REPORT

Roadmap for sustainable finance

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Contents

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Introduction

The financial sector can fill an important function in the transition to a sustainable economy. This function entails financial firms identifying, measuring and pricing their opportunities and risks related to the transition. Considering risks and opportunities in interest rates, asset prices and insurance premiums simultaneously creates conditions for being able to channel savings and investments to more sustainable operations.

Finansinspektionen (FI) plays an essential role in the work with sustainable finance. In 2019, FI's overarching mandate was expanded to include a responsibility to ensure that the financial system contributes to sustainable development. FI is also the responsible supervisory authority for a number of new regulations related to sustainable finance that are the result of the EU's ambitious sustainability agenda.

This report describes the three goals that FI will follow in its sustainable finance work through 2025:

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

The report also highlights a number of priorities that will guide us in our work. The basis of our work will be FI's mandate, the regulations related to sustainable finance, and the tools that we have at our disposal as the supervisory authority of the financial sector.

Background to FI's sustainability work

This report sets out goals for FI's work with sustainable finance and describes our priorities for the next few years. FI's work will be based on our mandate, the regulations related to sustainable finance, and the tools at our disposal as a supervisory authority.

Transition requires considerable investment

Many countries around the world have realised the acute need to handle the threats to sustainable development, which has resulted in the Paris Agreement and the UN's Agenda 2030.[1] Sweden has set a long-term goal of having zero net emissions of greenhouse gases by 2045. The EU has also raised its ambitions in recent years in terms of limiting climate change. The European strategy, called the Green Deal, presents a number of ambitious targets for reducing greenhouse gas emissions by 2030. The EU has also decided on a climate act to raise the ambition to be climate neutral by 2050.[2]

Financing the transition requires considerable investment, in part within infrastructure and technology. This means that existing financing sources – both public and private – must be steered towards more sustainable real investments. The Paris Agreement states that financial flows should promote the transition to low greenhouse gas emissions and climate-resilient development.

Sustainability factors and sustainability risks

Sustainable development refers to a development that is aligned with the 17 global goals agreed upon by the UN member countries in 2015 (Agenda 2030). These goals aim, for example, to eliminate poverty, fight climate change, and ensure a peaceful and inclusive world.

The term *sustainable finance* is often used to bring these topics closer to the financial sector. Participants on the financial markets should take into account three types of sustainability considerations: environmental, social and governance (ESG).

> **Environmental:** Refers to the limitation of and adaptation to climate change. And environmental factors such as conservation and restoration of

[1] In 2015, UN member countries adopted Agenda 2030 and the global goals for sustainable development.
[2] Regulation (EU) 2021/ 1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 (European Climate Law).

biodiversity, prevention of and limitations on pollutants, transition to a circular economy, sustainable development and conservation of water and marine resources.

Social: Refers to employment conditions, diversity and basic human rights.

Governance: Refers to corporate governance, for example how companies approach bribes, corruption, money laundering, tax payments and remuneration to management.

Sustainability risks. Sustainability risk is usually described as an environment-, social- or governance-related event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.[3]

Sustainability risks related to the environment and the climate are usually broken down in to physical risks and transition risks. Physical risk is risk deriving from extreme weather events and subsequent effects, such as heatwaves and floods. Transition risks arise from the direct or indirect transition to an economy that is less dependent on fossil fuels, for example as a result of technological development, political decisions and social and behavioural change. Transition risks and physical risks are a source of financial risk. For example, uncertainty can arise about the future value of assets – which in turn could impact the pricing mechanisms on financial markets such as the stock market, the credit market and the commodities market.

Risk and impact are two different perspectives for companies to consider. Sustainability risks can have a direct impact on companies' operations and financial position. These risks can also impact consumers, for example by affecting the return on savings products. However, companies can also influence sustainability factors and contribute to the transition through their operations and investment decisions. Companies must consider both of these perspectives in their corporate governance. Considering both of these angles is usually called *double materiality.*

Sustainability regulations are international

The challenges facing sustainable development and the threat of climate change are global in nature and require global solutions. In addition, the participants on the Swedish financial market that are subject to FI's supervision are active on a global financial market. The EU is preparing regulations that are aligned with international frameworks and standards.

[3] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR). See Article 2(22).

The EU's goals for sustainable finance

The European Commission adopted in 2018 an action plan on financing sustainable growth.[4] This action plan serves as the basis for the EU's work with sustainable finance and contains three overarching goals:

- Reorienting capital flows towards a more sustainable economy.
- Mainstreaming sustainability into risk management.
- Fostering transparency and long-termism on the financial market and in the economy as a whole.

This work has resulted in new legislation in the area. The three primary regulations on sustainable finance are described below. One thing they have in common is that they aim to improve the access to relevant, reliable and comparable information about companies' sustainability work and the effects on the sustainability factors. This type of information is crucial to achieve the goals set out above. The work will also include updates to existing regulations.

EU legislation on sustainable finance

Corporate Sustainability Reporting Directive (CSRD): The Directive introduces stricter requirements on companies' sustainability reporting and will replace the current Non-Financial Reporting Directive (NFRD). Its aim is to ensure that companies' annual reports contain comparable and reliable information on corporate sustainability work.[5]

Sustainable Finance Disclosure Regulation (SFDR): The SFDR regulates in part how participants on the financial market and financial advisors must provide sustainability-related disclosures. It sets forth harmonised rules for transparency, with regard to the integration of sustainability risks and to improve comparability between financial products. The rules also refer to information about how adverse impacts on sustainable development are considered.[6]

EU taxonomy: The EU taxonomy presents a classification system to determine which economic activities should be viewed as being sustainable economic activities. Its aim is to help investors identify and compare environmentally sustainable investments. The regulation's classification must be applied in annual

[4] The action plan was updated in 2021. See the European Commission's website on sustainable finance.
[5] Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting.
[6] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR).

reports pursuant to the CSRD and in the financial market participants' sustainability disclosures pursuant to the SFDR.[7]

More information about the regulations on sustainable finance is available on FI's website.

FI's mandate provides the direction

The EU's action plan from 2018 has resulted in legislation and rules on sustainable finance, and in several cases FI has been named the responsible supervisory authority in Sweden. This means that FI must review companies' compliance with the expanding regulations in this area. FI's sustainability work also is aligned with FI's work to fulfil the goals for its traditional and overarching mandate – to safeguard financial stability, consumer protection and well-functioning markets.

In 2015, the Swedish government decided on a new sustainability goal for the Swedish financial market policy: the financial system must contribute to sustainable development.[8] This goal has been reflected since 2019 in FI's instructions as well:

> The authority shall […] work to promote a stable financial system that is characterised by a high level of confidence and has well-functioning markets that meet the needs of households and corporations for financial services, provide comprehensive protection for consumers, and contribute to sustainable development.[9]

Sustainability is linked to the goal of *financial stability*. An unsustainable development for both the climate and the environment can lead to risks for individual financial corporations and financial stability. If the financial sector contributes to sustainable development, the risks will gradually decline.

Sustainability is also linked to the goal of a *high level of consumer protection*. To safeguard this protection, it is important for savers and investors to receive relevant and clear information on the sustainability factors of the savings products they are being offered and that this information is not misleading.

Finally, sustainability is linked to the goal of *well-functioning markets*. The assignment here includes meeting the needs of households and firms for financial

[7] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088.
[8] This means that participants on the financial market must consider environmental, social and governance factors (ESG goals). The Swedish government submitted the document Politik för hållbart företagande (skr. 2015/16:69) to the Swedish Parliament in 2015.
[9] Section 2, first paragraph of Finansinspektionen's Instructions Ordinance (2009:93).

services. This includes ensuring that sustainable and non-sustainable assets are valued and priced efficiently on the market. A prerequisite is then that those who will make decisions about placements and financing have access to reliable and comparable information about the conditions that are relevant from a sustainability perspective.

By allowing the sustainability perspective to influence how FI performs its earlier assignments, FI also fulfils its new assignment to ensure that *the financial system contributes to sustainable development*.

FI's sustainability work is multifaceted. It includes participating in the development of regulations and standards at an international level, advocating efficient implementation of regulations in Sweden, and promoting better disclosure from all relevant companies. FI also integrates sustainability factors into its supervision of financial firms.

Financial sector is important for the transition

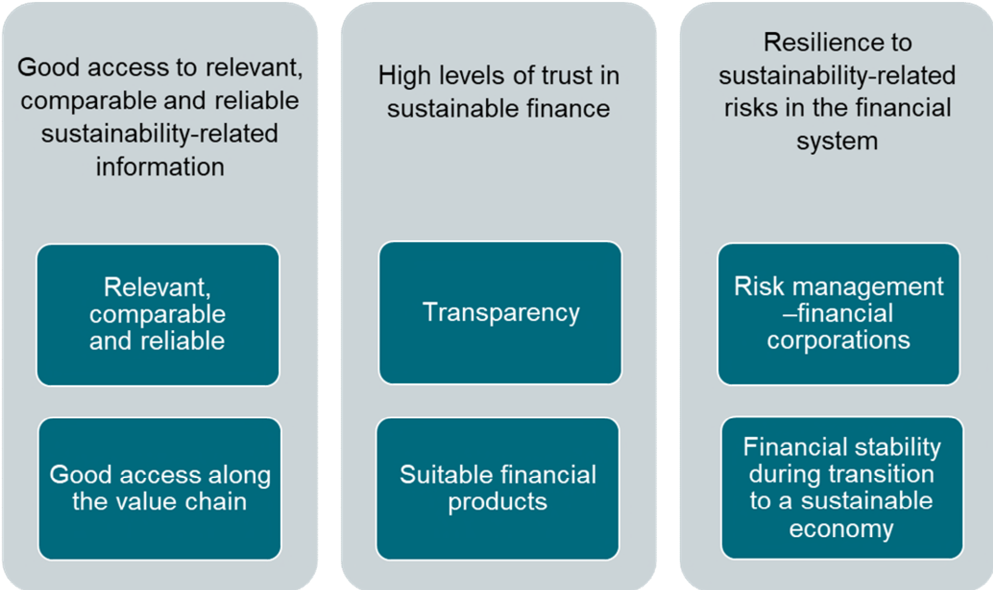
In order for the financial sector to be able to fulfil its function in the sustainability transition, financial corporations need to identify, measure, and price the opportunities and risks associated with the transition.

Sustainability risks can materialise through the traditional financial risks, for example credit risk, market risk, insurance risk, operational risk and liquidity risk. It is also important to consider reputation risk since this can influence the value of a financial asset, for example if a company has not sufficiently considered sustainability factors in its operations.

Considering risks and opportunities in interest rates, asset prices and insurance premiums creates conditions for good risk management and for being able to channel savings and investments to more sustainable activities. An important condition for this to happen is that there is good access to relevant, reliable and comparable information.

Goals through 2025

FI has identified three overarching goals that will provide guidance for the work on sustainable finance through year 2025. The goals are closely linked to FI's mandate and are also dependent on one another.



Good access to relevant, comparable and reliable sustainability-related information

Access to comparable, reliable and relevant information is an important condition for market participants to be able to consider and price risks and opportunities. In order for financial corporations to make well-informed decisions, they need access to sustainability-related information from the entire value chain. For example, banks need this information from the customers they finance in order to assess the credit risk when deciding on loans. This information is also important for fund managers, insurance undertakings, occupational pension undertakings and other types of investors who want to consider sustainability factors in their decisions on investments in projects, shares and bonds, as well as when underwriting insurance.

High level of trust in sustainable finance

A key prerequisite for the financial system to be able to contribute to sustainable development is that there is a high level of trust in the system. It must be possible to trust the information that is provided, and the information must not be misleading. Investors or consumers must be able to understand and trust that companies and products will keep their promises.

Resilience to sustainability-relatad risks in the financial system

Both an unsustainable development for the climate and the environment and the transition to a sustainable economy give rise to sustainability risks for individual businesses and the financial system. As a result, there can be an impact on financial stability.

In order for there to be sufficient resilience to sustainability risks in the financial system, financial corporations need to first identify these risks. Based on this assessment, they then need to manage the risks identified. This means that they might need to reduce their investments in and financing of activities that give rise to sustainability risks.

Finansinspektionen's priorities

The three goals – i) good access to relevant, comparable and reliable sustainability-related information, ii) high levels of trust in sustainable finance, and iii) resilience to sustainability risks in the financial system – will guide FI's priorities through 2025. We will consider that the rules for the financial sector's work with sustainable finance will gradually become more extensive, and that the development is progressing rapidly.

Given that a number of broad new regulations will enter into force over a short period of time, FI will prioritise the implementation of new regulations. This will entail to the greatest extent possible meeting the need for contact and dialogue that will arise among affected companies as they prepare to apply the new regulations. As the regulations are implemented, FI will shift its resources to more active supervision. Specifically when this will happen will depend on each regulation.

All of FI's supervision is risk-based, and this will also be the case within sustainability. We will highlight and focus on acute problems in the area through supervisory activities, but the review of the companies' compliance primarily aims to prevent problems. Furthermore, international cooperation will be a priority for FI since the threats to sustainable development and climate change are global in nature and thus require global solutions.

The following section is an overview of FI's priorities. Some are more general and relate to how we work: implementation of rules, dialogue and communication, integration of sustainability factors in our supervision, and forward-looking analysis tools. Other priorities are influenced by matters of principle that we view to be of special importance: preventing greenwashing, improving access to sustainability-related information, improving disclosures regarding sustainable financial products, preventing financing of money laundering.

These priorities, to varying extents, will affect financial corporations such as banks, insurance undertakings, occupational pension undertakings, fund management companies, investment firms, etc. They also affect some non-financial corporations, particularly in terms of the EU Directive on sustainability reporting.

Goals through 2025

- Good access to relevant, comparable and reliable sustainability-related information
- High levels of trust in sustainable finance
- Resilience to sustainability-related risks in the financial system

Priorities

- Implement new rules, dialogue and communication
- Integrate sustainability factors in FI's supervision
- Forward-looking analysis tools
- Prevent greenwashing
- Improve access to sustainability-related information
- Improve disclosures regarding sustainable financial products
- Prevent financing of money laundering and terrorism
- Active contribution to international policy work

Finansinspektionen's tools

The tools that FI has at its disposal in its work are **authorisations**, **supervision** and **regulations**. Authorisations refers to FI's assessment of whether individual companies meet the requirements for conducting financial business. Companies that are granted authorisation are then subject to FI's supervision. Through supervision, FI monitors that the companies are complying with the rules that apply to their business. FI uses regulations to clarify the rules that companies should comply with, and this issuance of regulation derives from an authorisation from the government. FI also can intervene in the event of regulatory violations, for example by deciding on sanctions.

FI also uses more informal or indirect tools, such as communication and guidelines for the industries in question and international work to develop regulations and supervision.

Implement new rules, dialogue and communication

One of FI's main duties as a supervisory authority is to review whether companies are following the rules that apply to the business. The entry into force of a large number of rules over a short period of time is particularly challenging for the companies in question. The market participants are responsible for finding ways to apply the new rules. At the same time, FI will initially prioritise a structured dialogue with the actors in the industry to discuss the challenges posed by the regulations.

When possible and appropriate, FI will also provide guidance, for example in reports and other external communication. Selected initiatives will target groups where the needs and benefit are judged to be greatest. Targeted initiatives will also be implemented to raise the level of knowledge among consumers. We will also contribute with expertise in the work to develop legislature and participate actively in international work.

Integrate sustainability factors in FI's supervision

FI will continue to work to make sustainability a part of its ongoing follow-up of the companies under its supervision. Sustainability risks are currently integrated into FI's overarching risk identification.

Within the insurance section, we are following how companies manage sustainability-related risks in their own risk and solvency assessments and in internal processes for risk assessment of the companies.[10] We are also participating actively in supervisory activities implemented at the EU level, for example EIOPA's climate-related stress tests.

Within the banking section, FI is integrating the sustainability perspective into its review of business model risks and credit risks through the annual supervisory review and evaluation process, which aims in part to evaluate the banks' capital. We are also using various surveys and analyses to monitor on an ongoing basis how the banks apply new regulations in the area. The nine recommendations recently formulated by the IMF in its Financial Sector Assessment Programme (FSAP) review of Sweden[11] will guide FI's continued work with supervision in the banking sector.

At the European level, FI will continue to prioritise participation in the work of the European supervisory authorities[12] to develop supervision standards and tools to identify and assess sustainability risks.

FI will also consider relevant sustainability regulations in its authorisation assessments based on existing regulations. For example, this could entail that we will check that the financial companies' internal governance and control suitably captures sustainability risks and sustainability factors that could impact its activities.

[10] In our supervision of insurance undertakings, FI uses the PACTA tool to analyse exposures to carbon-intensive activities. FI also previously published an analysis of the application of the PACTA method (Paris Agreement Capital Transition Assessment) on the banks' credit portfolios.
[11] In 2022, IMF conducted a review of Sweden as part of its Financial Sector Assessment Programme (FSAP). This programme included for the first time a so-called climate pilot, which was used to review Swedish authorities and the financial sector using the climate risks that the IMF considered Sweden to be exposed to and our work to identify, measures and manage these risks.
[12] The European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Securities and Markets Authority (ESMA).

Forward-looking analysis tools

An important part of this supervision work is to increase the understanding for and knowledge of sustainability-related risks, both in the supervision of individual companies and with regard to the financial system's vulnerability to these risks. Methodologies need to be developed to be able to measure and estimate environmental and climate risks from a forward-looking perspective.

One way to highlight the risks is to perform climate scenario analyses.[13] FI takes the position that such an analysis should primarily be based on internationally developed methods and tools, for example scenarios published by the NGFS for how climate change could impact economic development.[14] FI will also participate in the EBA and EIOPA work with regard to climate-related stress tests. The plans also include strengthening our cooperation with the Riksbank regarding methods and analysis.

Prevent greenwashing

The combination of rapidly increasing demand for sustainable financial products and the ongoing development of regulations for this market can increase the risk of greenwashing – when firms describe their activities and products as more sustainable than what they actually are. This can adversely impact trust in sustainable investments and, by extension, sustainable finance. Preventing greenwashing is thus a highly prioritised area for FI, and we have developed a strategy to describe how we will do this. The strategy is presented in FI's report to the government, *Finansinspektionen's strategy to prevent greenwashing*.[15]

Improve access to sustainability-related information

In order to allocate capital efficiently, investors, lenders, insurance providers and other relevant actors must be able to price risk and opportunities in the area of sustainability. This requires that the companies they are financing provide clear, accurate and comparable information about how the business is being impacted by sustainability factors and its efforts to adapt. FI views this to be a top priority to strengthen this information chain.

The requirements placed on the companies' sustainability reporting will become significantly higher and more specific with the introduction of a new standard in the new EU directive on sustainability reporting. Reporting in accordance with the

[13] A climate scenario analysis can be performed in different ways, and it is used by different actors, such as financial corporations, academics, supervisory authorities and central banks. The analysis entails the forecasting of future performance or financial position based on a number of assumptions about the effects of climate change, for example political measures or increases in temperature.
[14] See NGFS (Network for Greening the Financial System) Scenarios for central banks and supervisors, September 2022.
[15] See Finansinspektionen's strategy to prevent greenwashing.

EU taxonomy also constitutes a key part of the new rules, which in turn uses detailed rules to assess whether an activity can be defined as environmentally sustainable. The companies subject to the rules, the number of which will continue to increase, and the investors and other potential users of the information will be working to acquaint themselves with the regulations.

FI will continue to work internationally within the European supervisory authorities to develop the regulations. FI will also continue to contribute to the global arena, particularly within IOSCO (International Organization of Securities Supervisors), where Sweden up until recently led its efforts within sustainable finance.

At a European level, banks will also begin to report sustainability information as part of their Pillar 3 disclosures.[16] This comprises the part of the Basel Agreement where it is incumbent upon banks to publish additional information about their operations so counterparties can better assess if they want to invest in or conduct business with the bank in question. FI will be able to use this sustainability-related information to further integrate sustainability factors into FI's supervision of banks.

Improve disclosures regarding sustainable financial products

Both demand for and supply of sustainable financial products are increasing. A prioritised area for FI is that the information about the products should be designed in a comprehensible way and provide a base for making informed decisions.

Financial markets participants are obligated to publish disclosures for investors on how sustainability risks are integrated, adverse impacts on sustainable development are considered in investment decision processes, and environmental or social characteristics and sustainable investments are promoted.[17] In the next few years, FI will continue to prioritise implementation, dialogue and guidance for the industry on related regulations. We intend to also continue in parallel to conduct specific supervisory activities in line with our supervision priorities. We will also continue to prioritise the work that is ongoing within the EU to develop and specify the requirements in the new regulations.

Prevent of financing of money laundering and terrorism

FI prioritises supervision of anti-money laundering and terrorist financing. If efforts are not made to prevent organised crime and illegal financial flows, there is a risk that they will offset a sustainable development on the financial markets and society at large. Sustainable finance does not allow money laundering and terrorist

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[16] Starting on 1 January 2023, the major banks will be subject to a requirement to report sustainability information using templates published by the EBA.
[17] See Recital 10 of SFDR and Bill 2020/21:66 page 28.

financing, and this work has a clear link to the UN's global goals for sustainable development and Agenda 2030.

Active contribution to international policy work

FI prioritises cooperation with supervisory authorities and other organisations in the international arena on its prioritised areas. FI will give special priority to cooperation within the EU since the majority of all new regulation that affects Swedish actors within sustainable finance consists of EU directives or EU regulations. One priority is to ensure that regulation within the EU is appropriate and consistent, considers Swedish conditions, and is applied uniformly in supervision.

Work is ongoing globally on how supervisory authorities can integrate sustainability factors in their supervision, in part through the preparation of guidelines and recommendations. For example, FI will apply the Basel Committee's principles for the effective management and supervision of climate-related financial risks. We will promote the banks' application of the twelve principles and their implementation within the EU.[18]

FI will also continue to participate in international policy and analysis work. We are participating in IOSCO, the FSB (Financial Stability Board), the Basel Committee, the IAIS (International Association of Insurance Supervisors) and the NGFS (Network for Greening the Financial System). Since 2017, FI has been a member of the steering committee of the NGFS, a global network for central banks and supervisory authorities that focuses on climate aspects in the work of these authorities. The global work also includes analysis of how climate risks are transferred to the financial system and developing methods for measuring these risks. Within this work, we intend to become engaged in the global policy development related to transition plans and to investigate the link to the role of supervision.[19] This topic is high on the global agenda.

The international agenda also includes nature-related financial risks resulting from the loss of biodiversity. For example, NGFS is analysing how such risks can be transferred to the financial system and developing metrics to measure the risks.[20]

[18] FI has participated in the work to prepare the Basel Committee's principles for the effective management and supervision of climate-relating financial risks, which was published in June 2022. There are eighteen principles in total, of which twelve target banks. The rest target supervisory authorities.
[19] Transition plans specify how a company will adapt its activities to net-zero goals or reduced emissions.
[20] See NGFS acknowledges that nature-related risks could have significant macroeconomic and financial implications, March 2022. A reporting framework called TNFD (Taskforce on Nature-related Financial Disclosure) is also under development.

The EU's new directive on sustainability reporting also contains reporting standards on biodiversity and ecosystems.[21]

We also need to increase our understanding of carbon markets, which are expected to grow as societies become fossil free. Both IOSCO and ESMA have analysed how the supervisory authorities can contribute to the efficient development of these markets and promoting market integrity.[22, 23] FI will prioritise continued contributions to this work.

The risk of greenwashing will continue to be prioritised in international policy work. For example, improved transparency – related to data, methods and tools – from companies offering ESG ratings and ESG data has been identified both at the global and European risk.level.

[21] Corporate Sustainability Reporting Directive, Article 29(b), point 2, paragraph 2. See text adopted by the European Parliament on 10 November 2022.
[22] See IOSCO Compliance Carbon Markets Consultation Report and Voluntary Carbon Markets Discussion Paper, November 2022.
[23] See ESMA Sustainable Finance Roadmap 2022–2024.