SUSTAINABILITY REPORT

Sustainability – how has the financial sector progressed?

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Foreword

Finansinspektionen (FI) has an assignment to promote the financial system's contribution to sustainable development. This mandate is also closely linked to our other mandates: promoting a high level of protection for consumers, financial stability and well-functioning financial markets.

In December 2022, FI published a roadmap that outlines the objectives and direction through 2025 of our work with sustainable finance. [1] At that time, we established a number of general objectives that were rooted in the assertion that we should take an active role, both in Sweden and – where relevant – internationally.

The aim of this report is to follow up on the objectives in our roadmap and at the same time convey FI's view of how the work with the sustainable finance has progressed among financial firms in Sweden. We start with what has happened since the roadmap was published, with a focus on Swedish firms under supervision. The main changes have been that firms need to apply new regulations and adapt their operations to manage risks and take advantage of business opportunities arising as a result of the required transition.

The financial sector's sustainability work has gradually intensified. Banks, insurance undertakings, fund management companies and other financial actors contribute to achieving the sustainability directives through the operations they choose to invest in, insure and lend money to. In this work, the prevention of illegal financial flows is key. In order to be able to steer the development towards more sustainable operations, the financial sector needs to identify, measure, price and manage the risks arising from, for example, climate change and the relatively fast transition that is being driven by both new regulations and new business opportunities.

We are seeing a broad shift, with the climate issue increasingly placed in a context where the transition should occur in a fair and socially sustainable way. In addition, an increasing number of firms are addressing nature-related issues; for example, many have initiated work with biodiversity. Another important feature is that many financial firms have committed to working towards net zero carbon emissions within a given time frame. This requires credible transition plans.

FI hopes that this report can contribute to greater insight into where the financial sector is currently located on its journey towards sustainable development.

Daniel Barr

Director General

[1] Terms and expressions used in this report are described in more detail in the roadmap; see https://www.fi.se/contentassets/5f5f7ebffb7a408996c522b912f921d9/fardplan-hallbar-finansmarknad-22-32466.pdf.

Summary

Identifying and managing risks is a fundamental task for firms in the financial sector. However, observations from our supervision indicate that these firms do not fully identify or integrate sustainability risks. We are seeing, though, that firms are increasingly highlighting these risks, and the roadmap's objective of resilience to sustainability risks may still be viewed as having been somewhat strengthened.

Firms need to identify and manage the sustainability risks that could have a direct impact on their operations (outside-in perspective), but at the same time they have to consider if their operations and investment decisions are having an impact on the environment and people (inside-out perspective). Many firms today consider both of these perspectives in their governance, thereby contributing to the objective of improving confidence in sustainable finance.

Our analyses clearly demonstrate that there are situations where customers are at risk of receiving products that are not aligned with their sustainability preferences. In the taxonomy reporting we have seen varying approaches, making comparison between firms more difficult. Therefore, there is room for improvement in relation to the objective of providing reliable, relevant and comparable sustainability-related information. A general conclusion from our supervision activities is that many firms have come quite far, but more needs to be done. We would like to highlight three areas in particular:

Time to take action based on existing regulation: A lot of new regulation has now entered into force or will soon go into effect. Therefore, firms need to transition from the analysis and preparation stages to starting to take action based on the current regulatory framework. In parallel with new regulation entering into force, FI will focus on risk-based and forward-looking supervision.

Counteract illegal financial flows: In order to counteract the possibilities for organised crime to benefit from illicit gains, there needs to be effective prevention efforts. The current deterioration in global security also requires financial firms to continue to work on their compliance with international sanctions and prevent terrorist financing. It is also important for firms to make individual assessments about the risks associated with each individual customer when applying the anti-money laundering regulations in order to avoid contributing to financial exclusion.

Continue sustainability integration: Integration is a necessity if firms are to successfully comply with the regulatory framework on sustainable finance – where corporate governance is the natural starting point. As both climate and environmental risks are expected to increase going forward, there is a need for forward-looking tools, for example transition plans and scenario analyses. It is important that tools like these are integrated operationally as soon as possible. It is equally important to meet the need for increased knowledge and competence at the board level, among senior management and in all relevant functions.

Directives in FI's roadmap and the content of the report

The directives in FI's roadmap are closely linked to our mandates, and they are also interdependent. The three directives are:

- good access to relevant, comparable and reliable sustainability-related information,
- high levels of trust in sustainable finance, and
- resilience to sustainability risks[2] in the financial system.

Good access to relevant, comparable and reliable sustainability-related information is a prerequisite for achieving the last two directives. This information is managed throughout the entire value chain and impacts investors, suppliers, consumers, and, by extension, also the financial firms' products and services. It is important that the information is fair for there to be a high degree of confidence in the financial market. Relevant, comparable and reliable information is thus crucial when firms in the financial sector are to identify and manage sustainability-related risks.

Based on the roadmap, we have assessed which sustainability risks are the most significant and that we therefore have chosen to follow as part of our supervision: transition risks, physical risks, greenwashing risks and risks of illegal financial flows. These are described in the first section.

As a supervision authority, it is FI's mandate to follow up on how firms are managing these risks, which is described in the next section. We also address the importance of good corporate governance, with an emphasis on the responsibility of the board of directors and that this responsibility includes sustainability. We conclude with a look at what is at the top of the agenda for international regulatory development. Overall, the three directives from the roadmap link to all of these sections. Firms having all of the described parts in place can be considered as having a good resilience towards sustainability risks.

[2] Sustainability risk is usually described as an environment-, social- or governance-related event or circumstance that, if it were to occur, would have an actual or potentially significant adverse impact on an investment's or debt's value. Definitions can vary depending on the regulation.

Identified risks

Identifying risks is the basis for robust risk management. For sustainability risks, firms need to consider both sides of the double materiality perspective (inside-out and outside-in). Below is a review of a sample of major risks in the sustainability area that FI has focused on in the work with international regulatory development, the development of measurement methods, and its supervision. We also list several examples from our supervision.

Climate-related risks

These risks materialise through traditional financial risks such as credit risk, market risk and insurance risk. Climate-related risks can be described as a climate-related event or circumstance that, if it were to occur, would have an actual or potentially significant adverse impact on an investment's or debt's value. These risks, as a result of climate change, have an impact on society, individuals and also firms' business activities. Climate-related risks can be broken down on a general level into transition risks and physical risks. These risks are closely linked to nature-related risks and interact with them (see page 18).

Transition risks

Transition risks represent a significant risk for many financial firms. The risk is related to uncertainty regarding the speed and pathway of the transition to a sustainable economy. Transition risks are primarily affected by three factors: changes in regulatory frameworks, technological changes, and changes in consumer preferences. For example, firms may need to adapt to new energy requirements or a change in the price of carbon emissions.

In-depth analysis of transition risks

FI performs an analysis of the banks' exposure to transition risks by linking together credit data and emissions data. Data on Swedish banks' corporate lending are obtained from the KRITA database, and data on emissions within the system for the trading of emissions rights are obtained from the Swedish Environmental Protection Agency. The results of the analysis may be used in the supervisory dialogues with the banks with a focus on the banks' management of climate-related risks and work with transition planning/plans.

The transition risks entail that firms to a greater extent are working with transition planning, which in many cases results in a transition plan.[3] For example, major Swedish banks and occupational pension undertakings have joined voluntary initiatives and established goals to be climate-neutral in carbon emissions in line with the Paris Agreement or earlier. The stricter requirements on sustainability reporting also contain requirements that concerned companies must account for relevant parts of their transition planning.

Transition plans provide information about a firm's method for managing the effects of climate change. Measures to meet the climate targets should link to the financial planning and be described with links to the budget, financial targets, KPIs (such as capital expenses and operating expense) and investments. A credible and robust transition plan is based on scientifically backed targets. The forthcoming revisions from the amendment to the EU's capital adequacy regulations[4] are also expected to result in the banking sector using transition plans as a microsupervision tool within the area of risk management.

Transition planning describes the firm's internal process for drawing up its transition plan. The process includes both strategic planning and how the transition work is linked to risk assessment and risk management. The strategy that the firm has established can provide information about the financial risks that the firm is exposed to and show that the firm's risk management is effective.

In 2023, we conducted a survey (see page 15) showing that 27 per cent of the insurance undertakings and occupational pension undertakings in the survey had adopted a transition plan. Twenty-four per cent planned to draw up such a plan. It is our view that it will not be possible – legally or from a business perspective – for firms not to have a transition plan going forward.

Physical risks

Financial institutions are also affected by physical risks, primarily due to their financial exposure to the direct impacts of climate change. This exposure arises from various acute risks such as storms, flooding, landslides, forest fires, or heat waves, as well as chronic risks like rising sea levels or changes in groundwater levels. Insurance companies providing cover against these risks are particularly exposed. Moreover, adverse effects can extend to lenders' collateral and investors' portfolios, potentially posing long-term risks to the financial system. Property insurance is typically sold and renewed annually. Therefore, insurance

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[3] There is no globally agreed definition of a transition plan. Management for Swedish companies are closest to that set out in ESRS (European Sustainability Reporting Standards) (EU) 2023/2772, Annex II, Table 2. See also NGFS: https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-stock-take-transition-plans.
[4] Amendments to the EU's capital adequacy regulations (CRR3/CRD6) are expected to largely enter into force on 1 January 2025. These amendments introduce several sustainability-related provisions and definitions.

undertakings providing coverage for these perils (or risks) may decrease or remove coverage for such risks from their offerings to new or renewing customers. Consequently, consumers may find themselves without the necessary insurance coverage. This, in turn, becomes a risk that banks also need to consider as part of their lending.

We have examined the financial impact on non-life insurance providers from physical risks associated with extreme weather events.

In-depth analysis of impact from flooding in Gävleborg

The total claim costs resulting from the floods in Gävleborg County during the summer of 2021 reached approximately SEK 1,850 million. For the larger insurance companies included in this study, their wide geographical spread of risks meant that the damages were moderate relative to their overall claim cost. Smaller companies, on the other hand, relied heavily on reinsurance coverage, which was crucial in mitigating the impact of the losses.

Our overall assessment is that the risk for insolvency among Swedish non-life insurance undertakings due to natural catastrophes is low in the short term. In the longer term, however, this assessment could change as a result of, for example, increased climate change and potential adverse impact on the reinsurance market linked to the insurance undertakings' creditworthiness or capacity.

Both smaller and larger insurance undertakings utilise the international reinsurance market to manage physical risks. Most international reinsurers, however, have suffered losses and therefore significantly raised their premiums. This has resulted in firms to a greater extent than before choosing to manage their physical risks without reinsurance.

Risks of greenwashing

To counteract these risks, we are working both proactively and through specific supervision activities in accordance with our greenwashing strategy. We note that progression in the work to prevent the risk can vary depending on the size of the firm. We also note that, when it comes to advice, there is still uncertainty surrounding the new rules, and there is still a lot of work to be done. In line with this, the competence at the firms should be raised. We see this need for competence in particular among financial advisors and employees who according to the regulatory framework must provide information about such products.

The combination of increasing demand for sustainable financial products and the ongoing development of regulations for this market can lead firms to describe their operations and products as more sustainable than what they are in practice – so-called greenwashing. The risk of greenwashing can arise, for example, in the firms' sustainability reporting, in information about financial products, or when providing financial advice.

In December 2022, FI published a strategy for counteracting the risk of greenwashing.[5] In this report, the preventive work was described as an important priority for FI, and as part of this we are working to contribute to the EU regulatory developments. Within the EU, intensive efforts are under way to standardise corporate sustainability reporting and to ensure that sustainability-related information about financial products is relevant, comparable and reliable. Another priority is competence-enhancing initiatives, where FI has chosen to target the groups where the need and benefit are greatest. Consumers are a prioritised group, where educational initiatives have been implemented as part of FI's mandate on financial literacy.

Risks of greenwashing in corporate governance and sustainability-related disclosures

FI conducted an in-depth analysis by reviewing how well seven fund management companies and alternative investment fund managers that market funds to retail investors comply with the new requirements on integration of greenwashing risks and provision of product-level disclosures. In addition, a number of greenwashing-related issues were included in a second broader in-depth analysis that FI conducted regarding sustainability and corporate governance (see page 16). This analysis included fund management companies and alternative investment fund managers but also a number of investment firms.

Two in-depth analyses from a greenwashing perspective

The in-depth analysis with a pure greenwashing focus showed that firms have integrated sustainability into their organisations. They have also introduced processes to mitigate the risk of greenwashing. Most firms also listed greenwashing in their internal governance documents as a potential conflict of interest. The firms had proper controls in place to ensure that their sustainability statements can be supported by the sustainability data that is used. In some cases, the firm used several suppliers to gain a more nuanced overview and mitigate the risk of deficient sustainability data.

This review of how the firms provide product-level disclosures identified a number of greenwashing risks. The description of the funds' sustainability strategies submitted in the mandatory templates were unclear in several aspects. Sustainability indicators to measure the achievement of the fund's objective were not sufficiently detailed and did not specify

[5] https://www.fi.se/sv/hallbarhet/fi-och-hallbarhet/strategi-mot-gronmalning/

thresholds. Disclosures were also inconsistent since the fund's description of sustainable investment objectives, sustainability indicators used to measure investment objectives and the binding elements of the investment strategy did not align. In some cases, there was no information at all in the templates. Communication on websites regarding sustainability ratings, awards and certifications were in general accurate. However, in some cases, information was missing about the meaning and components of sustainability ratings.

The analysis shows that there are challenges in connection to delegation of fund management to a third party if the fund manager is using different ESG data sources and methods than the delegate. FI will follow up on this with individual managers.

In the second broader analysis, most firms stated that they had identified a risk of greenwashing in their activities and that this risk was primarily related to external communication and marketing. However, it was also identified in relation to asset management and financial advice, depending on the type of firm. The broader analysis indicated that the firms are working to counteract the risk of greenwashing, but the extent of this work varied.

Risks of greenwashing in conjunction with financial advice

The rules for how customers' sustainability preferences are to be considered when giving advice are relatively new. The aim is to facilitate for customers with sustainability preferences, making it easier for them to understand the variation in sustainability of financial instruments, thereby reducing the risk of greenwashing. We analysed how well banks, investment firms and insurance intermediaries had implemented the new rules. The analysis shows that the firms have progressed to varying extents.

In-depth analysis of greenwashing when giving advice

The firms stated that the sustainability concepts, and their many technical terms, are in general difficult to explain and difficult for retail investors to understand. FI takes the position that it is desirable for retail investors to be informed in an effective manner – brief, pedagogical, and without unnecessary technical terms. Otherwise, there is a risk that they will not state any sustainability preferences.

According to the regulatory framework, the firms must compile and consider customers' sustainability preferences and then match them with a suitable product. FI notes that the processes for ensuring that the products correspond to customers' sustainability preferences in many cases are more poorly described and that pre-purchase information is only used by a few firms. As a consequence, there is a risk that retail investors will receive products that do not correspond to their stated preferences.

Despite many firms in the analysis stating that there is a lack of sustainability data and that there are challenges associated with the new regulations, a majority state that they often have products that correspond to the customers' sustainability preferences. FI sees a risk

that the firms' processes are designed in a manner that results in customers only stating preferences that can be matched to the firms' own products. According to the guidelines from the European Securities and Markets Authority (ESMA), firms must adopt a neutral and impartial approach during the advisory process so as not to influence customers' answers. Overall, FI sees a need for improvements and has ongoing dialogues with some of the firms.

Risks of illegal financial flows

Efforts to reduce illegal financial flows are one of the global sub-targets of Agenda 2030 and thus part of our work to promote sustainable development in the financial sector. We see a need for a strong focus on effective prevention work and, given the deterioration in global security, that firms also continue to strengthen their work to comply with international sanctions. This, as well as prevention of financial exclusion, are two areas that will be included in FI's supervision in 2024.

As the major banks have improved their prevention work, there are signs that criminals are seeking out other parts of the financial system, where both risk awareness and the control environment can be less rigorous. It is therefore important for firms at risk to work actively to prevent criminals from laundering money but also to prevent groups from financing terrorism via their services.

In 2023, therefore, we focused part of our supervision on firms in these sectors, including firms that trade in cryptocurrencies or offer various types of digital payment services. A special focus area in the supervision has been the risk of firms being used as tools for criminal activities and also how this risk is managed by financial firms.

The focus on preventing money laundering and terrorist financing has also resulted in financial exclusion of various groups. FI is receiving an increasing number of reports on how firms, in their eagerness to reduce the risk of money laundering (so-called de-risking), have terminated or opted not to enter into business relationships with consumers and firms based on general assumptions of risk linked to various customers instead of conducting individual risk assessments for each individual business relationship. This development is contributing to financial exclusion, both for individuals and firms.

Last year, FI was given greater responsibility to counteract illegal financial flows linked to international sanctions decided by the EU Council and that both firms and private individuals within the EUR are obligated to follow. Here, the preventive work of the financial firms is very important for the effect of the sanction

decisions. This is something that we will bring with us into our supervision in 2024.

Risk Management

As a supervisory authority, it is our assignment to review how firms under supervision manage their risks. Methodology development and regulatory development are ongoing, which requires both institutions and authorities to gradually adapt. When managing sustainability risks, forward-looking analyses are necessary, and FI will focus on these as part of its supervision in the areas of banking and insurance.

An increasing number of companies have processes in place to identify, measure, assess and manage sustainability risks. One reason that not all financial firms are at the level they should be appears to be the lack of tools. Well-functioning tools are crucial for successful risk management. It is therefore important that firms take part in the development of new tools and that they also participate actively in the development of methods and practices in the area.

FI's supervision of larger firms is performed through the framework for our annual supervision processes. Banks are reviewed under the so-called supervisory review and evaluation process (SREP). An important part of this work is specifically to analyse the management of risks. A review of sustainability aspects has been included in the adopted methods for credit risk and business model analysis since 2021. In 2023, FI used an updated method for the business model analysis. This method is based primarily on the European Banking Authority's (EBA) recent guidelines. Our methods will be updated in line with the EBA's development of new guidelines in accordance with the mandates in the amendments to the EU's capital adequacy regulations.

In our oversight of the insurance sector, FI reviews sustainability aspects by examining the own risk and solvency assessments (ORSA) submitted annually by insurance undertakings. To gain deeper insights into the extent to which non-life insurance undertakings have incorporated the new regulatory mandates of Solvency II, we conducted an assessment of their ORSA reports, with particular emphasis on the management of climate-related risks.

In-depth analysis of climate risks in ORSA – non-life insurance undertakings

Our assessment revealed significant disparities in the treatment of climate risks among Swedish non-life insurance undertakings within their ORSA reports. Consequently, there exists considerable divergence in their alignment with the objectives outlined in the new regulatory framework. Notably, there has been a discernible increase in the level of ambition demonstrated in the 2023 reports compared to those of 2022. Our intention is to continue reviewing the ORSA reports of insurance undertakings in 2024.

Climate scenario analyses is a useful tool that financial firms can use to highlight climate risks and assess the resilience of their business models and strategies against various conceivable climate scenarios and assumptions (for example, temperature increases and political measures). A climate scenario analysis can also enhance the ability to manage unexpected outcomes. From a supervision perspective it is important to understand how firms work with these analyses, the models they use, and the assumptions they make. Below are two examples of our work with this in the banking and insurance sectors.

Climate scenario and stress tests in the banking sector

FI will follow up on how the banks are working with climate scenario analyses. We have informed the major Swedish banks that the EU's forthcoming amendments to the capital adequacy regulations contain requirements on the climate scenario in the stress tests conducted as part of the internal capital adequacy assessment process (ICAAP). We have therefore proposed that the banks this year include a climate-related scenario in their stress tests. We will assess this in a separate supervision activity. The assessment will not be included in the 2024 SREP but can influence next year's process.

Climate scenario and stress tests in the insurance sector

FI conducted a study of insurance undertakings and occupational pension undertakings using the so-called TRISK tool. This is a climate stress test with the objective of quantifying transition risks for individual insurance undertakings and for the insurance sector at large. The TRISK tool aims to measure the expected loss for an investor under different transition and climate scenarios. The TRISK tool has enabled FI to increase its understanding of how this type of analysis tool works and its understanding of the complexity involved in measuring transition risks. It is important that the financial firms themselves conduct this type of analysis. We will continue to monitor the development of methodologies in this area.

Corporate governance

Financial firms must ensure a framework for good corporate governance. The board of directors is ultimately responsible for this, and sustainability is part of their responsibility. The role of the board of directors is particularly important for successful integration of sustainability in all parts of a firm's operations. In addition, FI would like to emphasise the importance of sufficient sustainability competence within both the board of directors and all relevant parts of the organisation. It is also important that this competence progresses in line with the common knowledge base.

Well-functioning corporate governance should aim for alignment between steering documents, reporting lines, organisational structure, corporate culture and work processes. Good corporate governance is therefore a prerequisite for the firm's capacity to handle its inherent risks. New regulations have clarified that sustainability should form an integral part of the framework for firms' internal governance and control and used in the daily routines of relevant parts of the operations. It is up to each organisation to adapt this in a way that suits their own activities.

We have noted increasing knowledge and competence needs within sustainability. It is important that a board, company management and the central functions have sufficient competence about sustainability regulations and relevant general sustainability knowledge. The board of directors needs to be able to understand and make well-founded decisions based on how sustainability aspects impact the operations and how the firm in turn impacts the environment and people.

Below are two analyses of integration of sustainability in corporate governance and in other parts of the operations and an analysis of an integration of the Taxonomy Regulation.

Sustainability in corporate governance

FI has analysed insurance undertakings and occupational pension undertakings to understand how they integrate sustainability into their corporate governance.[6] We note that developments have progressed since the corresponding survey conducted in 2020. FI uses the results of the analysis in its supervisory dialogue and when assessing the firms' risk level with regard to sustainability aspects.

[6] Insurance undertakings granted exemption pursuant to Chapter 1, section 19 of the Insurance Business Act (2010:2043) are not included in the analysis.

In-depth analysis of integration of sustainability into corporate governance – insurance sector

The analysis shows that the majority of the undertakings are dealing with sustainability risks in a systematic manner. Many of the firms in the analysis make the assessment that one or several sustainability risks are material for their operations, and the majority of the firms include sustainability risks in their assessment of the total solvency need. According to FI, the regulatory requirements require all firms to identify, assess and manage sustainability risks in the same way as other risks in the firms' risk management system. FI would like to emphasise that all risks that the firm is or can be exposed to, including sustainability-related risks, should be considered in the firms' assessment of the total solvency need.

The sustainability risks that most firms assess to be material are transition risks and physical risks linked to climate change. Climate-related risks have been in focus for the firms' work and methodology development in terms of tools for identifying and measuring sustainability risks. It is important for the firms to also allow for and assess other sustainability risks, such as nature-related financial risks (see page 19).

All firms make the assessment that their boards of directors have sustainability competence, and basically all of them make the assessment that their central functions have sustainability-risk competence. In this context, we want to emphasise the importance of the competence of the board of directors, the central functions, and other relevant parts of the operations evolving in line with the general state of knowledge. FI would also like to emphasise that the signals the board sends are important for how well sustainability aspects – both risks and opportunities – are integrated into the organisation.

Integration of sustainability risks

FI conducted an in-depth analysis to assess how well investment firms, fund management companies and AIF managers are integrating sustainability into their operations. The underlying reason for performing the analysis was that supplementary requirements were introduced in sector-specific rules that clarify the firms' obligation to integrate and consider sustainability risks and sustainability factors.

In depth-analysis of integration of sustainability risks – market sector

The majority of the firms in the analysis are considered to have integrated sustainability into their operations. They analyse sustainability risks and have integrated sustainability risks in policy documents. However, FI notes that the scope varies between the firms. FI would therefore like to encourage firms to continue to focus on the area to ensure that they are meeting the requirements in the regulations.

A majority of the firms have identified sustainability risks in their operations, and the sustainability risks the firms considered to be material for the operations were primarily transition risks and physical risks linked to climate change. FI makes the assessment that the knowledge and methodology to identify and assess sustainability risks vary among firms. FI would like to point out the importance of conducting the required analyses within the framework of the risk management to identify potential sustainability risks.

FI finds it positive that most firms in the analysis make the assessment that they have sustainability competence in both their board of directors and the central functions. Based on observations in this analysis regarding implementation of the new requirements, however, questions arise on the level of the sustainability competence in the firms. Our overall assessment is that in some cases improvements are needed to ensure that firms understand, implement and meet the requirement set out in relevant regulations. FI would like to emphasise the importance that firms have the sustainability competence that is required to ensure that they can meet the requirements set out in relevant regulations and that the competences follows the development in the area.

Taxonomy information in annual reports

One of the more extensive regulations that has gradually come into force over the past few years is the Taxonomy Regulation, which establishes criteria for when an economic activity is to be considered environmentally sustainable. We have reviewed a sample of annual reports from larger banks and insurance undertakings from 2022 with the main purpose of gaining an understanding of how the financial firms are applying the regulation.

In-depth analysis of taxonomy information

In the analysis, we reviewed the reporting from a sample of seven banks and six insurance undertakings according to the Taxonomy Regulation. FI's conclusion is that we would like to see more standardisation in taxonomy reporting. The analysis showed that Swedish banks and insurance undertakings largely meet the current requirements on financial firms to report data on sustainability according to the Taxonomy Regulation. However, there is considerable variation in the reporting. This makes it difficult to compare the firms. There are good examples to highlight, such as voluntarily stated amounts and comparisons between time periods. But FI encourages the firms to increase the extent to which they use the European Commission's Q&A's on how the reporting rules should be interpreted.

International regulatory development

The sustainability-related challenges are global in nature and therefore require cross-border collaboration. FI has chosen to take an active role in the international sustainability work, which means everything from developing global standards to EU-level regulatory development. The basis for our approach is that the rules and standards that ultimately impact Swedish firms are decided at an international level.

As a member of the global organisation Financial Action Task Force (FATF), FI has participated in developing international standards in the AML/CFT area. During the year we also had a strong focus on the regional supervisory collaboration that occurs via the Nordic Baltic Working Group (NBWG).

We have also prioritised participation in the work with the standardisation of sustainability-related information. Extensive work has been ongoing at IOSCO, the global organisation for securities regulation, to establish a global standard for sustainability reporting under the IFRS Foundation.

Over the past year, transition plans have come more into the spotlight, with a focus on, for example, increasing the standardisation of what makes a robust transition plan, the way firms will work with the plans, and how they can be used to assess financial stability risks. Several pending EU regulations address transition plans from different aspects, for example the CSRD (sustainability reporting) and the capital adequacy regulations (expanded requirements). FI is participating in the work both globally and on EU level through participation in IOSCO, the Basel Committee, NGFS (Network for Greening the Financial System) and the EU authorities.

The question about nature-related financial risk is rising on the international policy agenda. During the year, the Taskforce on Nature-related Financial Disclosures (TNFD) adopted a framework for biodiversity that addresses how firms should consider dependence, impact, risks and opportunities linked to nature and how these should be reported and followed up. Many Swedish companies are already working under the guidance of the TNFD's recommendations. Several of the EU's regulations also target nature-related risks. For example, the EU's new standards for sustainability reporting comprise biodiversity and ecosystems. The EU taxonomy contains technical criteria on the protection and restoration of

biodiversity and ecosystems. NGFS and the European Insurance and Occupational Pensions Authority (EIOPA) have published studies related to biodiversity.[7]

[7] https://www.ngfs.net/sites/default/files/medias/documents/ngfs_conceptual-framework-on-nature-related-risks.pdf. EIOPA Staff paper on nature related risks and impacts for insurance, EIOPA-23/247, 29 Mars 2023.