

# **Disclosure of climate- related financial risks: partial revision of FINMA Circulars 2016/1 "Disclosure – banks" and 2016/2 "Disclosure – insurers"**

## **Key Points**

10 November 2020

## Key Points

1. For financial institutions, the repercussions of climate change can entail significant longer-term financial risks. Climate-related financial risks can be assigned to, and mapped in, traditional risk categories such as credit risk, market risk, insurance risk, and operational risk. In other words, these risks do not represent a new risk category, but a new risk driver. In principle, financial institutions can build on their existing risk management systems. However, new developments in this sphere and new risk drivers in risk management must also be effectively identified and appropriately managed.
2. Transparency with regard to climate-related financial risks at supervised entities is an important first step towards the expedient identification, measurement, and management of such risks. In the area of disclosure of climate-related financial risks, FINMA has identified a targeted need for regulatory action in the balance sheets of its supervised entities, and is setting out the corresponding regulatory detail accordingly. More comprehensive and uniform disclosure of climate-related financial risks by major financial market protagonists will improve transparency and lead to greater market discipline.
3. FINMA believes that alignment of its regulation with the recommendations of the *Task Force on Climate-related Financial Disclosures* (TCFD) would create an appropriate reference framework for the concretisation of supervisory disclosure requirements in a forward-looking and internationally compatible way. Indeed, at an international level, virtually all regulatory initiatives relating to the disclosure of sustainability or climate-related information/risks take their cue from this framework.
4. With a principle-based and proportionate adjustment of Circular 2016/1 “Disclosure – banks” and Circular 2016/2 “Disclosure – insurers”, FINMA is contributing to the improvement of transparency in respect of climate-related financial risks.
5. During the pre-consultation with affected and interested parties, a number of parties requested the mandatory disclosure not only of qualitative, but also quantitative information. This information is of particular relevance for investors. FINMA will incorporate this request into its consultation draft and thereby raise the issue for debate.

6. In terms of content, the following principle-based elements should be covered and disclosed:
  - Governance: description of how the Board of Directors fulfils its oversight responsibilities in respect of climate-related financial risks.
  - Strategy: description of the key climate-related financial risks identified – short-term, medium-term, and long-term risks, as well as their impact on business strategy, business model, and financial planning.
  - Risk management: description of the risk management process for the identification, evaluation, and addressing of climate-related financial risks.
  - Quantitative information on climate-related financial risks and the methodologies underpinning such information.
7. Disclosure of this kind supports an appropriate level of engagement with climate-related risks in a way that is comparable over time, while also being conducive to market discipline. No significant repercussions are expected for institutions that already pursue a recognised disclosure approach in keeping with TCFD standards.