



THE FMA'S STRATEGY ON  
SUSTAINABLE FINANCE

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## 1 INTRODUCTION

Man-made climate change and the dramatic loss of biodiversity are already causing enormous damage and costs, with severe economic, social and societal consequences. The increasing frequency and extent of damage caused by natural catastrophes and storms – increasingly also in Austria and Europe – demonstrate how real and acute risks have already become in relation to climate change and loss of biodiversity.

Global warming and the loss of diversity are continuing unabated, with increasingly pronounced impacts, despite efforts at both national and international level to address them – such as the commitment stated in the Paris Agreement to limit global warming to a maximum of +2° Celsius, although ideally to +1.5° Celsius, the EU's objective to reduce net greenhouse gas emissions by at least 55 % by 2030 compared to 2019 and to achieve climate neutrality by 2050, or the targets determined in the Kunming-Montreal Global Biodiversity Framework to actively counteract the loss of biodiversity.

In this context, Europe's economy and financial market are also confronted with diverse, climate-related and nature-related risks. In this context, the effects of climate change and the loss of biodiversity seriously threaten the stability of the European financial system. In addition to climate risks, increasingly evident nature-related risks for the economy and the financial market have emerged due to their dependence on ecosystem services (further contextual information as well as the scale of risks can be found on p. 7). Financial institutions face a higher probability of default and the loss of assets, while real estate and insurance markets anticipate a widening of the existing insurance protection gap as a result of these risks.

All stakeholders involved – from legislators, the economy, the financial sector, central banks, supervisory authorities, through to consumers and civil society – face tremendous challenges, especially due to the interdependencies arising from ever increasing climate-related and nature-related risks, and the financial sector's dependencies in addressing such risks. The FMA is aware of these developments and the need for far-reaching changes and is committed to make an active contribution within the scope of its legal mandate and opportunities at its disposal.

The necessary transition towards a sustainable economy needs to be addressed jointly and holistically with all parties concerned. A key role is bestowed upon the financial sector in this respect, owing in part to the enormous risks that are becoming increasingly manifest and that threaten financial stability, as well as due to how investments and financing decisions influence the speed and effectiveness of such change. To this end, in recent years the European Commission has enacted a number of important initiatives and regulatory requirements to advance this necessary transition in the financial sector. Under its statutory mandate, the FMA accompanies supervised entities in the transition process regarding their respective associated risks.

## 2 THE FMA'S SUSTAINABLE FINANCE STRATEGY

- The FMA is aware of the growing sustainability risks as well as the risks to the financial sector and places a particular focus in its supervisory activities on adequately integrating sustainability risks into supervised entities' risk management. Irrespective of prevailing political and social debates, the FMA ultimately considers there to be a material need to ensure the resilience of the financial market given the dimension of the risks caused by climate change and biodiversity loss. In this context, the FMA understands sustainability risks not only to be purely environmental risks but also to encompass social and governance risks, with the realisation of such ESG risks possibly impacting companies negatively.
- The FMA applies the principle of proportionality in all its sustainable finance activities, although it should be noted that adequate addressing of the risk perspective is considered essential regarding the risks arising from climate change and biodiversity loss.
- The FMA recognises the necessity of further capacity and know-how building in some areas when dealing with sustainability risks and conducts supervisory activities in a proportionate manner. The FMA focuses particularly on cooperation and interaction with supervised entities to actively advance what is ultimately a learning process for all concerned.
- The FMA actively promotes transparent sustainability-related disclosures to consumers, reviews compliance with sustainability-related distribution rules and conducts regular analyses and screenings to proactively prevent and actively combat greenwashing.
- The FMA is committed to continuously monitoring current developments and sustainable finance-related trends and to inform supervised entities about current developments as well as relevant analyses by the FMA at an early stage to raise awareness about the topic, inherent risks, and opportunities.
- The FMA uses a variety of different formats, instruments and channels to actively support supervised entities regarding sustainable finance. This includes policy instruments and information (such as the FMA Guide for Managing Sustainability Risks), events and other forms of communication, market studies, and information documents, as well as social media content.
- The FMA is aware of the challenges arising from the risks, necessary transition, and various regulatory requirements that financial market participants face, and is committed to an open dialogue with all stakeholders – at national, European and international level – to further develop the regulatory framework. The FMA advocates risk-oriented, proportionate and workable regulation for all supervised entities, also including consideration of the needs of retail investors in terms of collective consumer protection.
- The FMA is also integrating sustainable finance and sustainability into its internal organisation, builds necessary capacities and know-how, and is establishing internal organisational structures for sustainable finance as an issue for cross-sectoral supervision.

## 3 THE FMA'S ACTIONS IN RELATION TO SUSTAINABLE FINANCE

Tasks have been conferred upon the FMA regarding the consideration of sustainability factors and risks in the financial market (Sustainable Finance), both in terms of “prudential supervision” (regarding the integration of sustainability risks) and “market and conduct supervision” (regarding transparent information on sustainability-related financial products and services). Specific statutory tasks have been conferred upon the FMA the relevant sustainability-related legal acts, with the FMA being responsible for their enforcement.

As part of its supervisory activities, the FMA actively requires in fulfilling its statutory mandate the management of sustainability risks and implementation of requirements regarding transition plans and transition planning in terms of financial market resilience, promotes market transparency in financial products and securities distribution, and combats greenwashing within the scope of statutory powers conferred upon it.

### 3.1 THE FMA'S SUPERVISORY ACTIVITIES

The management of sustainability risks, transparent disclosure of sustainability issues, and the prevention of greenwashing are prioritised and are addressed on a cross-sector basis within the FMA's supervisory activities. By doing so, sustainable finance is integrated into its regular supervisory activities. The FMA and OeNB jointly carry out these activities for banking supervision under the statutory division of responsibilities.

- The FMA reviews supervised entities' appropriate management of sustainability and climate risks and conducts regular climate stress tests and analyses. The FMA publishes and updates supervisory guidance documents (FMA Guide on Dealing with Sustainability Risks) for the Austrian financial market to assist supervised entities in integrating risks arising from sustainability and climate factors into their risk management, strategy and governance.
- The FMA reviews how supervised entities have implemented requirements for transition plans and transition planning within its scope. In this context, transition planning should be viewed as being comprehensive and as a “new risk management tool”.
- The FMA reviews supervised entities' compliance with rules on sustainability-related disclosures, financial instruments, and financial products, while also addressing potential greenwashing in the Austrian financial market: fair, clear and not misleading information forms the basis for confidence in a functioning financial market.
- The FMA reviews compliance with the provisions on sustainability-related distribution rules in the financial market that are intended to ensure that investors also get the financial products that meet their sustainability preferences.

- The FMA continually monitors new financial market and regulatory developments about sustainable finance, thereby making a valuable contribution towards collective consumer protection by means of information, publications, and financial literacy initiatives.

### **3.2 COOPERATION AT NATIONAL, EUROPEAN AND INTERNATIONAL LEVEL**

The FMA is committed to national, European and international cooperation and to open dialogue with all stakeholders for developing the regulatory framework further.

- As part of its legal mandate, the FMA is committed to actively participating in the relevant – national, European and international – working groups on sustainable finance, to further develop the regulatory framework and to create legal certainty. For example, at European level it works in the European banking supervision system under the ECB's lead, as well as with the respective European financial market regulators EBA, ESMA, and EIOPA, while at national level it is in close contact with the relevant ministries, the OeNB, and the Environment Agency Austria (Umweltbundesamt). Internationally, the FMA is a member of the Network for Greening the Financial System (NGFS), consisting of a group of global supervisory authorities and central banks, whether it is also involved in exchanging information, mutual learning and developing various policy documents.
- As part of its mandate, the FMA as an expert organisation, strives for the risk-oriented, proportionate, and workable regulation of all supervised entities in the area of sustainability. In doing so, it also considers the needs of retail investors in terms of collective consumer protection. As an integrated financial market supervisory authority, it especially advocates the development and implementation of a cross-sectorally consistent and harmonised European regulatory framework (“level playing field”).
- The FMA contributes to raising awareness and knowledge-sharing about sustainability risks and, in particular, risks arising from climate change. The FMA devotes a special focus to an open and broad dialogue with all stakeholders – ministries, authorities, the OeNB, advocacy organisations, academia, supervised companies and civil society.

### **3.3 INTEGRATING SUSTAINABILITY MATTERS IN THE FMA**

The FMA's commitment to integrating sustainable finance and sustainability into the FMA.

- To address the topic of sustainable finance adequately in its supervisory activities, the FMA is committed to building up necessary resources and know-how and to establish internal structures to enable this cross-sectoral supervisory issue to be addressed in an effective, efficient and integrated manner.

- To achieve this, sustainable finance is also integrated into the FMA's internal knowledge management, in particular in the form of in-house training opportunities, and the required basis for sustainability-related data for supervisors and analysis is also being established.
- Furthermore, sustainability is afforded an important role in the FMA's operational environmental management. Numerous measures have been taken to ensure that available resources are used responsibly. This includes measures on energy consumption, use of materials, or waste management, to ensure that the FMA's environmental footprint remains as small as possible (further details can be found in the FMA Environmental brochure).<sup>1</sup>

## CONTEXT – THE IMPACT OF CLIMATE-RELATED AND NATURE-RELATED RISKS ON THE FINANCIAL MARKET

In 2015, in light of the growing climate crisis, the global community committed in the Paris Agreement to limit global warming to a maximum of + 2° C, but ideally to + 1.5° C. The EU enshrined this in law with its European Climate Law, which aims to reduce net greenhouse gas emissions by at least 55 % until 2030 compared to 2019, as well as to target achieving climate neutrality by 2050. Austria is even striving to achieve climate neutrality by 2040. Specific targets for biodiversity have also been set at international, EU and national level to actively counteract biodiversity loss, building on the Kunming-Montreal Global Biodiversity Framework<sup>2</sup>.

Climate warming and biodiversity loss are accelerating despite these endeavours. For example, 2024 was the warmest year on record, with the +1.5°C barrier on global warming being exceeded for the first time, with climate change observed in Austria advancing significantly faster than the global average.<sup>3</sup> According to the European Commission, even in the “best case” scenario, Europe must expect climate warming of +3°C – resulting in an exponential increase in heat-waves or other extreme weather events.<sup>4</sup> In addition, IPBES's 2019 Global Assessment Report on Biodiversity and Ecosystem Services<sup>5</sup> already indicated an enormous loss in global biodiversity, with rapid declines observed for most ecosystem and biodiversity indicators. Climate change has been identified as a direct driver of biodiversity loss, which increasingly exacerbates the impact of other drivers on nature and human well-being.<sup>6</sup>

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<sup>1</sup> <https://www.fma.gv.at/en/sustainability/>.

<sup>2</sup> The Kunming-Montreal Global Biodiversity Framework (GBF) is an agreement under international law adopted by signatory states during the 15th meeting of the Conference of the Parties (COP15) of the Convention of Biological Diversity in Kunming in China and Montreal in Canada in 2022.

<sup>3</sup> Climate Change Centre Austria, *Climate Status Report 2023*, p.15 et seq. and ZAMG (now GeoSphere Austria), 19.12.2024, <https://www.geosphere.at/en/news-and-events/news/warmest-year-in-recorded-history>. Copernicus Global Climate Report 2024 confirms last year as the warmest on record, first ever above 1.5°C annual average temperature, <https://www.copernicus.eu/en/news/news/copernicus-global-climate-report-2024-confirms-last-year-warmest-record-first-ever-above>.

<sup>4</sup> See Communication from the European Commission, *Climate change management – protection of people and prosperity*, COM(2024) 91 final, p. 1, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52024DC0091>.

<sup>5</sup> Intergovernmental Platform on Biodiversity and Ecosystem Services – IPBES

<sup>6</sup> See IPBES, *Summary for policymakers of the global assessment report on biodiversity and ecosystem services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (2019)*, A.4 and B.2, <https://doi.org/10.5281/zenodo.3553579>.

This poses direct risks for the financial market. According to the European Environment Agency, severe sectoral and regionally-specific risks could trigger a systemic financial shock.<sup>7</sup> At the same time, according to a joint ECB/ESRB report, banks' lending focuses disproportionately heavily on companies and households with high climate risk.<sup>8</sup> In addition, the economy and the financial system depend largely on nature and its ecosystem services, with biodiversity playing a key role in preserving healthy ecosystems. For example, over half of global GDP is highly or very highly dependent on nature and the ecosystem services it provides, especially in sectors of the economy such as construction, agriculture, and food and beverages (e.g. over 75 % of global food crops depend on animal pollination).<sup>9</sup> A large share of companies are highly dependent on at least one ecosystem service, with the deterioration of that ecosystem leading critical economic problems for these firms, since almost 75 % of bank loans to such exposed companies are granted within the euro area. As a result, this could lead to considerable losses for banks, especially in the event of shocks being amplified by the large number of relevant ecosystem services.<sup>10</sup>

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<sup>7</sup> EEA, EEA Report 01/2024, p. 26 et seq.

<sup>8</sup> ECB/ESRB, *Towards macroprudential frameworks for managing climate risk (2023)*, p. 4, <https://www.esrb.europa.eu/pub/pdf/reports/esrb.report202312~d7881028b8.en.pdf>.

<sup>9</sup> *Communication from the European Commission, EU Biodiversity Strategy for 2030, COM(2020) 380 final*, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52020DC0380>.

<sup>10</sup> Cf. Boldrini et al., *Living in a world of disappearing nature: physical risk and the implications for financial stability*, ECB Occasional Paper Series No. 333, p. 3.