In Conversation with

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

The Superintendencia Financiera de Colombia joined the NGFS in March 2019 and we are very proud to say that we were the second authority in the Latin America region to do so. The SFC´s journey started in 2018, when we saw an important growth in green bond issuance in Colombia driven mainly by the private sector, the banking industry specifically. We wanted to understand how to better help banks and other institutions to take advantage of the opportunities associated with a transition to a low carbon economy. However, and after understanding better the climate science and the international discussion related to climate change implications for economies and financial systems, the SFC decided that it was our responsibility and within our mandate to start exploring and collaborating to mitigate climate related financial risks.

Before we issued any kind of policies, we: 1st) launched what is now the biennial Climate Risk and Opportunities Survey; 2nd) assigned a team exclusively to explore best practices green finance (which later became the Sustainable Finance Group[1] or Centre at the SFC) and 3rd) joined international and local networks or committees, including NGFS.

Since joining the NGFS and for the past two years, the Network´s work has been a central input for the SFC´s Sustainable Finance Strategy. With the World Bank Group´s help, we have been navigating the recommendations and adjusting it to local context in order to better prepare supervised institutions to manage these risks.

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[1] https://www.superfinanciera.gov.co/descargas/institucional/pubFile1045387/r0442_20.pdf
All of SFG publications can be found at: https://www.superfinanciera.gov.co/jsp/10104520

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

Before I answer the question, I want to explain a fundamental aspect that gives context to the work the Superintendence is doing regarding green finance and ESG and Climate risk, and how it may differ from the work that Central Banks´ can and/or should do: our supervisory arrangement is not sectoral. We are an integrated Supervisory Authority, and we supervise not only banks and insurance companies, but also pension funds administrators and other capital market participants. We also share responsibility with other agencies regarding market development.

Now to answer your question, the Superintendencia´s Sustainable Finance Strategy aims at having a more resilient financial system that is able to manage risk and opportunities that derive from climate change.

In order to achieve that**,** our first step was to understand what was happening locally and globally. We reviewed what international organizations and other supervisory/financial authorities were doing and publishing regarding climate change and environmental risks and green finance. We also conducted short interviews with supervised institutions using the Green Protocol, a voluntary agreement created in 2012 and signed by more than 20 Colombian banks, as a platform. Finally, we developed and published a mandatory survey for banks, insurance companies, trust companies and pension funds administrators. We were inspired, partially, by the TCFD, and the Asset Disclosure Project and it was structured around three themes: Governance, Risk Identification and Management, Opportunities. It is important to note that the survey´s objective was not only to capture information and have an overview or picture on the state if the art in sustainability but also to serve as a policy signalling.

The second step, after publishing the survey´s results**,** was to address strategic gaps needed to start greening the financial system. We knew that the work that was going to be done by the SFC had to respond to two basic principles: 1st): graduality. Whatever actions the SFC was going to take needed to be gradual and to respond to an organized process. 2nd): proportionality. It needed to be proportional to our financial system and the organizations that are part of it. In the first phase of its implementation the SFC focused on: facilitating innovation; improving data availability and transparency, testing regulatory and supervisory tools and, last but not least, building skills and capabilities.

As a result, during the past two years we have been working on:

- Developing a National Green Taxonomy that would help identify, understand and adapt international and local initiatives regarding green classification systems and developing an official green bonds guideline. Developing a green taxonomy is an enabling factor for the development of a green bond market in Colombia while minimizing reputation (greenwashing) risks.
- Promoting ESG integration using phases approached, starting with voluntary guidelines. Early in 2021 the SFC issued good practice guidelines for Pension Fund Administrators and issued two regulations that addressed both ESG risk integration and ESG Products.
- Improving disclosure and reduce information asymmetry around climate related risks by advancing initiatives that create necessary conditions for corporate issuers to improve disclosure of these risks. This initiative will "pave the road" for issuers and supervised institutions to increase transparency based on the TCFD recommendations. So far, we have

conducted a market assessment and published a technical document[2] which provided some signalling to the market as to what the SFC´s approach to disclosure is going to be from a regulatory perspective.

- Conducting exploratory climate risk analysis to assess the exposure of financial sector to climate risk by starting to experiment with quantitative models. In 2020, the SFC: i) identified the most relevant physical and transitions risks; ii) map relevant information sources, and iii) conducted the first vulnerability analysis.

3. To which extent did the SFC leverage the work of the NGFS in its own domestic journey? Any concrete examples?

Being part of NGFS has been very important for the SFC. It has given us the opportunity to engage with peers in other regions working on similar issues, access best practices and collaborate with other members from different jurisdictions. We have also been participating in various NGFS workstreams (on supervision, macrofinacial/scenario analysis and how to scale up green finance[3]) and are currently actively co-drafting deliverables prepared by two of them. Also, we have been using the "Guide for Supervisors" published in May 2020[4] as a compass for identifying next steps and key action points that are driving our strategy.

So far, we have taken important steps to identify into the potential impact of climate change on the local banking sector. In our first attempt to do so, we have been working with the World Bank in a report[5] that lays out an innovative approach for conducting basic climate vulnerability analysis in an emerging market context. In this first report, we assess of both, the impact of extreme flooding and decarbonization of the economy on the Colombian banks' balance sheets.

After publishing this first report, the SFC is planning to set supervisory expectations regarding climate risk management in the five areas or topics identified by the NGFS: governance, strategy, risk management, scenario analysis and disclosure.

4. One last word?

Since 2018 we have learned important lessons that we would like to share, especially with peers that are just beginning their journey:

The first lesson is on the importance of understanding the local institutional arrangement, mandates and commitments. What I mean by this is: first, you have to understand how and if your mandate is "fit", the limitations of the institutional arrangements and set to see how to better allow for the work that needs to be done. This also means securing support from other teams within the organization.

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[2] https://www.superfinanciera.gov.co/descargas/institucional/pubFile1050783/doctecnicodivulgacioninformacionsostenibilidadoESGColombia.pdf

[3] https://www.ngfs.net/en/about-us/governance/general-information

[4] https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf

[5] To see a preliminary summary of the report, go to: https://www.superfinanciera.gov.co/inicio/informes-y-cifras/informes/informe-actualidad-del-sistema-financiero-colombiano-60765. (Go to Junio 2021). The full report will be published later this year.

The second lesson is around market engagement. Especially for those that have are in charge of financial supervision, you need to understand where the market stands at, in particular its capacity and knowledge around key concepts. In our case, we implemented structured surveys, conducted bilateral Interviews with financial institutions and joined local networks.

The third one is regarding coordination. You need to map, engage and develop, if there is not, a "space" to engage with other relevant institutions. In Colombia we had the National System for Climate Change, SISCLIMA. This is important not only because, environmental, climate, fiscal, disaster risk and social policies need to be in line but because you will need to have strong partnerships with environmental and other relevant institutions.

Finally, focus on the building blocks. You need to understand what the building blocks that you will need to focus on initially are. There might be initiatives that are already being developed by market participants, industry associations and it's important to prioritize in order to avoid duplication.