

30 June 2022

Bloomberg response to the Financial Stability Board's consultative report: Supervisory and Regulatory Approaches to Climate-related Risks.*Supervisory and regulatory reporting and collection of climate-related data from financial institutions*

- 1. Does the report highlight the most important climate-related data (qualitative and quantitative) for supervisors' and regulators' identification of exposures and understanding of the impacts of climate-related risks of financial institutions and across financial sectors? Please provide examples of climate-related data deemed most relevant and that should be prioritised.**

Bloomberg welcomes the publication of the Financial Stability Board's (FSB) consultative report: "Supervisory and Regulatory Approaches to Climate-related Risks". This marks an important step forward in fostering global coordination and further cementing the central role that effective climate-related risk management plays in the global financial system as the risks of climate change continue to grow and reach all sectors of the economy.

Overall, Bloomberg agrees with the high-level areas of climate-related data identified in Section 2.1.4 of the report. We would further highlight that, for supervisors and regulators to effectively identify exposures and understand the climate-related risks posed by financial institutions and across financial sectors, it is critical to have high-quality raw data on sectors or economic activities impacted by transition and physical risk.

For transition risk, this is primarily data on the greenhouse gas (GHG) emissions of companies, and as the FSB report highlights, this data should cover Scope 1, Scope 2, and Scope 3 GHG emissions. In addition to promoting transparency from companies around the methods used to measure emissions, we believe it is also important these methods follow the same methodology, such as the GHG protocol, and be independently validated through an internal review process or external third-party. It would also be beneficial to have companies report on emissions reduction targets, and steps taken to achieve them. These targets should be science-based and accompanied by a credible net-zero transition strategy.

For physical risk, it is key to have data on company asset locations, and opportunities for adaptation to climate change. Depending on where an asset is located, it may be more or less vulnerable to climate-related risks, such as floods and wildfires, or climate regulations. Because of this, regulators and supervisors should ask companies to report asset locations and metrics pertaining to the economic value of those assets (e.g., share of production or share of revenue), to be able to serve the financial impact from asset impairment.

To increase the availability of reliable and comparable GHG emissions data and carbon-related metrics more broadly, policymakers, regulators and supervisors alike should put in place mandatory disclosure requirements on companies. These disclosures should ask companies to report the sum of all GHG emissions, as well as a breakdown of those emissions by the type of greenhouse gas. In the absence of this breakdown, companies with, for example, the same emissions at a disaggregated level may report different aggregate amounts due to differences in assumptions about the conversion of those GHG emissions in terms of CO₂-equivalent.

- 2. Does the report draw attention to the appropriate areas to increase the reliability of climate-related data reported by financial institutions?**

Building on our response to Question 1, Bloomberg would also add that, in addition to high-quality raw data, the market would benefit from forward-looking metrics based on scenario analysis. Data obtained from disclosures of forward-looking analysis is essential to allow investors, for example, to assess how a company could be affected by climate-related factors, across time horizons and multiple possible

futures. Standardisation of the output metrics of such analysis will allow for a clear, comparable and reliable framework on which climate impact can be assessed and measured. Whilst Bloomberg recognises that each business model is unique, and that scenario tooling and data are still evolving, we see the need for common reporting metrics as urgent. To that end, we would welcome standardisation around the following:

- **Materiality thresholds.** Bloomberg would encourage disclosure of climate risk above a fixed materiality threshold. This would create scope to have meaningful discussions about what the relevant risks are (as opposed to, on the one hand, listing any possible risk, and on the other, listing only a very small subset). It would also force firms to think about those risks in a systematic way, e.g., quantitatively. One caveat to bear in mind is that the materiality threshold should ideally be defined in a way that prevents firms from deliberately trying to keep risks under that threshold for disclosure purposes. As an example, we would refer to the SEC climate disclosure proposal that suggests a 1% materiality threshold for each line item in a company's financial disclosures.
- **Scenarios used.** Regulators are increasingly requiring disclosure of scenario analysis. Bloomberg recognises that approaches to climate scenario analysis and the requisite data are still in their infancy, and we welcome continued market innovation and improvement. To ensure and enhance the comparability of climate scenario analysis, we propose that regulators specify certain parameters to which the scenarios used by companies should align. Our suggestion would be to require at least the following three scenarios:

Policy pathway	Implied global temperature increase by 2100	Relevant Representative Concentration Pathway(s)
Net Zero 2050 Net zero targets are met	1.5°C (50% probability) and/or Below 2°C (67% probability)	RCP1.9 and/or RCP2.6
Nationally Determined Contributions (NDCs) NDCs are fully implemented	2.0°C – 3.0°C	RCP4.5 and/or RCP6.0
Current policies No additional climate policies are implemented as of reporting date, pledges and targets are not met	Above 3.0°C	RCP6.0 and/or RP8.5

- **Time horizons.** There has also been an increase in regulatory requirements asking companies to report impacts based on short-, medium- and long-term horizons. To improve consistency and comparability, we would recommend setting a fixed duration of these horizons whereby short-term is ≤ 5 years, medium-term is 6-15 years, and long-term is >15 years.
- **Forward-looking metrics.** There is a need to standardise the forward-looking metrics that are being reported. For financial analysis, this would entail (a) impacts on future revenues and (b) impacts on future costs and capital expenditures. Bloomberg would recommend the following metrics for financial institutions:
 - o Credit institutions: Climate risk reporting for credit institutions should look at the balance sheet impact of climate risk. A useful metric to size this impact is the "reserve for loan losses" held on the balance sheet, as it reflects the changes in the underlying credit quality of the loan book. Ideally, credit institutions would report the estimated size of this reserve in a monetary amount for each time-period (≤ 5 years; 6-15 years; >15 years).
 - o Asset or investment managers: Because most assets managed are typically in agency capacity, we would suggest that the money managed on behalf of a third party is reported at fund level to the asset owner. This would take into account the data provided by the non-financial investee company and show the expected losses and impact to the financial product over the same short, medium, long term time horizon as recommended in the grid system. To assess the financial viability of the asset manager themselves, the approach can be taken to either look at all assets under management or focus only on assets managed on own account. For either option, the asset or investment manager should report expected losses in a grid system based on common time horizons and temperature scenarios.

- Insurance providers: Insurance providers can split their business into liabilities and assets managed. Bloomberg suggests that assets managed are reported in the same way as applied to asset or investment managers. For liabilities, the insurance provider should report expected changes in “average annual loss” arising from climate scenarios, across time horizons as applicable to the risks insured.

Lastly, we welcome Recommendation 2 in the FSB’s report around assurance and verification. At the minimum, the data should be reviewed by an internal audit function or third-party, where the supervisory and regulatory authorities deem appropriate.

3. Does the report appropriately identify the elements of a common high-level definition of climate-related risks (physical, transition and liability risks)?

Yes, Bloomberg believes the report appropriately identifies the elements of a common high-level definition of climate-related risks (physical, transition and liability risks).

4. Do the proposed recommendations help accelerate the identification of authorities’ climate-related information needs from financial institutions and work towards common regulatory reporting frameworks? Please elaborate on areas where the recommendations could be enhanced, if any.

Please refer to our responses to Questions 1 and 2.

Incorporating systemic risks into supervisory and regulatory approaches

5. Does the report identify relevant system-wide aspects that should be considered as part of supervisory and regulatory approaches to incorporate systemic risks arising from climate change? Please elaborate on other aspects that should be considered, if any.

6. Does the report accurately reflect the extent to which current supervisory and regulatory tools and policies address climate-related risks?

7. Do the proposed recommendations on incorporating systemic risks into supervisory and regulatory approaches, including the expanded use of climate scenario analysis and stress testing for macroprudential purposes, address the appropriate areas? Please elaborate if there are any other features or tools that should be considered.

Early considerations on other macroprudential tools and policies

8. Are there other areas of work, literature or research being conducted on macroprudential tools and policies on climate-related risks that should be considered in the report?

No further comments.

Additional considerations

9. Are there any other issues that should be considered in future work of the FSB on supervisory and regulatory approaches to climate-related risks?

Bloomberg observes that regulatory approaches to climate-related risks typically refrain from attaching probabilities or weights to individual climate scenarios. There are good reasons for this, such as the Knightian uncertainty around future climate policy pathways. However, we believe that improvements in the quantification of uncertainty in climate scenarios would enhance insights into the expected size of climate-financial risks and would also provide more opportunities to embed those risks in existing risk management frameworks, both supervisory and within financial institutions.