ISLE OF MAN
FINANCIAL SERVICES AUTHORITY
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Managing the Financial Risks of Climate Change and Nature Loss

Guidance Note for Firms Regulated under the Financial Services Act 2008, the Insurance Act 2008 and the Collective Investment Scheme Act 2008

10 July 2025

Contents

Status of this guidance

The Isle of Man Financial Services Authority issues guidance for various purposes, including to illustrate best practice, to assist licenceholders to comply with legislation and to provide examples or illustrations. Guidance is, by its nature, not law, however it is persuasive. Where a person follows guidance, this would tend to indicate compliance with the legislative provisions, and vice versa.

1. Definitions

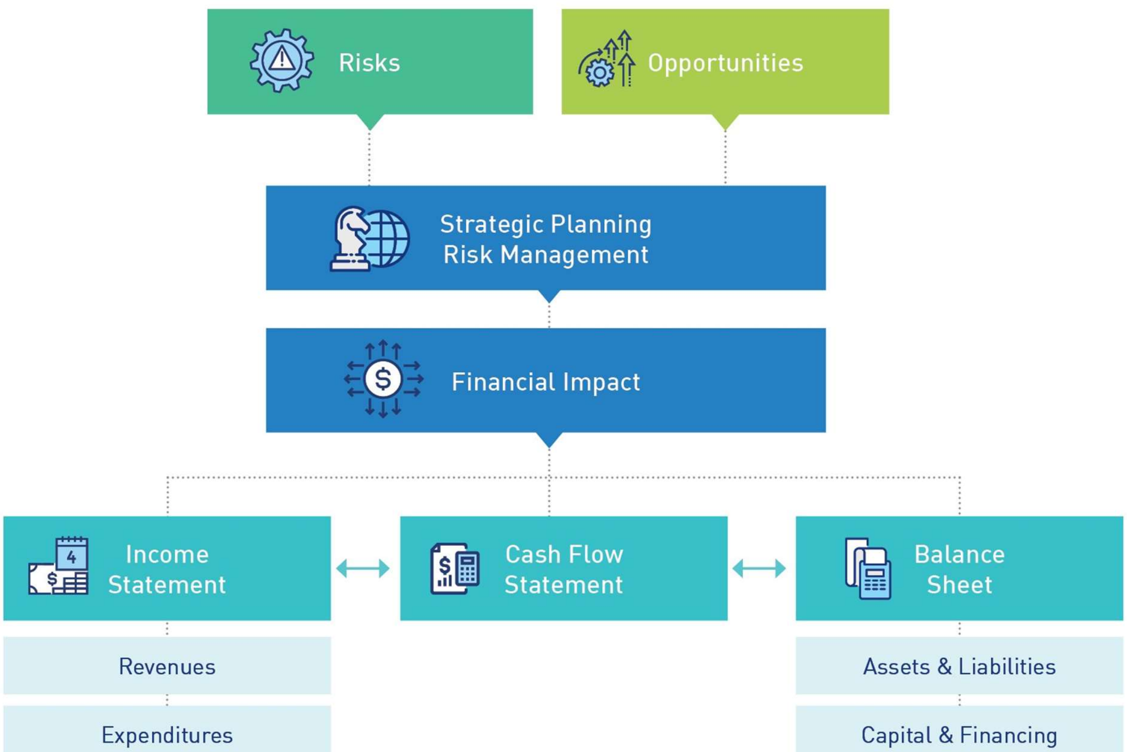
Term	Meaning
Authority	Isle of Man Financial Services Authority.
Biodiversity loss	The decline in the variety of life on earth at all levels, from genes to entire ecosystems.
Board	The board of directors, or equivalent governance body in the context of entities that are branches of foreign companies.
Climate change	The long-term change in the average weather patterns that have come to define Earth's local, regional and global climates.
Climate change and nature risks	Refers to the financial risks arising from climate change and nature loss, including physical, transition and liability risks.
Greenhushing	The strategy of intentionally not disclosing sustainability performance or goals, either to hide poor performance or avoid accusations of greenwashing.
Greenwashing	The act or practice of making a product, policy or activity appear to be more environmentally friendly or less environmentally damaging than it really is.
ICAAP	Internal Capital Adequacy Assessment Process
Nature degradation	Deterioration (causing degenerative harm) of the environment through exhaustion of natural assets such as water, soil, and air including the ecosystem, habitat intrusion, wildlife extermination and environmental pollution.
Nature loss	The combination of nature degradation and biodiversity loss.
Net zero	The reduction of greenhouse gas emissions from human activity to as close as possible to zero.
ORSA	Own Risk and Solvency Assessment.
Physical risks	Arise from the economic costs and financial losses caused by climate change and nature loss. These can be acute or chronic. Acute and chronic physical risks can interact and reinforce each other.
Relevant legislation and guidance	• Rule 8.6[1] of The Financial Services Rule Book 2016, and the associated Guidance on the Financial Services Rule Book. • Paragraph 9 and Paragraph 11 of Schedule 1 of the Corporate Governance Code of Practice for Insurers 2021. • Paragraph 15 of the Corporate Governance Code of Practice for regulated Insurance Entities. • Paragraph 26 of the Insurance Intermediaries (Corporate Governance) (General Business) Code 2020 • Section 5.2 of the Corporate Governance Guidance Note for Deposit Takers. • Sections 6, 7 and 8 of the Operation Risk Management Guidance Note for Deposit Takers. • Section 22 of the Collective Investment Schemes (Regulated Fund) Regulations 2017.

[1] For clarity, this guidance note does not specify additional risks under Rule 8.6(2)(d).

Term	Meaning
	• Section 5 of the Governance of Collective Investment Schemes Guidance Note. • Section 3.2 of the Guidance on Corporate Governance Note for Other Licenceholders. As applicable to the type of firm.
Transition risks	Refers to the risks related to the process of adjustment towards a low carbon (net-zero) nature positive economy.

2. Introduction

Globally, climate and nature risks are rated as some of the most impactful risks[2] in the short, medium and long term. The impacts of climate change and nature loss continue to grow each year and extend to the whole financial services sector. This introduces climate and nature risks and opportunities. Financial services sector firms are being increasingly expected to effectively manage climate and nature risks and take advantage of related opportunities. The following diagram[3] illustrates how the risks and opportunities of climate change and nature loss can financially impact a business**.**



[2] The Golbal Risks Report 2025World Economic Forum - https://reports.weforum.org/docs/WEF_Global_Risks_Report_2025.pdf
[3] Adapted from the Financial Stability Board Task Force on Climate-related Financial Disclosures, *Final Report: Recommendations of the task force on climate-related financial disclosures*.

2.1 Applicability

This guidance note aims to provide support to enable all firms to identify and manage climate and nature risks and opportunities within their business strategies and models. Specifically, this guidance note applies to firms regulated under the following acts:

- The Financial Services Act 2008.
- The Insurance Act 2008.
- The Collective Investment Schemes Act 2008.

This note in its entirety will not be relevant for every firm. Certain sections will only be relevant for certain types of firm. Relevance may vary depending upon the firm's sector, size, complexity, business mix and, critically, the materiality of risks identified. Firms should give consideration to whether they are subject to material climate and nature risks and update their risk management processes accordingly.

Subject to meeting the requirements of the relevant regulations and guidance notes, firms have the flexibility to configure their approach to climate and nature risks in a manner best suited to achieving their business objectives.

Proportionality should be applied

2.2 Risks

The Authority's regulatory objectives include ensuring that consumers are protected, and that confidence is maintained in the financial services sector. As such, the Authority seeks to ensure that firms effectively and prudently identify and manage climate and nature risks through good governance and risk management.

The Authority's existing risk management and governance requirements contained within the relevant legislation and guidance apply equally to climate and nature risks as to other traditional risks. Hence, the Authority anticipates that climate and nature risks can be managed within a firm's existing risk management frameworks.

No new requirements imposed

2.2.1 Specific considerations when managing climate and nature risks

Whilst the Authority considers that climate and nature risks can be managed within a firm's existing risk management frameworks, it acknowledges that climate and nature risks have different characteristics than other financial risks.

The time horizon and pace of emergence of climate and nature risks are highly uncertain and dependent on a range of factors, including the speed and nature of any political actions and developments in technology. Whilst it is uncertain how and when climate and nature risk events will materialise, there is a high degree of certainty that some financial risks will materialise because of climate change and nature loss.

Climate change is a well-developed and understood field, whilst the impact of nature loss and its interaction with climate change is a developing area. Nature loss and climate change interact and exacerbate each other leading to greater overall impacts on the financial services sector and wider economy. Hence, the impact of nature loss risks should not be considered in isolation.[4]

Some degree of internal capacity building or the hiring of experts may be required when initially considering the impact of climate and nature risks on business strategies and models. Necessity for expertise should be reviewed as part of the governance and risk assessment considerations noted later in this document.

Specific risk drivers when managing climate and nature risks include:

- The long-term nature of the risks extends beyond typical planning cycles.
- The uncertainty around which risks may materialise and when.
- The unprecedented nature of events prevents using historical data to carry out forward looking assessments means current models are unlikely to adequately anticipate future impacts.
- The far-reaching impact of events means diversification may no longer provide the same level of benefit.

2.2.2 Double materiality

Double materiality should also be considered. In a climate change context, this means firms should consider both the *effect* that climate change has on the activities of the business ("outside in") and the *impact* of the firm's activities on the climate ("inside out").

The table below provides examples of the types of considerations different firms may consider depending on their sector.

Type of Firm	Consideration
Trust and Corporate Service Providers (including in their capacity as trustee)	Failure to consider the long-term risks posed by climate change and nature loss could be a breach of fiduciary duty to beneficiaries causing litigation risk or a potential loss of clients.
Fund Managers and Investment Firms (including financial advisers)	Identifying concentrations of climate and nature risks within investment portfolios both mitigates the impact of these risks on investment values, and the reputational risks arising from investments in certain activities. This becomes increasingly important for tailored investment products that respond to the preferences of individual investors.
Banks	Climate and nature risks have the potential to have an impact on underlying credit risks with counterparties, either through impacts to the value of collateral, or through increased costs for counterparties.

[4] See: https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/09/a-supervisory-framework-for-assessing-nature-related-financial-risks_1fd4b9d6/a8e4991f-en.pdf

Type of Firm	Consideration
	Banks also can be exposed to reputational risks, and in some cases litigation risks, from the selection of the kinds of businesses that a bank chooses to provide or withhold services from.
Insurers and Insurance Managers	Climate and nature risks pose particularly complex challenges for insurance underwriting and pricing. This could affect an insurer's appetite to insure certain risks, resulting in a reduction in insurance penetration and challenges for an insurer's future business model. Life insurers offering unit-linked products should consider the reputational risk of enabling investment in sectors and industries that cause significant harm to nature and the climate as the world continues to transition. Non-Life insurers who re-price contracts on an annual basis to take account of the impact of evolving climate and nature risks over the medium-to-long term, should consider if this might lead to the risk of insurance coverage becoming unaffordable for the policyholder, as well as the insurer crowding itself out of certain risks.[5]

[5] See EIOPA: https://www.eiopa.europa.eu/publications/report-non-life-underwriting-and-pricing-light-climate-change_en

2.2.3 Types of risk

There are three main types of climate and nature risks; physical risks, transition risks and litigation risks. The drivers, impacts and outcomes of each of these types of risk are:

<table>
<tr><th>Risk Origination</th><th>Risk Type</th><th>Drivers</th><th>Impact</th><th>Outcome</th><th>Financial & other Risk</th></tr>
<tr><td rowspan="3">Land/sea use change
Resource extraction
Climate change
Pollution
Invasive species</td><td>Physical Risk</td><td>• Changing weather conditions
• Extreme weather events
• Degradation of ecosystems
• Pandemics</td><td>• Direct damage to property and assets
• Supply chain disruption</td><td>• Increased cost of insurance
• Reduced availability of insurance
• Reduced income</td><td rowspan="3">Reputational /Conduct risk
Underwriting risk
Market risk
Operational risk
Liquidity risk
Credit risk
Strategic risk</td></tr>
<tr><td>Transition Risk</td><td>• Changes to policy and regulation
• Technological innovation
• Consumer and investor sentiment
• Net zero policies</td><td>• Stranded assets/ reduced asset viability
• Defaults on loans
• Earnings decline</td><td>• Impacts on pricing and demand
• Changes to income, costs and profit
• Changes in investor preference</td></tr>
<tr><td>Litigation Risk</td><td>• Failure to consider, respond to, and disclose climate and nature risks
• Greenwashing and similar poor conduct</td><td>• Litigation
• Regulatory enforcement
• Business disruption
• Regulatory penalties</td><td>• Loss of reputation
• Reduced profits</td></tr>
</table>

The table above maps climate and nature risk types to financial and other risks. The table below provides examples of drivers of climate and nature risks for different types of risk:

Risk Category	Examples
Reputational/ Conduct risk	• Offering products which exacerbate climate and nature loss. • Failing to offer products that mitigate climate and nature loss and/or incentivise adaptation efforts. • Holding or allowing investments in sectors which have a negative impact on climate and nature. • Greenwashing or greenhushing, including a lack of transparency or inadequate reporting on sustainability matters. • Lack of a clear strategy to manage climate and nature risks. • Lack of progress in the implementation of a climate risk management framework.

Risk Category	Examples
Underwriting risk	• Increase in claims due to more frequent/severe climate events. • Increase in claims due to increased morbidity/mortality or reduced longevity because of an increase in zoonotic diseases. • Changes in experience impacting reserving assumptions, increasing capital requirements and reducing profits. • Loss of new business due to changes in financial circumstances due to social adaption, changes in investor preference or a climate or nature reputational risk crystalising. • Climate related strategic developments impacting underwriting and product development. • Increased exposure to catastrophe risk from climate events.
Market risk	• Revaluation of assets and reduction in asset viability impacting the value of assets on balance sheet. • Increased volatility in investments held in carbon intensive sectors or sectors that mismanage the transition. • Physical risks impacting the value of property. • Declining values of investments in firms that suffer financial losses due to the impact of physical risks. • Changes in macro-economic assumptions such as inflation, exchange and interest rates due to climate change. • Asset-liability risk management procedures now inappropriate.
Operational risk	• Physical risks having negative impacts on infrastructure, systems, processes, claims, staffing and supply chains. • Outsourcing to companies in areas prone to physical risks of climate change. • Reduced availability and affordability of insurance and reinsurance required to conduct business. • Limited availability of staff with sufficient skillsets to identify, manage and monitor risks. • Reputational risks and societal adaption reducing attractiveness to new and existing employees. • Disruption to supply chains impacting availability and cost of key infrastructure.
Liquidity risk	• Increased demand due to physical events. • Reduced viability of assets. • Increase in stranded assets. • Asset repricing and market freezes. • Devaluation of collateral. • Large scale reallocation of capital or portfolio shifts.
Credit risk	• Potential increase in defaults from investments or counterparties that may be exposed to businesses or sectors impacted by physical risks or that engage in business with others that are exposed to physical risks. • Assets used as collateral may reduce in value.

Risk Category	Examples
	• Physical and transition risks adversely impacting creditworthiness of various counterparties.
Strategic risk	• Not achieving sustainable strategic growth / profitability metrics. • Ability to continuously offer solutions for customers when physical risks and transition risks increase. • Usual sources of funding may be restricted in the case of strategic failure in a physical event.

2.3 Opportunities

As well as risks, the need to change and adapt to climate and nature risks will also bring opportunities.

Good risk management will enable firms to identify and take advantage of these opportunities so they can be factored into business strategies and models.

The Authority is committed to supporting Finance Isle of Man's Sustainable Finance Initiative, which is designed to bolster the Island's position as a leading international financial centre by directing capital and finance flows toward climate-related, socially positive and nature-based sustainable solutions.

The Sustainable Finance Roadmap[6] is a strategic document which outlines areas of significant opportunity for financial services businesses in the Isle of Man to develop new product and service lines to meet rapidly increasing global demand for sustainable investments. The Authority is responsible for Pillar 1, the enabling environment.

Firms will have the option to avail of the opportunities that the roadmap and adaption will create. This could include new sustainable finance products and innovation in financing and insurance.

For example, captive insurers and insurance special purpose vehicles can play a significant role in enabling firms to close their natural catastrophe protection gap[7] by providing innovative and cost-effective solutions. The Authority continues to support innovation in this space with its flexible Class 12 (Captive) and Class 13 (ISPV) authorisations.

OPPORTUNITIES

- Improve reputation
- Increase market share
- Market differentiation
- Attract top talent
- Improve employee retention

Funds and investments:

- Sustainable investment funds
- Green / Blue bonds
- Sustainable investment products

Insurance:

- Sustainable insurance products
- Sustainability linked insurance
- Natural catastrophe gap insurance
- Microinsurance / Parametric insurance
- Carbon offset insurance
- Environmental liability insurance

Banks:

- Green loans
- Energy efficient mortgages

CSPs:

- Green/sustainable trusts

[6] Finance Isle of Man Launches a Sustainable Finance Roadmap

[7] The protection gap is the difference between the level of insurance needed to cover catastrophe risk and the amount which is currently available and affordable.

Additionally, trust, fund or investment products could be created to give investors access to investment portfolios that incorporate sustainability considerations. A range of different approaches may be adopted to better meet the needs of sustainability conscious investors.

There are also cross-sector opportunities, including green bonds being issued to enable capital raising and investment for projects with environmental benefits, such as green lending or mortgages.

3. Governance

The responsibility for the sound and prudent management of a firm rests with the Board, hence the Authority considers it prudent for boards to seek, understand and regularly assess climate and nature risks, in the near and far term.

Boards should require sufficient insight to be able to strategically respond to climate and nature risks, as such they should collectively possess the necessary competence and capacity to assess long-term risks and opportunities related to climate change and nature loss.

Boards should be able to evidence their ongoing oversight of their climate and nature risks. This oversight should include (where applicable):

- Ensuring an appropriate understanding of, and opportunity to discuss climate and nature risks at board and sub-committee levels. This should include appropriate training for board members.
- Setting clear senior management roles and responsibilities in relation to the management of climate and nature risks.
- Ensuring that, where climate and nature risks are determined to be material, the risk management framework incorporates these risks, and in particular sets appetites and tolerances in relation to the risk.
- Reviewing material risks and opportunities on a regular basis, and horizon scanning for new ones.
- Considering both a short-term view and a long-term view of the risks and opportunities.
- Reviewing relevant metrics, as determined by the Board, to enable them to measure risk indicators and performance against targets.

Senior management should typically be responsible for:

- Applying the risk management framework to assess and manage climate and nature risk exposures on an ongoing basis, including developing and implementing appropriate policies.
- Regularly reviewing the effectiveness of the framework, policies, tools, metrics and targets, and making appropriate revisions, reporting to the Board as applicable.
- Providing recommendations to the Board on objectives, plans, strategic options and policies as they relate to material climate and nature risks. This may include the establishment and use of relevant tools, models, and metrics and targets to monitor

exposures to climate risks to enable the Board to make informed decisions in a timely manner.

- Ensuring that adequate resources, skills and expertise are allocated to the management of climate and nature risks, including thorough training and capacity building amongst relevant staff, reporting to the Board as applicable.

The allocation of responsibility for identifying and managing climate change risk to the relevant functions should reflect the firm's structure, risk profile, strategy, and risk appetite. These allocations should then be included in the relevant internal control and risk management frameworks.

4. Risk Management

4.1 Overview

Boards are responsible for firms' risk management frameworks. Senior management should monitor and manage all material risks consistent with the strategic objectives, risk appetite and policies approved by the Board.

Material climate and nature risks should be considered within existing risk management frameworks, including the risk appetite, risk assessments, risk management strategy and business plan.

Where a firm belongs to a group, due consideration should be given to how group policies appropriately reflect the firm's own risk exposures, tolerances and requirements. Firms should also ensure that there is the necessary available expertise to avoid an overreliance on group resources, policies and procedures.

4.2 Policies and procedures

Boards should be able to evidence the management of climate and nature risks within their risk management policies, management information and board risk reports.

Where material climate and nature risks are identified, the existing risk management policies and procedures may need updating accordingly.

4.3 Risk identification

Boards should seek to identify and understand material climate and nature related financial risks, and how they may impact their business model. Scenario analysis can be used to determine the short and long-term impacts.

The relevant regulations and guidance identify categories of risk that the risk management framework should cover at a minimum. Climate and nature risks will likely fall within these established risk categories and should not be considered separately (see table in 2.2.3).

Firms should seek to identify sectors with higher or lower exposures to physical and / or transition risks. The risk criteria for this identification may include a range of factors, such as:

- Vulnerability to extreme weather events.
- Level of greenhouse gas emissions.
- Significant resource extraction.
- Level of pollution.
- Land and sea use change.
- Potential exposure to changes in climate-related policy or technology.
- Vulnerability to climate-related supply chain changes or disruption.
- Vulnerability to climate-related disruption of business activities.
- Linkages to unsustainable practices.

This may be used to develop sector-specific policies when undertaking business engagements (such as investing, insuring or lending) with that sector, or in understanding their own exposure to climate and nature related risks.

Banks and insurers should specifically consider and record any material impact on capital adequacy because of climate and nature risks. Existing ICAAP and ORSA processes should be used to determine this.

Firms that are not required to carry out ICAAPs or ORSAs may benefit from adopting a similar approach to recording any material exposures in their risk assessment documentation and how the assessment of those exposures is considered.

4.4 Materiality assessment

Firms should determine the materiality of identified climate and nature risks. These risks can change over time and therefore the materiality assessment may need to be repeated regularly based on forward-looking exposures.

Larger firms such as insurers and banks, or businesses where a more significant exposure to climate and nature risks is likely, may wish to carry out a formal materiality assessment. Such a materiality assessment can assist with board and senior management understanding of what risks have been considered and how their materiality has been assessed, as well as how to respond effectively to these risks. An appropriate climate risk materiality assessment may take the following form:

Step			
1	2	3	4
Define the base scenario assuming the business is not impacted by climate risks	Research the possible impacts of climate change on the business	Assess the materiality of each risk on both sides of the balance sheet under the future climate conditions	Clearly document analysis and conclusions
Consider			
• Impacted product lines and activities • Time horizon • Strategic content	• Physical risks and transition risks • Possible balance sheet impacts • Impact on future products offered • Do not let materiality cloud initial consideration	• Different scenario tests help understand the impact of different risks on various exposures • Consider the likelihood of different risks occurring	• Include justification where risks are deemed not material • Material risks feed into ORSA and ICAAPs

4.5 Risk monitoring

Both qualitative and quantitative approaches should be used to assess and monitor climate and nature risks. This should include developing appropriate and proportionate metrics to measure and monitor these risks.

These metrics could be used to assess exposures to certain sectors or geographical locations that pose high climate and nature risk. The Financial Stability Board's Task Force on Climate-related Financial Disclosures has issued guidance on the type of metrics that can be used.[8] Guidance on nature metrics is being developed. Further information can be found on the taskforce on Nature-related Financial Disclosures website.[9]

Other quantitative risk metrics could include direct and indirect emissions (i.e. Scope 1, Scope 2 and Scope 3 emissions)[10], exposures to physical risks, monitoring potential impacts to business metrics such as credit risk, losses or investment returns and modelling the impact of climate or nature scenarios on returns.

Quantitative metrics can help firms understand the potential current and future impacts of climate change on their relevant stakeholders, such as customers and suppliers. To obtain this information, firms should engage with relevant stakeholders to form an understanding of the extent to which the impacts may be material.

[8] https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf
[9] https://tnfd.global/
[10] Scope 1 emissions – all direct greenhouse gas emissions arising from a business' own activities. Scope 2 emissions - indirect greenhouse gas emissions from the use of purchased electricity, heat or steam. Scope 3 emissions - other indirect emissions not covered in Scope 2 that occur in the value chain of the reporting company, including both upstream and downstream emissions. Relevant Scope 3 emissions for finance sector entities includes the Scope 1, Scope 2 and material Scope 3 emissions from businesses to which they have a financial exposure (e.g. through lending activities, insurance products, and investments), or the Scope 3 emissions of emissions-intensive inputs to their businesses.

Data is key for firms to better understand the possible impacts of climate change on their operations as well as those of their stakeholders. Data from publicly available and private sources should be utilised, and expertise should be sought where necessary.

Firms may also wish to set climate or nature-related targets for their activities. These targets can be useful tools in risk management, as well as for corporate strategy. The target can be a specific level, threshold, quantity of qualitative outcome that a firm wishes to achieve over a defined time horizon, to assist in managing climate or nature related risks and opportunities.

Targets, where applicable, should be linked to a firm's metrics so progress can be measured as well as reflecting overall business strategy and risk-management framework. Targets may reference external benchmarks such as sector, national or international targets.[11]

Due to the evolving understanding of climate change, firms should ensure that their risk monitoring targets and metrics are updated regularly.

4.6 Internal Controls

4.6.1 Risk controls

Risk mitigation plans should be developed, implemented and monitored where material climate and nature risks have been identified.

An example of such a plan could be to reduce concentrations of investments in specific industries which are at risk of becoming stranded assets due to the impact of climate change and transition on that industry.

Firms may need to consider standard risk mitigation options such as:

- Reflecting the cost of the additional risk through risk-based pricing measures.
- Applying limits on exposures to businesses or industries in higher risk industries or jurisdictions.
- Where the risks cannot be adequately addressed through other measures, considering the ability to continue the relationship.

Firms should also consider the social benefit of providing services or insurance cover to sectors which assists with the adaption required to mitigate the impacts of climate change and biodiversity loss. For insurance, in particular, adaption can reduce the current risk of such exposures in the future.

4.6.2 Risk reporting

Firms should establish reporting procedures to regularly provide relevant information on material climate and nature related exposures, including risk monitoring and controls, to the Board and senior management.

[11] https://tnfd.global/publication/additional-draft-guidance-for-corporates-on-science-based-targets-for-nature-2/

The extent and nature of reporting can be proportional to the nature and magnitude of the risks to which the firm is exposed.

5. Scenario Analysis

Insurers and incorporated banks should carry out appropriate stress and scenario tests of material risks within their ORSAs and ICAAPs[12] to assess the impact on their risk profile and business strategies, and to explore resilience to financial losses. The use of scenario analysis and stress testing should be proportional to a firm's size, business mix and complexity.

Due to the differences in climate and nature risks, along with the specific risk drivers, set out in section 2.2.1, firms may need to develop capabilities in scenario analysis of climate and nature risks and may need to seek external assistance with setting and testing appropriate climate and nature related scenarios.

In the early stages of development, as capabilities grow, narrative qualitative scenario analysis can be utilised – this is particularly the case for nature loss scenarios which are in their early stages of development internationally. Qualitative scenarios can provide insights into risk transmission and findings can be reflected in business plans, strategies and risk management practices.

More advanced scenarios incorporating forward-looking qualitative and quantitative factors should identify and simulate plausible scenarios which are relevant to the firm's operations.

Firms should consider both a shorter-term assessment (if an incorporated bank or insurer, possibly in line with their current ORSA or ICAAP projection period), and a longer-term assessment of future exposures based on a range of potential different climate and nature outcomes, and document accordingly in their risk assessments.

The Authority does not currently prescribe any scenarios. Instead, a useful source of potential different climate scenarios as well as guidance as to how to conduct scenario selection and analysis is published by the NGFS[13]. Nature based scenarios are still in development[14].

Scenarios should consider identified material physical risks and transition risks.

The impact of the scenarios should be considered on capital adequacy, liquidity, and the ability to meet obligations including those to depositors and policyholders.

Firms should maintain appropriate documentation of the method and results of scenario analysis and stress testing, including clear statement of limitations. Material results should be communicated to boards and senior management and used to inform business planning and strategy.

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[12] Scenario analysis within ICAAPs guidance: https://www.iomfsa.im/media/1561/internalcapitaladequacyassessment.pdf (Section 5)

[13] NGFS Scenarios Portal

[14] More information on development of nature scenarios: Nature-related risks | Network for Greening the Financial System

6. Disclosure

There is an increasing demand from investors and stakeholders for disclosure on climate and nature risks and opportunities to enable stakeholders to understand their own risks and opportunities, and to meet their own disclosure requirements.

The Authority currently does not mandate sustainability disclosure requirements; however, the introduction of a formal disclosure framework, where disclosure is proportionate, is being considered as part of the Island's Sustainable Finance Roadmap.[15]

Despite there being no formal requirement, some firms follow group disclosure requirements and report information required under several jurisdictions' frameworks, depending on the location of their head office.

Firms that currently do not disclose any information on their climate and nature risks and opportunities should consider whether additional, voluntary disclosures could be beneficial to their business, enhancing transparency, and giving confidence to both their internal and external stakeholders and the wider market.[16]

7. Summary of actions to be taken

In line with existing risk management requirements, firms should, where they do not already do so:

- Identify material climate and nature risks and opportunities that could potentially impact their business strategy / business model and include these in their risk assessment documentation. Where no material climate and nature risks or opportunities are identified, it is likely that no further action is required.
- Utilise qualitative and quantitative approaches to measure identified risks.
- Determine appropriate qualitative and quantitative metrics to monitor identified risks.
- Develop mitigation plans to manage identified material risks.
- Update governance and risk management frameworks accordingly.
- If appropriate and proportionate to do so, conduct scenario analysis to inform understanding of longer-term risks and opportunities and inform business decisions.
- Report the results to the Board and senior management.
- If appropriate and proportionate, consider disclosure practices.

8. Questions

If you have any questions in relation to this guidance, please contact your relevant Supervision Division using the contact details on the Contact Us webpage.

Alternatively, please email info@iomfsa.im or call +44 (0)1624 646000.

[15] https://www.financeisleofman.com/media/q3vievqq/isle-of-man-sustainable-finance-roadmap.pdf
[16] An example of an internationally acceptable disclosure framework can be found: https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/

9. Version History

Version	Date	Comment
1.0	10/07/2025	Guidance note first issued.