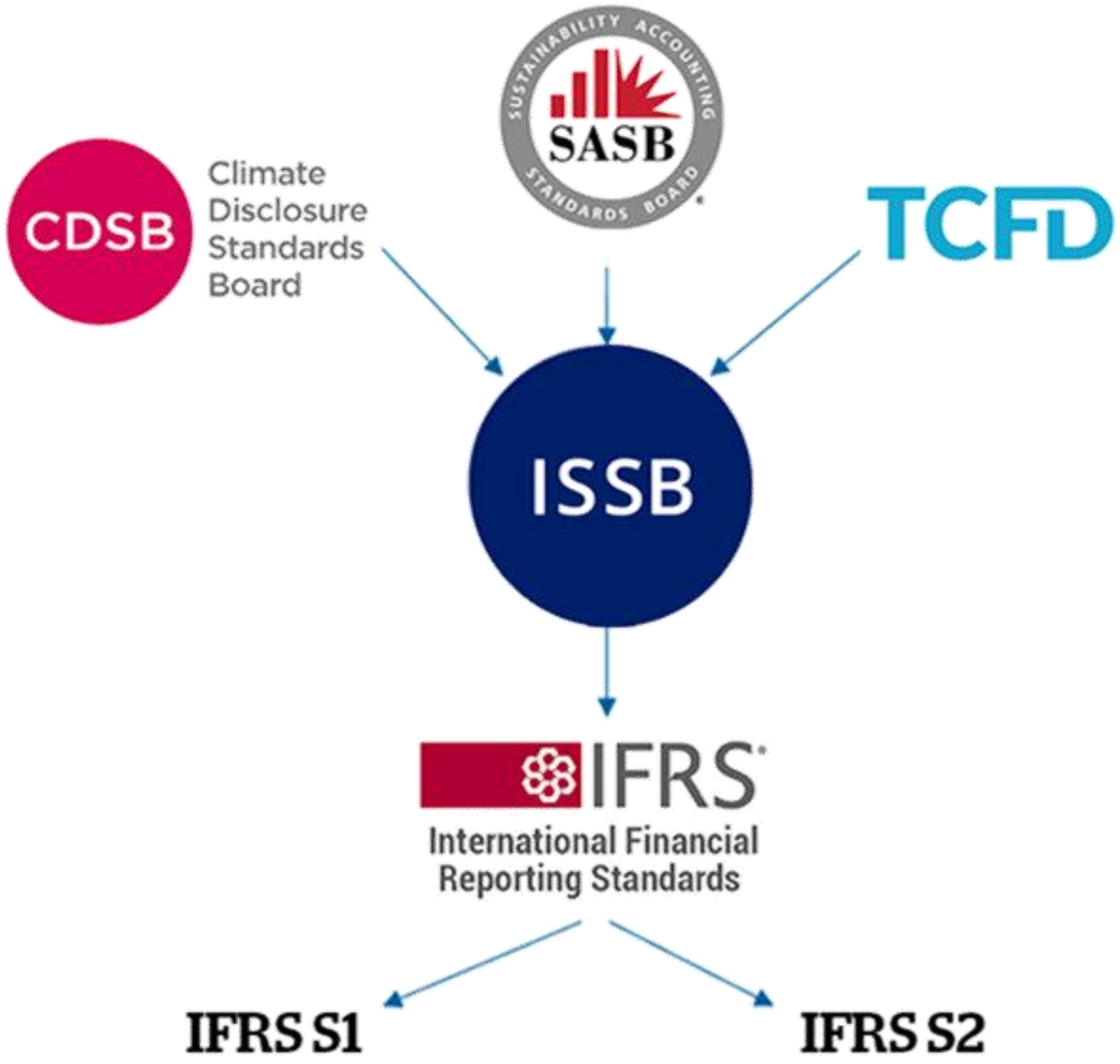
Sustainability reporting by industry

SASB Standards

GR 461 makes the disclosure of SASB Standards mandatory.	The SASB standards identify a subset of sustainability information that is financially material for 77 industries.	This information has the potential to impact the financial condition, operational performance, or risk profile of companies within an industry.	This information is designed for users seeking to make better economic decisions.

GR 461 has recently integrated the ISSB S1 and S2 standards

- After the issuance of GR 461, **ISSB published the first two standards** of its reporting framework (S1 – Sustainability and S2 – Climate Change).
- GR 461, S1, and S2 **share the same basis**, so they follow the same structure (although S1 and S2 are more precise and detailed on disclosure matters).
- **ISSB endorsed the SASB standard** (also included in GR 461) and updated it to be consistent with S1 and S2.
- The 2024 advisory process proposes a new rule integrating the ISSB S1 and S2 standards, planned to **enter into force in 2027**.



International Disclosure Frameworks vs GR 461

Structure	IFRS norms	GR 461	Gaps GR 461 → IFRS
Governance	Information on the processes, controls, and governance procedures used to oversee, manage, and monitor risks and opportunities.	3 Corporate Governance 3.1 Governance Framework 3.2 Board of Directors 3.6 Risk Management	1. **Differences in how the effects on the entity's perspectives are presented and broken down.** 2. How time horizons are linked to planning. 3. Identification of areas where risks are concentrated. 4. Trade-off between risks and opportunities. 5. Differences in how the resilience of the strategy and business model is presented.
Strategy	Information on the approach to managing risks and opportunities: • Risks and opportunities. • Effects on entity's perspectives: business model, value chain, strategy, decision-making, financial position. • Resilience of strategy and business model.	3.1 Governance Framework 3.6 Risk Management 4.1 Time Horizons 4.2 Strategic Objectives 4.3 Investment Plans 6 Business Model	
Risk Management	Risk management processes	3.6 Risk Management 4.1 Time Horizons	
Metrics	• IFRS S2 for climate-related aspects. • SASB for other cases. • Other reports may also be provided.	3.8 SASB	**IFRS S2 Metrics**

Transitioning to international standards

Why transition to IFRS S1 and S2?

- It is the international reference standard.
- IOSCO has supported and recommended its implementation. Other jurisdictions are moving in this direction.

Potential Costs

- Understanding/analyzing the standard. Implementing and adapting processes for reporting the required information.
- Estimation of IFRS S2 metrics – particularly GHG emissions.

Cost mitigators

- Deferred effective date.
- Gradual implementation process (embedded in the IFRS standard itself) and proportionality criteria within the same standard.
- Those who have reported under GR 461 are better prepared.

Challenges of Sustainable Disclosure

2024

136

Companies reporting mandatorily

27

Companies reporting voluntarily

Achieving conciseness and quality in reporting

- The length of reports makes it difficult to identify relevant data.
- **Challenge:** finding the right balance between communicating management activities and providing financially material information.

Generating adequate data

- Sustainability-related financial information must be accessible and easy for investors to extract.
- **Challenge:** complying not only with the form but also with the spirit of the regulation.

Implementing third-party verification

- NCG 461 does not require third-party verification of sustainability-related financial information.
- **Challenge:** advancing best practices for auditing sustainability-related financial information.

The relevance of having a taxonomy

- **Classification system** identifying economic activities that deliver on key sustainable objectives.
- Follows the **European model** → based on economic activities.
- Grounded in **technical selection criteria** – quantitative thresholds to meet objectives.
- Includes a **list of 'eligible' activities** that aims to be as representative of the economy as possible.
- Firms analyse/disclose whether their activities are environmentally sustainable.

Why is it important?

Common language for what is sustainable

Reduces greenwashing

Supports ambitious sustainable development goals

Boosts investor confidence

Taxonomy Structure

Environmental Objectives:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water
- Circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems

To align with the taxonomy, an economic activity must meet the following conditions:

Substantially contribute to one objective

+

Do not significantly harm any of the other 5 objectives

+

Minimum social safeguards

Technical Screening Criteria

Other Challenges

- Monitoring the progress of **global initiatives**.
- Constant updates to regulations, given a **dynamic** and evolving environment.
- **Supervisory coordination**: for example, climate risk regulations from the Pension Regulator.
- Strengthening **supervisory** teams.
- Continuing to promote **the integration of ESG risks into the risk management frameworks** of supervised entities.
- Moving towards **standardized information** and standardized labeling of “sustainable” funds.

Final Reflections

- Chile has a deep and solid financial system that has been able to withstand turbulence and crises. Its proper functioning is central to the well-being of people and the country's growth.

- The GR 461 reporting model has the strength of incorporating the latest developments on the matter at both the local and international levels. It should translate into more resilient entities that are better prepared to meet the future demands of investors, policyholders, and clients in general. We will continue working to align with the best standards as they evolve.

- The definition of a green taxonomy complements the dissemination of ESG information required by GR 461.

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