

Sylvie: You're listening to a Toronto Centre Podcast. Welcome. The goal of TC Podcast is to spread the knowledge and accumulated experience of global leaders, experts and world-renowned specialists in financial supervision and regulation. In each episode, we'll delve into some of today's most pressing issues as it relates to financial supervision and regulation., the financial crisis, climate change, financial inclusion, FinTech and much more. Enjoy this episode.

Babak Abbaszadeh: Hello. I'm Babak Abbaszadeh, CEO of Toronto Centre for Global Leadership in Financial Supervision. Welcome to our discussion on Building Back Better: The Road to COP26. Today, we will once again look at the role of supervisors in supporting national climate change strategies. Just a quick word about Toronto Center, since our inception in 1998, we have trained more than 15,000 central bankers and supervisors from 190 countries and territories to build more stable, resilient and inclusive financial systems.

In 2016, we began incorporating climate change in our programming because of the substantial implications to global financial stability and risk of crisis from climate change. Because climate change is a global challenge, it is vital that central banks and supervisory authorities contribute to their nation's climate strategy to turn their jurisdictions more resilient. This is also an ongoing international concern, in line with the undertaking of the network of greening the financial systems, which is composed of 94 central banks and supervisory authorities. In the aftermath of the devastating impact of a global pandemic on economies and people's livelihoods, this proactive crisis preparedness is essential for all countries to mitigate against the impact of climate shocks. So it's no longer just about credit; a crisis can come from anywhere and affect everything.

It is my honour to welcome our two distinguished speakers. They're leading their nation's supervisory efforts to tackle these challenges and are great international influences. I do not have time to read their bios because it would take a full hour there; their accomplishments are too many. But you have received their bios. Unnur Gunnarsdóttir is Deputy Governor for Financial Supervision, Central Bank of Ireland. I've also discovered that she was in Toronto for a couple of years, attending one of our prestigious law schools. Tomás Soley is Superintendent of the General Superintendency of Insurance of Costa Rica or SUGESE.

Toronto Center's mission is generously supported by Global Affairs Canada, Swedish International Development Cooperation Agency, the IMF, Jersey Overseas Aid, Comic Relief, and the USAID. In fact, I was looking at a list of participants, and I hope our friend Kerry Max from GAC is here. I saw his name. So hello, Carrie, if you are. I would also like to thank my team of Demet Conecca and Ashley Thompson, who have worked so hard to bring this program to you.

We will have three rounds. I will pose three questions alternating between each speaker, and then I will take questions from the audience. Please use the Q&A tab to submit your questions. All I ask is that your questions please be brief

because there won't be a lot of time to read long questions. Unnur, I'm wondering if I can start with you.

Unnur Gunnarsdóttir: Yeah.

Babak Abbaszadeh: Welcome to our program.

Unnur Gunnarsdóttir: Thank you.

Babak Abbaszadeh: Iceland's priority targets reflect the Government's emphasis on SDG action with respect to climate change, SDG 13. What are your objectives and challenges at the national level? What role does the central bank have in reaching those objectives? Thank you.

Unnur Gunnarsdóttir: Yeah, thank you. The Icelandic Government has ambitious targets on meeting the Paris Agreement, such as reducing greenhouse gas by 55% from 1992 to 2030. We are in coalition with Norway and the EU on this. Iceland, to name another target, Iceland aims to be carbon neutral by 2040. So what are the main challenges? I would say that the main challenges to reach these goals are with regard to transportation, mainly the fleet of the fishing vessels because we are a big fishing nation. The challenge is a transition of energy as the fishing vessels are now using diesel. They're not so easy to change into being run on electricity, but the industry is looking into hydrogen for this. Apart from transportation, Iceland is mainly using renewable energy already and has been for a long time. We are not dependent on fossil fuels to heat our houses.

So there's a challenge to reduce the greenhouse gas emissions by such a large percentage as we start from a relatively good place with a lot of renewable energy. What's the role of the central bank? It has a wide mandate; it's an integrated central bank as a monetary authority as well as an authority for financial stability and financial supervision. This supervisory mandate is as wide as it gets. We are responsible for regulating and supervising all the financial services sectors, the banks, the insurance companies, the pension funds and the securities markets.

We don't see direct references to the role of the central bank in Iceland's priority targets as such. But we in the central bank are committed to supporting the Government's objectives in every way we can. It's already very high on our agenda. For the supervisory part, the financial institutions play a key role in financing the transition to renewable energy and a more sustainable economy. So the supervisor is an important standard setter.

Babak Abbaszadeh: Tomás, let me switch to you. Let me go back to Unnur in a second. First of all, you're a very good friend of Toronto Center. We have worked with your agency and your sister agencies in Costa Rica. We find that your officials are being engaged in capacity building. Also, you play a very big role in Latin America as the head of the Insurance Association, ASAL. But also in your country, you're

very active and engaged. Let me ask you this question; climate change is also at the top of the Costa Rican government agenda. Can you tell us a bit about Costa Rica's climate change strategy and the role of SUGESE, your agency, in your national climate change strategy, please?

Tomás Soley:

Sure. Thank you very much, Babak A. First of all, thank you for this invitation. It's a real pleasure to have this conversation with you. Costa Rica, in 2019, was honoured with the Champions of the Year Award. That is the United Nations' highest environmental recognition, is a strong vocation in the protection of the environment, and ambitious policies to combat climate change. The leadership of environment commitment of my country has so huge historical roots. It is based on the foundations of human development established by the constitution since 1949.

Costa Rica is a middle-income country with the oldest democracy and strong democracy in Latin America. Also, it is the country that decides to abolish the army more than 70 years ago in order to finance the universal education and health system. It is remarkable that in the last six years, Costa Rica generated more than 98% of its electricity in a renewable way. In the last 25 years, the country's stopped deforestation. Today almost 60% of the land is once again forest. So this is Costa Rica, my country, a climate champion.

With that background, let me summarize the main ideas about Costa Rica's climate change strategy with three main components. First, ambitious commitment. Second, a strong public policy. Third, a net benefit estimation. Let me move on to the first one, the country presented in the context of the Paris Agreement, the most ambitious national determined contribution, NDC in 2015. Despite these, in December 2020, Costa Rica in forming a more ambitious commitment and aligning it with the global goal of average increase temperature to 1.5. It is clear that ambition commitment needs a strong public policy. That is the second component, Costa Rica's climate change strategy, which will be explained by two central policy instruments.

First, the National Decarbonization Plan 2019-2050, which established long-term mitigation measures, and the National Adaptation Policy 2018-2030 defines short and medium-term policy action for adaptation. Finally, the full implementation of the decarbonization plan has been estimated that could bring 41 billion USA dollars in a net benefit to the economy by 2050.

So Costa Rica's climate change study includes mid and long-term targets to reform transport, agriculture, energy, waste, and land use. One of the most important aspects to consider in this is the just transition approach that seeks to maximize the creation of decent jobs and sustainable businesses, minimize job destruction, and promote the generation of green jobs.

This is a strategy also incorporates agenda focus in intervention. So through these instruments, the country's agenda had been defined, and some action work incorporated. Finally, let me talk a little about why SUGESE falls in this

strategy and what could be the main concerns. There are some topics that are extremely important to care about. First, the first one is the climate protection gap that appears to be worse because of the slow adaptation action and more frequent and extreme weather events.

Currently, less than 5% of the total lawsuits have been insured, the total lawsuits from climate events here in Costa Rica. In this context, SUGESE approved a new inclusive insurance regulation and also clarified regulatory issues in relation to the development of an index in insurance. Second, the supervisor's responsibility is to warn the market about this risk of climate change. In that sense, an open discussion and training groups on climate risk were organized by the insurer and banking supervisors. Since the beginning of 2020, the banking and insurance sector had set up their own working groups and is so active. Finally, it is critical to have coordinated work between the financial regulators and the central bank. We just began this close coordination with the creation of a working group with the one central bank and all the superintendents here, simple story. But I will stop here. Thank you.

Babak Abbaszadeh: Thank you, Tomás. Actually, your explanation was very interesting. In fact, we may come back to that in a second about some of that cross-sectoral coordination and cooperation. I think some in our audience probably got notice of the fact that all that we're talking about climate change, it is really astonishing and interesting that Costa Rica abolishes military such a long time ago given the region you're in. So we'd like to learn about that too. But that goes beyond the mission of Toronto center, so that's for another conversation over beer maybe, but next time in San Jose. Hey, we have Unnur back. Hi Unnur. How are you?

Unnur Gunnarsdóttir: Hi. I was glad to be back. This was rather alarming because somehow the net, it failed, the internet of the Central Bank.

Babak Abbaszadeh: No problem. We always love to have a little bit of excitement in our program.

Unnur Gunnarsdóttir: Thanks.

Babak Abbaszadeh: Is there anything else you want to say, or do you think you've completed your talk?

Unnur Gunnarsdóttir: I think I had completed in substance what I wanted to say.

Babak Abbaszadeh: Okay, so we'll come back to that as well because there's a lot of interesting things, and I see questions already being asked. So put you on the spot again, it's your turn again, Unnur.

Unnur Gunnarsdóttir: Okay.

Babak Abbaszadeh: Last December, the Iceland Central Bank joined the Network for Greening the Financial System, NGFS, along with some other organizations. What kind of supervisory actions have you taken to combat climate change so far?

Unnur Gunnarsdóttir: Yeah. First, I want to mention greenwashing. The banks and other financial institutions have started promoting their greening policy. An example that comes to mind as one of our major banks has granted honours to companies for sustainability. So this is a big market marketing issue for them and for the insurance companies. So it's a role for the supervisor to carry out checks whether they're living up to their promising promises and not miss-selling brown products for green. That's one issue that we are very well aware of looking into.

In the securities market division, we have seen in prospectuses that some issuers are more advanced than others in their greening efforts. The National Energy Company is an example of good practice as an issuer of bonds. They've set measurable targets with regard to climate, promising higher interest rates on the bonds if they fail to reach the targets. So it's a trade-off that they're offering their investors.

In the central bank, we don't have a clear mandate in combating greenwashing and securities or SEC. But we are aware of this risk or danger. Direct climate risk on portfolios is another issue. We have requested reports from the bank; somehow, they're assessing climate-related risk, especially for the credit risk. We're currently analyzing those reports. Some stress testing has already been taking place to evaluate the resilience to natural disasters.

I want to mention; I sent this in the Associated States to the EU. So we're obliged to homogeneity in legislation and practice. Exactly one year ago, the so-called taxonomy regulation entered into force in the European Union. This taxonomy regulation sets out an EU-wide framework. It's a classification system. According to its investors, businesses can assess whether certain economic activities are sustainable. So it's sort of a dictionary of what activities may or may not be called sustainable. So this is a standard that we have been waiting for, and now it's already in place.

This taxonomy regulation provides a common language to identify environmentally sustainable activities and financial instruments. It's supposed to be used by investors, financial institutions, and issuers. So this will definitely provide us, as I said before, with an additional tool to combat climate change and promote a more sustainable financial market. So these are issues that I wanted to mention in this respect.

Babak Abbaszadeh: That's great.

Unnur Gunnarsdóttir: I still with you, then I'm glad about that.

Babak Abbaszadeh: I'm glad. No, it's very interesting. I mean, I was just listening to what you said earlier on, which is greenwashing. I'm so glad that you're taking that on. Again, we see that all the time, like ESG is such a popular thing. If you just do a casual look at the investment products out there, mutual funds or exchange-traded funds, ETFs, sometimes you see that a fund that's branded as ESG, as an MER, that's ten times more than a regular basic index. Yet, their constituent parts are nearly identical. So you can, on the one hand, go and beat up a bank. Then come and put the same bank in an ESG fund. Right? So it's very good that you're doing that. It speaks to the disclosure; the G7 itself made the disclosure, said they're backing the mandatory implementation of the schools. So it's very good. It's actually important that you mentioned that.

So let's move on there to the next question for Tomás. Tomás, as your role as the Head of the Insurance Sector Supervisor in Costa Rica, do you think climate change affects certain sectors of the financial industry more than others? What are your thoughts on this? The background to this question is as an insurance supervisor, you guys have really been at the forefront of this for a very, very long time. Right? It's not a new topic for you. But now you're seeing your brothers and sisters from other sectors coming in; other companies and this whole financial sector are so integrated. So what are your thoughts on this question?

Tomás Soley: Thank you, Babak. So, of course, that is a crucial question for the finances supervisor in the case of Costa Rica; when we mass coordinate with another three services, it is very, very important to have this clear. In my opinion, climate change-related risk affects so much in the financial sector differently and more intensely compared to others. Nevertheless, of course, there are some of the risks that could affect all sectors without a difference. So let me divide the analysis into two questions, how do physical and transition risks affect the economy? Are there different impacts for certain financial services?

So let me elaborate a little bit. First, it is clear the physical and transitional risks correspond to the purest concept of climate risk. For instance, understanding how those risks are transmitted to the economy is essential and how that new reality of the economy is transmitted to the balance sheet is at a critical topic.

On the one hand, science predicts physical risk, greater severity and frequency of weather events. If there are no climate plans, if there are no climate plants in the country or in the war, it will be worse, of course. Some of the expected impacts to households and businesses are losses of income, property damages and business interruption. In the case of a banking entity, the credit could be aggravated, the credit risk due to scenarios of greater impact on the income of households and businesses. For non-life insurance, the right-hand rate will be aggravated by the greater volatility and severity of physical risks.

As you said, insurance is in the front and will be affected on both sides of the balance sheets, in the liability and, of course, in the asset part too. So in the other hand, transition risk is affected by policy and regulation, technological

changes and consumer preferences. In this last one, it's very important that what Unnur is saying about the disclosure and the public confidence about the green in finance and all those topics.

So in the case of transitional risks, it is possible, observe restrictions from low carbon policies like we see in our countries and new capital expenditures for technological transition, legal liabilities. There is possible to find some opportunities as the green bonds and winning financing in our countries. But there are some new risks too, market risk and liquidity risk must be assessed and must be analyzed in this, on this new, new reality of our countries. So there are continuous climate and economic effects and continuous economy and financial system feedback effects. The financial supervisor must be aware that climate change-related risks represent a serious threat to the solvency and the stability of the financial markets.

There are asymmetrical effects for different financial services. For us in Costa Rica, these first steps to coordinate all the financial services are really, really important in order to have an integrated and roadmap that will be more consistent. I think that is true, and we cannot ignore it for much longer. It's time. Definitely, we need to take action about those topics here. Thank you, Babak.

Babak Abbaszadeh: Thank you very much, Tomás. The next question goes to Unnur. Unnur, you know what the MIT Green Futures Index is, but let me explain to our participants. A ranking of 76 leading countries and territories under progress and commitment towards building a low carbon future. So it's a pretty comprehensive global index. According to this index from MIT, Iceland ranked number one in the overall rankings amongst the examined economies with regards to certain pillars used in the research, carbons emissions, energy transition, green society, clean innovation, and climate policy.

It sounds like it's the Oscars, you got the Oscars in green. Good for you. This is your acceptance speech, I guess. But hopefully, it's shorter than an acceptance speech. What powers and tools can financial supervisors use in addressing climate-related financial risks? How are you encouraging environmental risk analysis by financial institutions in Iceland? I mean, I imagine being such a progressive country, having done so much, there's a lot more pressure on your banks, right than in some other countries, right? Yeah.

Unnur Gunnarsdó...: Well, I don't really know about that. But the powers and tools that we have, being a risk-based supervisor, we can use all the powers and tools that we have already in store to tackle risk. But the challenge here is to analyze and evaluate the climate-related risk. In banking, this inflects mainly credit risk and the evaluation of the quality of loans and collateral. So this can be directly reflected into the capital requirements that the supervisor, that we as a supervisor can require the banks. But there is a job undone in developing and refining our methodology on how to analyze and evaluate these risks. This applies to the

market as well as how they assess the risks. So we need to learn more about this. That's why this taxonomy regulation is also so important to us.

I mentioned stress testing before. That's, of course, an important tool. With regard to insurance, it's important to evaluate the potential protection gap that we see increasing globally. Well, nations can look into maybe political initiatives to fill this protection gap by providing state insurance. Iceland as an island of earthquakes and volcanic eruptions, avalanches, and such disasters, we have such state insurer in Iceland, and we are grateful for that. We've had it for a long time.

We are participating in a European project to evaluate the potential risk to financial stability. So it's not only classical supervisory, but also the financial stability focus on it, caused by recent catastrophes that have been happening in Europe, such as forest fires and floods and more. The disasters in Iceland are maybe not as typical as the same catastrophes as we see in other countries. Pension funds are extremely important in Iceland, and their assets amount to the top of the GDP. So their investments are crucial for the economy. In the legislation that they abide by, they are supposed to invest by ethical standards as its assessed. This is, of course, rather open to interpretation. But the funds, they generally use the ESG principles as guidance for what is ethical standards.

However, the pension funds are required to adopt, to opt for 3.5% real interest on their portfolios. So they can get into a dilemma deciding to invest in brown shares or bonds with higher interest rates rather than green with lower, but then also they might have the possibility as such an important investor to influence businesses to become greener. So this is an actual discussion in Iceland. So overall, we have some tools already in place, but we still need to improve by the criteria and methodology and learn from real life. That's what I wanted to say on this one.

Babak Abbaszadeh: That's great. Unnur, I used to work for a very large institutional investor, the Canada Pension Plan investment or some kind of familiar with these ethical dilemmas that you're talking about because we all want to be ethical. We all want to do this. But then, where do you draw the line? Right?

Unnur Gunnarsdó...: Yeah.

Babak Abbaszadeh: At what point do you say, "I have had enough of ethicals," and then what happens to that in return? So no, it's a very tough balance. Tomás, you get the last structured questions, then we go to the audience. You're the President of the Supervisory Association for Latin American Insurers, ASAL. I had the pleasure to talk to ASAL just before the pandemic. I was probably one of the last speakers there in an actual setting. What are the supervisory and industry practices in regions with regards to addressing climate-related financial risks? What needs to be done? Now, I'm asking you this question; I'm not asking you to opine on specific countries, but just in general, as you observe that, what do you see? Thank you.

Tomás Soley:

Thank you, Babak, for this question. As you know, Latin America is an interesting region. So diverse and asymmetric. There are some differences of economic and social development and that. But also regarding the insurance market, Latin America shows challenges on the supervisory practices. ASAL had become a space for exchange and discussion of experience throughout the region. We are maintaining a permanent dialogue with IIS, NAIC and EOPA for some of the main insurance associations in order to keep supervisory parties updated.

Since Costa Rica's market opening in 2008, we have found in ASAL, and some of the members are very valuable space for exchanging experiences and supervisory practices. I am sure it is the same for the supervisory community in the region.

For the climate change-related risk, it will not be different. However, the region has great challenges on this path of adopting better supervisory practices. In the last years, there has been a regional effort to increasingly adopt better practices. I am interested in highlighting four important regulatory advances in the region—first, the implementation of a risk-based supervision framework in some countries. In my opinion, this has been one of the most important changes in supervisory practices in Latin America. The countries that have a complete implementation have observed but the whole improvement in the quality of corporate governance and risk management in their market, for instance, in the stability and security of its markets.

Second, we have a huge challenge in the near future that is the adoption of IFRS 17. The adoption of this accounting standard introduces very profound changes for both the supervisor entities and the insurance companies. Third, the improvements of risk-based capital regions, some jurisdictions will be waiting to consolidate some of the corporate governance and risk assessment in the risk basis supervision. Some of the changes in IFRS 17 before beginning this kind of improvement. Last, Babak, the adoption of business conduct models and new recommendations in regard to closing the protection gap and being more accessible the insurance in our market.

Finally, I would like to address the SDG challenges and climate change. I am so happy to inform you that a few weeks ago, the ASAL Board of Directors create the working group for sustainability and climate change. Next August, we will continue these discussions in the first high-level meeting of sustainable insurance in Latin America.

This event is organized by ASAL and A2II and will allow us to define their roadmap and next steps. The region where we have in the region that some of the supervisors have taken advances in some of the topics. They have an open conversation with the industry. They are fixing their expectations and hearing the industry concerns too.

Maybe one of the important concerns at this moment could be the effects of the pandemic and the need to begin again with more activity in our economies,

and maybe that could be another concern. How much the climate change could stop that, I think nothing. I think we must begin the work in order to be connected with our public policies and make our country more resilient and put it in the new group, a new reality, new normality, a growing path. I'm really very excited about the formal cooperation on this topic in the regional agenda. Babak, I come to you again.

Babak Abbaszadeh: Thank you. No, that's great. I think you have a very interesting opportunity and a big challenge as well, because men, there are many countries in your region that are very strong producers of natural resources, including petroleum and some of them. So it's going to be a very interesting dialogue. We see that a lot in Canada, right? That we have in the province of Ontario, Ontario's economy is as large as Sweden and Denmark combined. People in Ontario, probably for them, climate change is very different than Saskatchewan and Alberta that are so dependent on natural resources and petroleum. So those discussions and debates play out all the time, so I suspect it would be the same for you.

So now, let's move to the audience section. Let's try to see if we can get as many of them as possible. We have a good list of questions here. I think I'm going to get the very first question to you, Unnur. Schobert Gaines asks, "What guidance would you give to financial institutions in the incorporation of climate change risk in their enterprise risk management frameworks? Thank you."

Unnur Gunnarsdó...: Can you repeat the beginning of the question? Is it about what advice we would give?

Babak Abbaszadeh: Yeah. What guidance would you give to financial institutions as they're incorporating climate change risk as part of their ERM framework? Yeah.

Unnur Gunnarsdó...: Well, broadly speaking, is I would go into either both learn from experience, avoid older mistakes in evaluating the risk of maybe making a mistake of granting loans to a polluting industry or something like that. But also, as I said before, it's useful to have some standards that we have to learn from our own experience, but we also have to learn from others. For us as such a small economy, it's a very important backbone to us to be the associated state of the European Union and learn from their expertise and initiatives. I don't have a piece of very concrete advice for that because we are very much in the learning process of this ourselves.

Babak Abbaszadeh: Yeah, we're all learning together. Right?

Unnur Gunnarsdó...: Yeah.

Babak Abbaszadeh: So that's the important thing.

Unnur Gunnarsdó...: Yeah.

Babak Abbaszadeh: Tomás, the next question is for you. Please provide a brief overview of the role of supervisors and regulators in climate change, risk review of financial institutions. So when you look at the role of supervisors, where do they add value in that?

Tomás Soley: Okay, thank you. I think there is a very, very important role of supervisors because the supervisor must present what are their expectations, expectations about the climate change risk assessment from the institutions. If you have a risk basis regional approach, it is maybe a little easier. That is because it's possible to centralize. First of all, they're collecting data and centralize the taxonomy about the quality of the data. That will be important in the case of Costa Rica, be coordinated with all the financial services.

Secondly, it's important to share with the financial institutions what is the regulatory and supervisory expectations are and how we expect they put in their own risk appetite and in their own risk assessments the way they will be monitoring and analyzing these kinds of risks. So I think it is a huge and important role in order to spread in all the market best practices that we are seeing in one entity and not in another, and give them a lot of feedback about these first steps in assessing the climate risk in our jurisdictions.

Babak Abbaszadeh: Okay, thank you. Let me go back to Unnur. Unnur, there's a question here from a person by the name of, his or her last name is Green. So it's very appropriate. Right. So it's a green person; maybe they have all the answers. The question is, "What is the role of financial services policymakers and supervisors to create a green finance framework in smaller jurisdictions?" So I guess the question behind the questionnaire's question is that there are big jurisdictions. He or she says mega jurisdictions have all these big grand plans. But what happens to small jurisdictions like yours or Tomás's? Is that different a challenge, different opportunity?

Unnur Gunnarsdóttir: I don't see it as such. I find that every country has to learn about the dangers and risks that they are facing. Some countries are more dependent on their environment, so the other countries are adjacent to them. Then there are islands like Iceland is; we have the ocean. We have glaciers that are melting. So we've had massive earthquakes. We have a volcanic eruption going on 50 kilometres from Reykjavik. So to us, it's not just nice to have measures in place and knowing what we shall do.

We may need other measures than some bigger countries that are not as volatile. One of the things that we have to face as a small country or small country has to face that they're usually much more volatile than the larger ones. So I feel it's more or less the same as before. It's we need to stand on our feet and be realistic on what we're facing, each and every country, also the small ones. Although, it's good and useful for us to learn from the bigger ones, from what they have to contribute. But every country has to analyze their own situation.

Babak Abbaszadeh: Okay, thank you for that. Tomás, for you? The second one.

Tomás Soley: Yeah. I totally agree with Unnur and with the country that my country is so small than Iceland, but is no less rich; it's a middle-income country. Of course, there is a lot to learn from each other. It's not possible to translate a regulation from developed countries to an emerging country just in that because our market is small, less development and have a lot of space to grow up.

But actually, there is a true issue facing Costa Rica. It is at the top of the country that are more exposed to catastrophic risk in the world. We are in the top 10, I think. We have done this job for a long time. If we just forget climate change, we have done this; we have achieved these goals to have a more stable and safe market. I mean, with climate change, change that situation, that is only that we must learn a lot from each other, maybe we will need to translate some of the topics of the new solvency or new risk assessment approach, depending on a proportionality we have, depending on our reality. That will be my comment.

Babak Abbaszadeh: Well, I mean, I think it underscores the fact that both of your countries are in a very difficult challenge because there are countries that are climate change-makers, and there are countries that are climate change takers. The two of you are that. I mean, look at Iceland surrounded by water. Tomás, you guys are between two oceans. So every time our polar bears lose their habitat, your water levels go up. Right? So at the end of the day, we're all connected. But I take your point; there's no room for climate change mitigation imperialism, right? Everybody has to learn their story but collaborate on the information together.

So it's a good question from my colleague, good colleague Persona Sabian. He's talking about carrots and sticks, right, so you can't just mandate things and make them prohibitive. So as a supervisor, I guess, Tomás, I'm going to pass this to you. As a supervisor, what are the carrots and sticks you would employ to motivate and/or penalize institutions for addressing climate change, particularly for smaller and emerging economies? Do you have carrots, or is it all just regulatory sticks? I guess that's the question.

Tomás Soley: No, I think that they won't change it. Putting practices the risk-based supervision, and the most important thing in this approach is to know very well now, what is it doing the supervisor entity, how they are following and reaching the supervisor expectations. Right, now we have no rules for climate change, but we are working on a stress test with the companies who are capturing some information and talking a lot with them. So in these first steps, there are more carrots than sticks.

I mean, the risk is there. Climate change won't give us suddenly an event that they put everything in a bad way. That is not too slow, but we have changed to implant this new regulation and this new vision in our markets. But we have a wall that has goals, things, more development in three, four years, and have a more clear picture about what will be the carrots and what will be the sticks

because, of course, they will affect the solvency and these capital requirements. That's a real solution, but not in the short, short term.

Babak Abbaszadeh: Well, and the reality is the longer you wait, there's an easier conversion of the carrots and the stick, right? Because then you have to compel people. So I want to turn to Unnur. Unnur, this is a question for the anonymous attendee. I'd like to call them courageous anonymous, right? They're very courageous. They don't put their name down. But the question is an interesting one; it could be a bit of a grenade. But nonetheless, it's a legitimate question. You talked about pensions and all that. So in the context of the low-interest rate that we live in now, it seems difficult to justify environmental haircuts against the payout of patient investors and savers. Not you so much, but how do you justify that for your policy overseers, economic ministry or equivalent? What is that conversation? Give us a flavour of that conversation in Iceland. I'm sure it's come up; someone's worked all their life. They're ready to retire. Then someone says, "Sorry, you can't be investing in all these companies because of environmental concerns. Now, what?"

Unnur Gunnarsdóttir: We're not very advanced in this yet. We know that. We know that in some other OECD countries, there are divisions in pension funds that people can opt to voluntarily that invest solely in green products. So the pension fund, the member of the pension fund, decides for himself what risk shall be taken in this respect also for the profits. So this might be sort of the democratic way forward in this. We have not yet taken this discussion here in Iceland in the end of the pension funds. But they are obligatory in Iceland; it's a legal duty to be a member of the pension fund and pay into that. Usually, people cannot choose the pension fund itself.

So that makes the ones who manage them, it's more stringent that people cannot choose between green or brown or risk-taking etc. So I think the future would be maybe to disclose it, to make this more obvious. Then there's one point that has also been taken in this discussion is that well, as such an important investors, the pension funds, if they decide to invest in a brown business, they can turn it over because if they are of a certain size, they are so influential that they can really affect. I think that we will see some changes in this respect. But as yet, we're still very much fixed on the profit margin of the investments of the funds. So we're not as advanced as I would like to be able to tell you today, but we're looking into these aspects.

Babak Abbaszadeh: It's a big issue because, on the one hand, yes, pension funds have a lot of opportunities to influence change. They bring with us a lot of their investments, but they also have pension obligations, why you share your responsibility. They can't just walk away from that. So I can see that being a very tough problem and a tough challenge. I want to ask a question. We have limited time, and I want to address it to each of you to give your views on it. There are some skeptics out there in the supervisory community that say, "Well, all this stuff about climate change funds is very important." But at the end of the day, supervisors really cannot take their eye off financial stability and credit problems because they do

that. Then they chase these trends, then they get distracted. What's your answer to them, Unnur? Then I go to Tomás.

Unnur Gunnarsdó...: Well, it depends on how farsighted you want to be. At the end of the day, I assume we need alignment between the dangers that climate change is imminent and the risk. So we are seeing things happening quite rapidly nowadays. But it's not a long time that we are into this. So, at the end of the day, I think it's for financial stability; it's really crucial that we're not careless about how the businesses are run and how they are financed. So I think that in the long run, this will be aligned.

Babak Abbaszadeh: Thank you. Tomás, you've been a trailblazing leader in Costa Rica on these issues. Being a leader sometimes can be very lonely. I'm sure you've heard these skeptics from different agencies and others talk about that. What is your answer to them in one minute?

Tomás Soley: I have no complete answer right now. That is because we have divided the financial provision, a medium in our country. This is a hot-trend topic right now in Costa Rica. We just built the working group with Central Bank and the supervisor. I think we will talk a lot about this topic in the near future. We are just now finishing. Not finishing, we are in the middle of the final of the pandemic, I think. There are some risks that we must balance in our financial market and so on. These new challenges must be calibrated and must be put on the growth path for the near future, I am totally sure.

Babak Abbaszadeh: Excellent, thank you. So, this just gives me great pleasure to bring this session to an end. We had people from 46 different countries attending, almost all letters of the alphabet from B, Barbados to Zimbabwe. So I don't know what happened to Argentina. I think Tomás, you got to have to talk to your colleagues there, and Anguilla and elsewhere. But you talked about issues in a very good, measured way. I have a lot of respect for you as two jurisdictions that are small but really are punching above your weight in this. You're influencing regional and international discussions. I hope you're not going to be a stranger and participate in another Toronto Centre Program. So thank you very much. You did great. Namaste. Goodbye.

Tomás Soley: Thank you.

Unnur Gunnarsdó...: Thank you. It was nice being with you. Bye.