



## *In Conversation with*

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*Coordinators of the Climate Change Working Group of the Financial Market Commission of Chile*

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### **1. When and why did your institution join the NGFS?**

The NGFS announced that the Financial Market Commission of Chile (CMF) was admitted as a member of the network in December 2019, during the COP25. Although it sadly ended up being held in Madrid, the original schedule had the event taking place in Santiago, as Chile had the presidency of COP25. The expectation of COP25 occurring in Chile created a strong momentum for the climate-related issue during 2019.

Firstly, the Ministry of Finance announced the creation of a Public-Private Green Finance Table (Table) and invited the Central Bank of Chile, the Superintendency of Pensions, the CMF and the financial sector trade unions to join. Secondly, the Ministry of Finance, the Central Bank of Chile, the Superintendency of Pensions and the CMF issued a joint statement declaring Climate Change as a source of financial risks and announcing the measures to be taken to address these risks within their respective legal mandates. Finally, all parties to the Table made commitments under the Green Agreement, including the CMF, which committed to developing a strategy to address climate-related financial risks and creating a group to work on these issues.

After working on the Joint Statement with other financial authorities and discussing what commitments the CMF would make under the Green Agreement, we soon concluded that we had a great need to build capacity. On the other hand, there were jurisdictions in which central banks and supervisors were already taking concrete action. Like many other countries, we studied with interest the work of the Bank of England and the Banque de France on climate change. Their focus in framing the work on climate change within their legal mandate was fundamental for us; it allowed us to explain the financial and prudential nature of facing climate change. We needed good arguments, but good messengers too: we could hardly have asked for better messengers than the central banks and supervisors who were then part of the NGFS. The Network presented answers to our needs, giving us

access to better understand how supervisors and central banks responded to questions and challenges of climate-related financial risks, in addition to creating necessary capacities. Despite being the first in Chile and the second in the region, the Board of the CMF approved the idea of asking for the membership unanimously for these good reasons.

## ***2. Can you share with us the key elements of the Financial Market Commission's climate strategy and how it fits into the broader national strategy in your jurisdiction?***

Chile is highly sensitive to the impacts of climate change due to its unique geography and the structure of its domestic product, which explains why it is one of the world leaders in its response to Climate Change. The Chilean Parliament recently passed the Climate Change Framework Law, which establishes a legally binding goal of achieving carbon neutrality by 2050 and a number of policies, plans, programs and policy instruments to coordinate the cross-cutting actions required for a socio-ecological fair transition to a sustainable economy.

The Chilean Financial Strategy against Climate Change (EFCC), developed by the Ministry of Finance, came as a response to one of the commitments Chile made in its Nationally Determined Contribution under the Paris Agreement. The EFCC, published in 2019, proposes as its main objective to align actions to accelerate the flow of resources towards a resilient and low-carbon economy through three pillars:

- PILLAR 1: To generate data and analysis under a coherent institutional framework.
- PILLAR 2: To promote green economic and financial instruments and market development.
- PILLAR 3: To strengthen Green Finance in the financial sector.

The CMF has worked with the Ministry in several initiatives along these lines and it has created a Climate Change Working Group (GTCC) to address climate change and other sustainability related issues. The GTCC is composed of members of the staff from different areas of the CMF in charge of banking, insurance and securities markets regulation and supervision, who voluntarily develop the GTCC's work in addition to their regular responsibilities. The GTCC proposed to the Board the Strategy of the Commission for the Financial Market to Face Climate Change (Strategy)<sup>1</sup>, which was approved and published in September 2020. The Strategy identifies and defines climate-related financial risks, it describes the transmission channels through which said climate-related impacts may become financial risks that threaten the stability, proper functioning and development possibilities of the Chilean financial system, thus impacting the objectives of the Commission under its legal mandate. The Strategy established three objectives:

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.

The Board gave the GTCC the rank of Strategic Initiative within the framework of the Strategic Planning of the CMF for the period 2019-2022 and in this way the role of the GTCC as the executing body of the Strategy was formally confirmed.

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<sup>1</sup> Estrategia de la Comisión para el Mercado Financiero para Enfrentar el Cambio Climático (CMF, 2020): [https://www.cmfchile.cl/portal/principal/613/articles-29872\\_informe\\_doc.pdf](https://www.cmfchile.cl/portal/principal/613/articles-29872_informe_doc.pdf).

The CMF and the GTCC are working on the three objectives of the Strategy. Firstly, in terms of disclosure, the GTCC delivered to the Board of the CMF a Report on Disclosure of climate-related risks which was a useful input during the discussion of General Rule N° 461, which established a new mandatory disclosure standard incorporating sustainability-related disclosures, including climate change issues, published in November 2021.

Second, the GTCC has developed various activities to develop capacities and identify the exposure of entities within the regulatory perimeter to financial risks related to climate change. The GTCC is in the final stage of three stress testing exercises, two for banks and one for insurance companies. Additionally, this year we will carry out a compulsory survey for supervised entities to assess their knowledge and strategies around climate and sustainability related risks and opportunities.

Finally, we are supporting the Ministry of Finance's initiative to develop a Classification System of Environmentally Sustainable Economic Activities (Green Taxonomy), with two members of the Staff, one of them from the GTCC being part of the Green Taxonomy Preparatory Committee.

### **3. To which extent did the Financial Market Commission of Chile leverage the work of the NGFS in its own domestic journey? Any concrete examples?**

The CMF has been a member of NGFS since 2019, and although unfortunately we have not had the necessary resources to play as active a role as we would have liked, we have been able to share our domestic experience with our peers and fully exploit the membership in terms of capacity building, networking and guidance.

In terms of capacity building, the whole body of reports and publications of the NGFS and its members is a fundamental source of information to develop our work and to obtain new ideas. For instance, the Bank of England and other members' stress testing exercises have allowed us to learn what to expect from our. The NGFS reports<sup>2</sup> provide a rich variety of material, sources and examples that we consult often.

On the other hand, the NGFS has provided us with many ideas that have helped to guide our climate-related agenda. Firstly, and as stated above, the work of various members of the Network has been very influential in our own agenda and the reports from NGFS have helped us directing our work. The GTCC follows a governance structure similar to one of the recommendations made by the NGFS, which we had access to as part of the Microprudential Supervision Workstream. On the other hand, the work carried out on risk differentials for "green" instruments was and continues to be one of the influential factors for us in the CMF to explain the relevance of the development of taxonomies from the point of view of prudential supervision. The Guide for Supervisors and its updates have been a compass to organize our work, and make the most of the resources available to us.

Finally, the NGFS networks have played a very important role in our work as well. The GTCC took notice of the work several members of the NGFS had done with 2 Degrees Investing Initiative, and when we approached them for the development of one of our stress testing exercises for insurance companies, being a member institution of the NGFS helped to clarify a technical common ground. Another example is the key support the NGFS, especially the NGFS Secretariat (thank you very much Clément and team),

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<sup>2</sup> More information on the NGFS website: <https://www.ngfs.net/en/liste-chronologique/ngfs-publications>.

gave the CMF for the development of its First Conference on Financial Risks related to Climate Change<sup>3</sup>, which took place in April this year and allowed us to access global experts on climate-related risks supervision and regulation.

In the opinion of the GTCC, the decision to be part of the NGFS was a complete success that we have been able to make the most of. We trust we will continue to benefit from its membership and we hope to have an active role and contribute from our experience in the near future.

#### **4. *One last word?***

Being part of the NGFS is as important as it is valuable for the CMF. As said above, it provides access to information, networks, discussions, and knowledge without which it would be difficult to achieve the objectives the CMF has put itself when facing climate change.

The CMF is an integrated regulator with a legal mandate that comprises both market conduct and financial stability. Its regulatory perimeter encompasses banks, insurance companies and the securities markets. The CMF is thus in a unique position to address the challenges arising from climate change because it can act harmonically and consistently across the Chilean financial sector. We know climate change requires a broad, coordinated response. The CMF has the challenge of being able to harmonize the treatment of financial risks and opportunities associated with climate change among its supervised entities, taking into account the particularities of each of them. By delivering under its legal mandate, the CMF can play a significant role and support the transition of Chile to carbon neutrality by 2050.

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<sup>3</sup> Videos of the conference are available on the CMF website: <https://www.cmfchile.cl/portal/prensa/615/w3-article-50356.html>.