



1ST CLIMATE-RELATED FINANCIAL RISK CONFERENCE OF THE
FINANCIAL MARKET COMMISSION OF CHILE

The Roadmap for Facing Climate-related Risks of the Financial Market Commission

Mauricio Larraín

Vice-Chair of the Financial Market Commission of Chile
Sponsor of the Strategic Initiative on Climate Change

April 27, 2022

1. The Financial Market Commission and climate change: Impact and opportunities
2. The Financial Market Commission response to climate change
3. Facing risks and opportunities: the Commission's Roadmap to address climate change

1

The Financial Market Commission and climate change: Impact and opportunities

The logo for the Financial Market Commission (CMF) is located in the bottom right corner. It consists of the letters 'C', 'M', and 'F' in a bold, white, sans-serif font, set against a dark teal background. The 'C' is stylized with a white outline. The background of the slide features a large, abstract graphic on the right side, composed of overlapping shapes in shades of green and teal, with a circular cutout revealing a dense forest of green trees.

The role of the Financial Market Commission

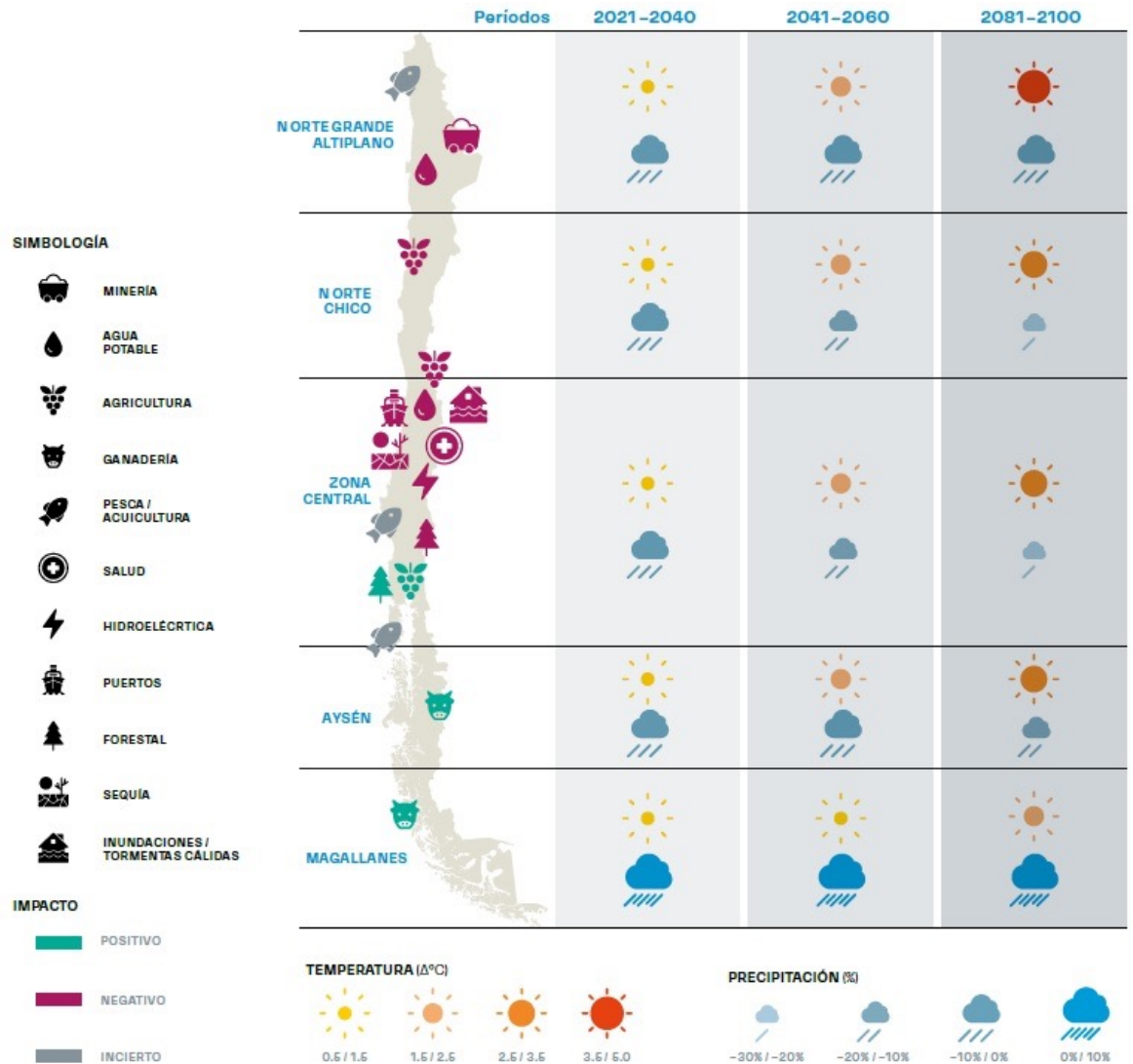
- The Financial Market Commission (Commission) is the integrated financial supervisor and regulator of Chile, overseeing banks, insurance companies and the securities market
- The Commission's legal mandate is to ensure the correct functioning, development and stability of the financial market, which entails three objectives:
 1. Financial stability
 2. Market conduct; and
 3. Market Development
- 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



COMISIÓN
PARA EL MERCADO
FINANCIERO

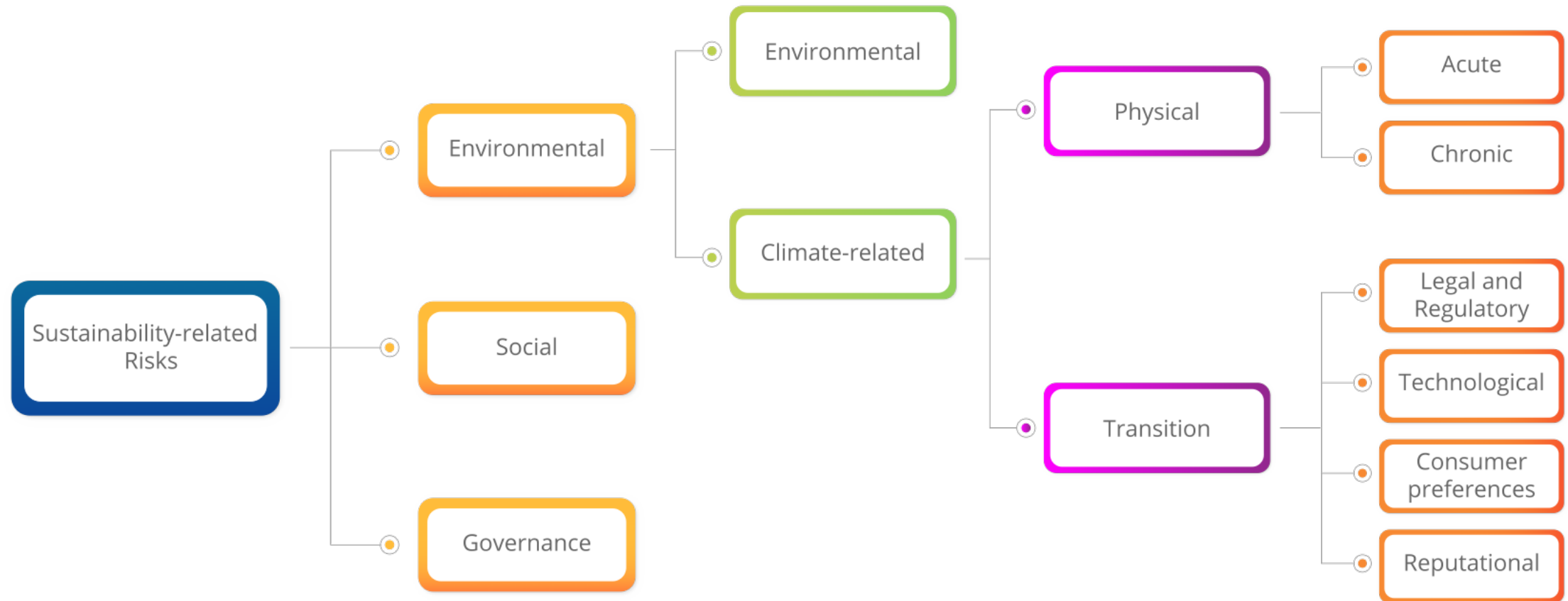
The Chilean economy is exposed to Climate-related Risks

- Chile is sensitive to climate-related and environmental risks and its economy is widely exposed to them
- Climate models show that severe decreases in rainfall, draughts, wildfires and extreme temperatures are all highly likely phenomena
- The transition to a low carbon society will affect energy, transportation and manufacturing sectors
- While these changes entail risks, they also bring opportunities



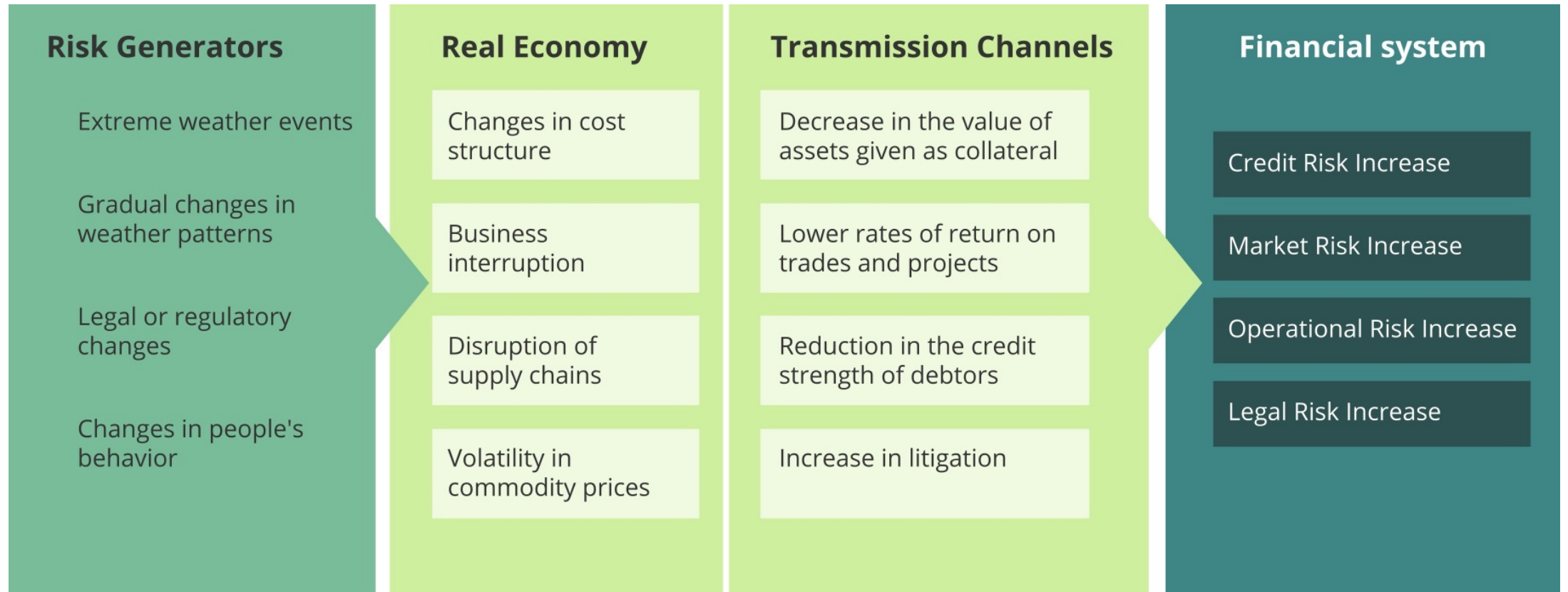
Climate-related Risks within the sustainability landscape

The Commission is addressing a number of Sustainability-related risks, among which climate-related risks are a major concern



Climate-related Risks and their transmission channels

Part of the Commission's challenges is identifying the transmission channels through which climate-related risks can magnify regular financial risks

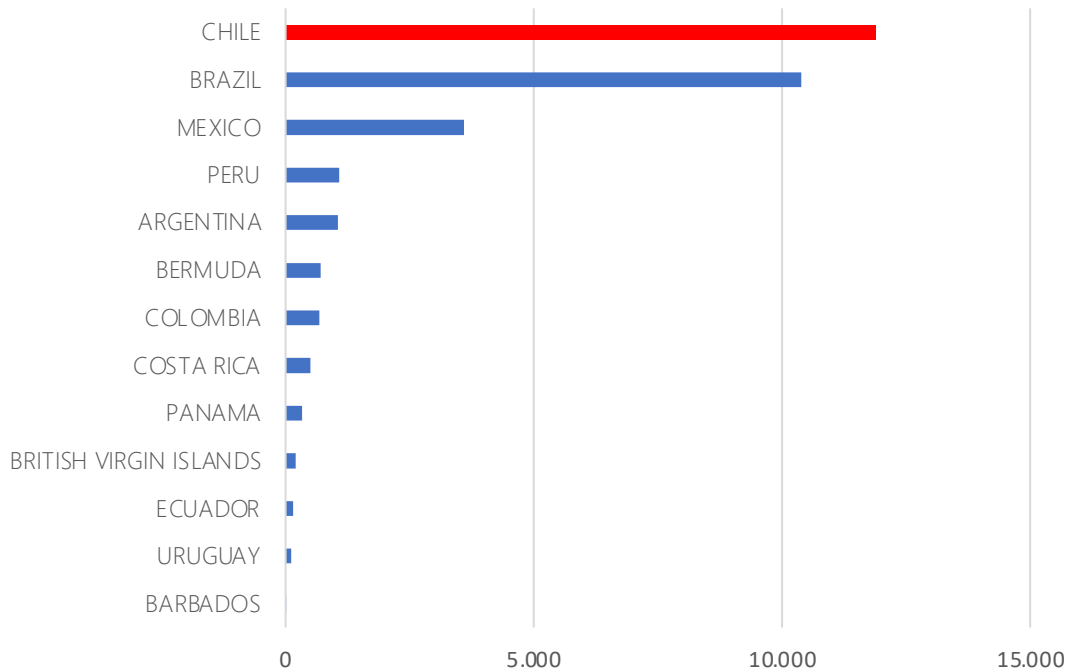


Sustainable and Climate-related opportunities

Climate change also brings relevant opportunities; Chile has shown significant leadership and it is in a good position to seize them

Issuance of Green Bonds LATAM

USD MM



Most attractive country for investment in renewables energies

RANK	MARKET	REGION	SCORE	BAR CHART
01	India	Asia-Pacific	2.55 /5	
02	Chile	Americas	2.50 /5	
03	Mainland China	Asia-Pacific	2.50 /5	
04	Croatia	Europe	2.43 /5	
05	Vietnam	Asia-Pacific	2.41 /5	

2

The Financial Market
Commission response to
climate change



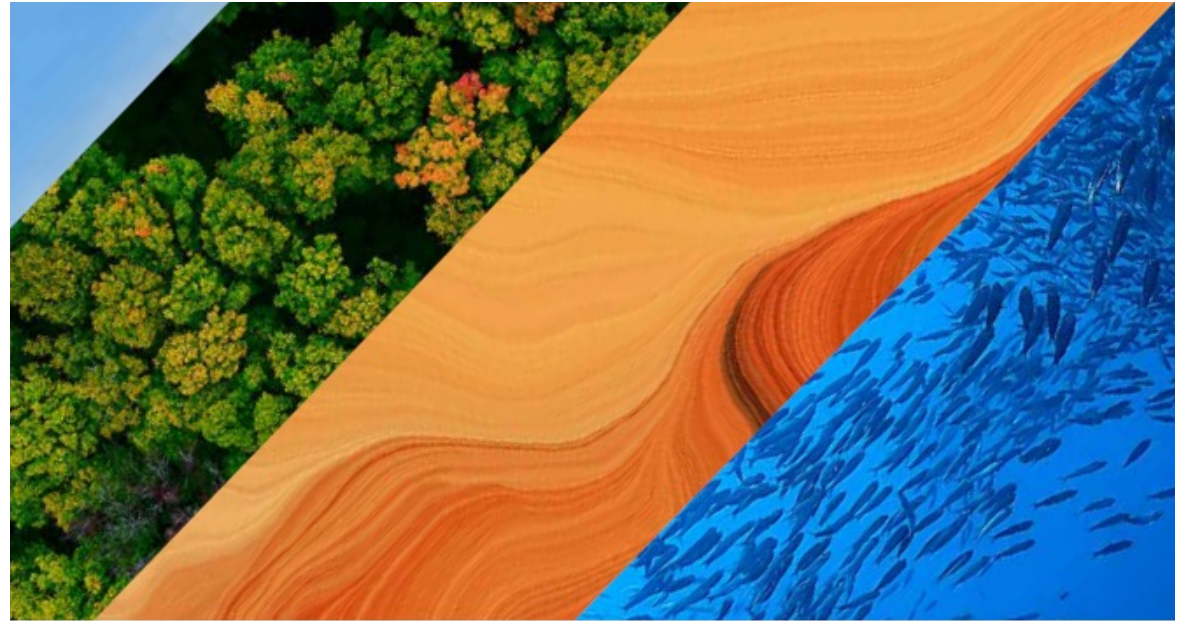
The Commission's response

During the past three years, the Commission has taken significant steps to address climate-related and environmental risks and sustainable finance challenges



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 and that it poses a threat to financial stability, the efficiency and integrity of markets and their proper development.
- The Commission has determined that climate change is a strategic priority and formed a Climate Change Working Group, which implements the Commission's Strategy



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 and**
3. **To promote the development of a green financial market**

Promotion of Climate-related risks Disclosure

- In October 2021 the Commission issued General Rule N° 461 (GR 461), which revamped disclosure requirements for issuers, banks, insurance companies, asset managers and other financial institutions establishing sustainability-related mandatory disclosures
- The GR 461 requires companies to disclose climate-related risks, following the lines of the Recommendations of the FSB's Task Force on Climate-related Financial Disclosures (TCFD)
- 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
- The Commission has established a specially-dedicated area to oversight the market compliance of GR 461



Integration of climate-related risks

- The Commission has worked through the climate Change Working Group to integrate climate-related risks to regular prudential supervision
- To that end, we have two lines of work:
 1. **Monitoring of Risks:** We are developing the tools and capacities to identify, assess and monitor climate related risks using analytical tools like scenario analysis and stress testing
 2. **Assessment of our regulatory and supervisory framework:** we have carefully studied our prudential framework to understand what kind of measures are necessary



We are currently running three stress testing initiatives:

1. Climate change Stress Test project for insurance companies with IDB and 2°DII
2. Climate change impact in the banking sector project with IADB CLAPES UC
3. Climate change impact on the banking sector portfolios with IADB and the Volatility Centre of the New York University

3

Facing risks and opportunities:
the Commission's Roadmap
to address climate change

The Climate Change Strategic Initiative Phase 2

- The Board has given approval to the Climate Change Strategic Initiative second planification, dubbed Phase 2
- Phase 2 will be executed in the years 2022 and 20223 and includes five objectives under which the work to be carried out is structured, according to the priorities of the Commission

GTCC Phase 2 Objectives



The Climate Change Strategic Initiative Phase 2

Capacity building

Some activities included under the objective:

- Internal Dissemination of the CPM Strategy for CC (Strategy)
- Climate-related Financial Risks Conference
- Internal dissemination of studies on climate risk
- Trainings for the supervision of disclosure under SASB and TCFD
- Training in analytical skills for stress testing and scenario analysis
- Training for supervision and regulation teams by the Climate Change Working Group

The Climate Change Strategic Initiative Phase 2

Prudential Objective

Some activities included under the objective:

- Mandatory survey of Risks and Opportunities associated with Climate Change among financial institutions within the regulatory perimeter of the Commission
- Prudential Supervision of Climate Risks Manual
- Recommendations of Prudential Supervision Practices to introduce climate-related risks into micro-prudential supervision
- Prudential regulatory recommendations to introduce climate-related risks into the prudential regulatory framework
- New projects in stress testing and use of scenario analysis and data banks

The Climate Change Strategic Initiative Phase 2

Market Conduct Objective

Some activities included under the objective:

- Regulatory recommendations to address international developments on climate-related and sustainability-related disclosures under the ISSB of IFRS
- Issuance of Supervisory Expectations for the Disclosure of Sustainability-related Information regarding GR 461
- Market conduct Supervision of Climate-related and sustainability-related Risks Manual

The Climate Change Strategic Initiative Phase 2

National Cooperation

Some activities included under the objective:

- To actively support the Ministry of Finance through the Climate Change Working Group in the development of the Chilean Taxonomy of Environmentally Sustainable Economic Activities
- To actively support the Ministry of Finance through the Climate Change Working Group in the Green Finance Roundtable, enabling fostering the creation of skills and awareness among the participants of the financial market
- We want to develop Bilateral Agreements with other State agencies for the oversight of sustainability-related disclosures and the monitoring of climate-related risks (eg Superintendencia of Pensions, Superintendencia of the Environment, Central Bank of Chile, etc.)

The Climate Change Strategic Initiative Phase 2

International Cooperation

Some activities included under the objective:

- To develop a stronger cooperation among regional members of NGFS
- Taking an active role in climate change and sustainable finance at the Latin-American Association of Insurance Supervisors (ASSAL)
- To increase collaboration with other banking supervisors of the region through the Americas Association of Banking Supervisors (ASBA)
- To foster a regional alliance for sustainable finance oversight and capacity building on sustainable finance markets and products

Final remarks



The Financial Market Commission Climate Change Strategy

- The Financial Market Commission has acknowledged how climate change can impact its objectives under the Commission's legal mandate, and has taken action
- The Commission developed a Strategy, created a Strategic Initiative on Climate Change and created the Climate Change Working Group
- The Board of the Commission has approved the planning of the Climate Change Working Group for the period 2022-2023, which involves significant activities in prudential, market conduct and market development matters, as well as a strong focus on national and international collaboration
- Climate change represents a major challenge for the Chilean and Regional economies, and the Financial Market Commission is giving a regulatory and supervisory response to it



1ST CLIMATE-RELATED FINANCIAL RISK CONFERENCE OF THE
FINANCIAL MARKET COMMISSION OF CHILE

The Roadmap for Facing Climate-related Risks of the Financial Market Commission

Mauricio Larraín

Vice-Chair of the Financial Market Commission of Chile
Sponsor of the Strategic Initiative on Climate Change

April 27, 2022