

FINMA Guidance 03/2022

Implementation of climate-related risk disclosures by category 1-2 institutions

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1 Background

Banks and insurance companies are required to inform the public adequately about their risks. These also include the consequences of climate change, which could pose significant financial risks for financial institutions. In 2021, FINMA specified disclosure rules for climate-related financial risks in its existing Circulars 2016/1 “Disclosure – banks” and 2016/2 “Disclosure – insurers”. Their application is limited to the largest financial institutions (institutions in supervisory categories 1 and 2). The revised circulars entered into force on 1 July 2021.

According to the specified requirements, the largest banks and insurance companies must describe the significant climate-related financial risks, their impact on the business and risk strategy and any effects on existing risk categories. In addition, they must disclose the risk management structures and processes for identifying, measuring and addressing these risks as well as relevant quantitative data, including a description of the methodology used. Finally, institutions have to describe the main features of their governance structure in relation to climate-related financial risks. Information about the criteria and methods used to evaluate the materiality of risks must also be disclosed.¹

When the implementing ordinance on climate reporting for large Swiss companies comes into force², numerous other banks and insurance companies will have to publish a climate report in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) (or equivalent).

The first disclosures on climate-related financial risks in accordance with the disclosure circulars were included in the annual reporting on the financial year 2021 and were subsequently analysed by FINMA. This guidance sets out the key findings from these disclosures and shares them with all supervised banks and insurance companies. In some cases, FINMA's findings could also help institutions that voluntarily report on their climate risks or are preparing to do so.

2 Summary assessment of disclosures

The affected institutions largely met their disclosure obligations. Transparency has been enhanced. However, the information disclosed presents a mixed picture as regards scope, degree of detail and relevance of

¹ Cf. FINMA Circ. 16/1 and 16/2 (www.finma.ch/en) > Documentation > Circulars)

² See press release: “Federal Council brings ordinance on mandatory climate disclosures for large companies into force as of 1 January 2024” published on 23.11.2022 ([link](#))

the information. As a general comment it can be said that in most cases it is difficult for readers to get a clear idea of the effective relevance of the climate-related financial risks for the individual institution. Accordingly, FINMA has identified areas for improvement, which are set out below.

3 FINMA's findings from the analysis of climate risk-related disclosures

3.1 Form of disclosure

Most of the affected institutions disclosed information about almost all of the required topics in the envisaged places, namely the annual report (banks) or the financial condition report (insurers). They also regularly made use of the possibility to refer to other reports (for example TCFD or sustainability report). In some cases, however, the relevant information could only be found with a great deal of effort. Besides a lack of clear references, this was also partly due to the fact that relevant information was often mixed with sustainability information without any relation to climate-related financial risks.

According to the explanations on the revised disclosure requirements³, partial or full reference to reports published separately is possible. If references are used, FINMA expects a clear reference to the margin numbers of the circulars or a clear demarcation from other information in the sustainability report to be made. This prevents sustainability information without any clear relation to climate-related financial risks from causing confusion and ensures that readers are able to find the relevant information quickly.

3.2 Main features of the governance structure

The circulars require that the main governance features in relation to the identification, measurement, management and monitoring of climate-related financial risks are described. However, some institutions mainly describe the general governance structure and therefore say little about how they manage climate-related financial risks. Since ultimately the management bodies and responsibilities and reporting lines within the institution determine the quality and scope of engagement with climate-related financial risks (tone from the top), the specific connection to climate-related financial risks is essential. Explanations of internal reporting were also lacking in some

³ www.finma.ch > Documentation > Consultations > Completed consultations > 2020 > Climate-related financial risks > Erläuterungen, p. 10 (hereinafter referred to as "Erläuterungen" [explanations])

cases. These are likewise important, as they embed the issue in internal governance.

3.3 Description of climate-related financial risks and their impact on the institution

In FINMA's view, an important aspect of disclosing climate-related financial risks is that the institutions not only describe the identified risks, but also the impact of these risks on their business strategy and risk profile. This part often tends to be of a very generic nature in the disclosures. The specific ways in which the institution is affected by the climate risks described is often explained in insufficient detail. The aim of FINMA's requirements in this area⁴ is that readers of the reports can get a clear picture of the effective relevance of the climate-related financial risks for the individual institution. This is why FINMA also attaches importance to the information used to assess materiality in this area (see section 3.6). For climate risks, it is particularly important to clearly differentiate according to time horizons. In the disclosures, too little clear distinction was made between short-, medium- and long-term time horizons in some cases.

3.4 Risk management structures and processes

The circulars require that the institutions explain how climate-related financial risks are dealt with and taken into account in their institution-wide risk management framework. FINMA observed that the institutions' disclosures largely met the requirements of the circulars in this regard. In some cases, however, the descriptions of risk management structures and processes were still too vague. FINMA also expects, in particular, the structures and processes used to identify, assess and manage the climate-related financial risks to be presented transparently.

3.5 Quantitative information (targets and key data)

The circulars require the disclosure of quantitative information (targets and key data) with a clear connection to climate-related financial risks. FINMA has noted, however, that the connection to climate-related financial risks is often not clear in the targets and key data provided. FINMA permits a high degree of flexibility in view of the current plurality of methods used to measure climate risk – but the aforementioned connection must be established. In cases of doubt, the relevance and significance of the metrics in connection with climate-related financial risks must be explained. Increasingly, such key figures are also used to assess materiality and in risk management processes. This can accordingly also be incorporated into the disclosures for these areas. Furthermore, it should also be clearly stated

⁴ Margin no. 4 Annex 5 FINMA Circ. 16/1 and margin no. 13.4 FINMA Circ. 16/2; Erläuterungen, pp. 16 and 19

which (sub-)portfolios are covered by the metrics and how large the (sub-)portfolios are.

3.6 Criteria and methods used to evaluate materiality

The circulars require that the criteria and assessment methods used by the institutions to evaluate the materiality of climate-related financial risks must be disclosed.⁵ The idea is to make it clear how the institution determines which climate-related risks it views as being material, so that these can then be monitored and controlled accordingly. Without these disclosures, a key part of the overall picture is missing. In the present case, some institutions did provide information about how they evaluate materiality, but none of the institutions disclosed the criteria and assessment methods used to evaluate the materiality of climate-related financial risks. Accordingly, the requirements in this area were not met.

4 Outlook

FINMA has discussed the institution-specific results in its supervisory dialogue with the institutions concerned and communicated the improvements expected for the next climate risk-related disclosures. FINMA plans to review the climate risk-related disclosures again in the course of 2023 and will focus particularly on the points mentioned in discussions with the institutions.

As previously indicated in the consultation on the disclosure requirements, FINMA will conduct an ex-post evaluation after evaluating the second disclosures in 2023 to identify whether and to what extent future adjustments to disclosure practice are appropriate. When doing so, FINMA will take various national and international developments in the area of climate risk reporting into account.

⁵ Margin no. 7 Annex 5 FINMA Circ. 16/1 and margin no. 13.7 FINMA Circ. 16/2; Erläuterungen, pp. 17 and 19