June 30, 2022

VIA ELECTRONIC SUBMISSION

Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Supervisory and Regulatory Approaches to Climate-related Risks

Ladies and Gentlemen:

On behalf of its members, the Risk Management Association's Climate Risk Consortia ("RMA Consortia")[1] thank the Financial Stability Board ("FSB") for the opportunity to comment on its interim report, *Supervisory and Regulatory Approaches to Climate-related Risks* ("Interim Report").[2]

The RMA Consortia seek to assist banks in integrating climate risk management throughout their operations, preparing the industry to help economies transition to a low-carbon future. The RMA Consortia, representing 40 leading U.S. and Canadian banking organizations, also aim to advance climate risk management practices in the banking industry by facilitating the development of industry-wide taxonomies and standards.

The RMA Consortia appreciate the FSB's objective of assisting supervisory and regulatory authorities in developing their approaches to monitor, manage and mitigate risks arising from climate change. Below, the RMA Consortia offer for the FSB's consideration its observations on four topics addressed in the Interim Report: (1) supervisory coordination within and across jurisdictions; (2) regulatory reporting and disclosure; (3) common definitions; and (4) scenario analysis.

I. Supervisory Coordination Within and Across Jurisdictions

The RMA Consortia appreciate the Interim Report's focus on coordination among supervisors within and across jurisdictions. The RMA Consortia support, broadly, interoperability in climate regulatory approaches, subject to the mandates of each bank supervisor.[3] Many of the RMA

1 The RMA Consortia consist of two groups: the Climate Risk Consortium for large financial institutions and the Regional Bank Climate Risk Consortium.

2 FSB, Supervisory and Regulatory Approaches to Climate-related Risks (Apr. 29, 2022), https://www.fsb.org/wp-content/uploads/P290422.pdf [hereinafter, "Interim Report"].

3 *See id.* at 46, recommendation 5.

Consortia's member institutions have multinational footprints and therefore must comply with multiple regulatory regimes, which means complying with requirements that are not always similar. Fragmented regulatory approaches across jurisdictions can result in inefficiencies and additional complexities in banks' enterprise risk management. As acknowledged in the Interim Report, the scope of bank supervisors' mandates with respect to climate risk responses vary by jurisdiction, and such differences may result in different requirements for banks across jurisdictions.[4] Nevertheless, consistency among supervisors in evaluating, at a high level, a bank's climate-related financial risk management would facilitate more efficient and effective compliance and climate-related financial risk management by multinational banks. Similarly, coordination among financial regulators within a jurisdiction would support more robust and efficient compliance by financial institutions subject to oversight by multiple domestic regulators.

With respect to oversight of individual multinational banks, the RMA Consortia encourage home and host country bank supervisors to explore mechanisms that facilitate efficiencies in compliance with reporting and other requirements by internationally active banking organizations.[5]

II. Regulatory Reporting and Disclosure

The RMA Consortia appreciate the Interim Report's acknowledgement that the "lack of sufficiently consistent, comparable, granular and reliable climate data" presents an ongoing challenge for supervisors.[6] These same challenges also apply to financial institutions, as the methodologies, standards, data and internal capabilities necessary to produce climate-related information are in development or are just beginning to be explored. The FSB report, *The Availability of Data with Which to Monitor and Assess Climate-Related Risks to Financial Stability* ("FSB Data Report"), also identifies a number of climate-related data gaps that present challenges for financial institutions and supervisors, including the following:

- A lack of granular data on financial institutions' exposures to climate-related risks and uncertainty around the potential impacts of climate-related risks on financial institutions;
- A lack of data on firms' supply chains and potential impact of the crystallization of physical and transition risks on such supply chains; and
- Developing methodologies and forward-looking data to improve the effectiveness of scenario analysis.[7]

Disclosures relying on incomplete data and developing models have diminished utility and reliability until the underlying data and modelling capabilities are more mature.[8] Banks will

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4 *See id.*

5 *See id.*, at 46, recommendation 6.

6 *Id.*, at 1.

7 FSB, The Availability of Data with Which to Monitor and Assess Climate-Related Risks to Financial Stability, at 1–2 (Jul. 7, 2021), https://www.fsb.org/wp-content/uploads/P070721-3.pdf [hereinafter, "FSB Data Report"].

need sufficient time to develop their assessment tools and data in order to provide reliable climate-related information. We agree with the FSB that a staged approach to disclosure and reporting requirements that focuses on qualitative information initially may be appropriate.[9] As suggested in the Interim Report, regulators should scale their supervisory expectations and disclosure and reporting requirements based on the availability and reliability of relevant data and methodologies and adopt iterative approaches to reporting and disclosure.[10] For example, the RMA Consortia recommend limiting required Scope 3 financed emissions disclosures to those where the data and methodologies are available, such as emissions from borrowers in higher-emitting sectors. Data from borrowers in higher-emitting sectors are generally more available than from borrowers in lower-emitting sectors. Similarly, disclosure of emissions from investment instruments and other assets for which calculation methodologies are not sufficiently developed (*e.g.*, those that are not addressed by the Partnership for Carbon Accounting & Reporting Standard) should not be required.[11]

The RMA Consortia offer the following additional observations with respect to disclosure and reporting.

- **Regulatory Reporting and Disclosure Distinction**. We appreciate that the Interim Report addresses the data gaps with respect to both regulatory reporting and disclosure and encourage the final FSB report to further sharpen the distinction between these types of information.[12] In particular, certain information, including information based on limited data or evolving methodologies or that may include commercially sensitive or proprietary information, may be more appropriate for inclusion in confidential regulatory reports than in public disclosure documents.

- **Current Reporting Channels**. As suggested in the Interim Report, bank supervisors should seek to leverage current reporting channels to obtain specific climate-related risk information to promote efficiency.[13]

- **Third-Party Verification**. With respect to third-party verification, we agree with the FSB that external assurances may improve the reliability and credibility of climate-related data, where available.[14] Because climate-related data and reporting capabilities are evolving, there may be limited third-party verification providers, at least initially. We encourage supervisors to consider the available supply of providers when setting

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8 For further discussion, *see* RMA Climate Consortia, Comment Letter in Response to the Securities and Exchange Commission's proposed Enhancement and Standardization of Climate-Related Disclosures for Investors (June 16, 2022), https://www.sec.gov/comments/s7-10-22/s71022-20131739-302174.pdf [hereinafter, "RMA Consortia, SEC Comment Letter"].

9 *See* Interim Report, *supra* note 2, at 19.

10 *See id.*

11 We note that this approach also could be applicable to analytical tools, such as scenario analysis. For further discussion of our recommended approach for Scope 3 disclosures, *see* RMA Consortia, SEC Comment Letter, *supra* note 8, at 7–10.

12 *See* Interim Report, *supra* note 2, at 16–21.

13 *See id.*

14 *Id.*, at 17.

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expectations and timing for requiring third-party verification with respect to climate-related data.

III. Common Definitions

The Interim Report notes that existing definitions do not appropriately capture climate-related risks and how they interact with each other at a financial system-wide level.[15] The RMA Consortia agree that common definitions for climate-related risks and opportunities may help promote data consistency and quality within and across jurisdictions, facilitating bank industry benchmarking.[16] We note that liability risk is likely embedded in existing risk management frameworks, so a separate climate-related definition of liability risk may not be useful for financial institutions or for supervisors.[17] As best practices and nomenclature are continuing to evolve, however, it may be premature for regulators to endorse or mandate certain definitions. Regulators should continue to monitor the work of standard-setting bodies and coordinate with regulated financial institutions on evolving definitions.[18]

IV. Scenario Analysis

Quantitative assessments, including scenario analysis, offer important insights into the impacts of risk drivers on banks. As the Interim Report notes, supervisors and financial institutions are at the early stages of the design and use of scenario analysis methodologies.[19] Financial institutions are beginning to explore using scenario analysis to support the development and assessment of an institution's climate-related risk measurement, management capacity and data, but a number of "challenges associated with data availability and methodologies" persist.[20] As the Basel Committee on Banking Supervision explains in a report on climate-related risk measurement methodologies, "[a]ssessment of climate-related financial risks will require new and unique types of data, different to the data banks have traditionally used in financial risk analyses," including data describing physical and transition risk drivers, data describing the vulnerability to exposures and financial exposure data.[21] As noted in the FSB Data Report, financial institutions do not yet have sufficiently granular data needed to conduct effective scenario analysis exercises, particularly over longer time horizons.[22]

Current limitations of data, assumptions and methodologies impair the reliability of climate-related financial risk assessments, rendering them ill-suited for use in determining a bank's capital and liquidity buffers.[23] Accordingly, the RMA Consortia support scenario analysis as a

15 *Id.*, at 18.

16 *See id.*, at 18–19.

17 *See id.*, at 18.

18 *See id.*, at 18.

19 *Id.*, at 38.

20 *Id.*, at 38. *See id.*, at 44.

21 Basel Committee on Banking Supervision, Climate-Related Financial Risk—Measurement Methodologies, at 10 (Apr. 2021), https://www.bis.org/bcbs/publ/d518.pdf.

22 *See* FSB Data Report, *supra* note 7, at 31–35.

23 *See, e.g.*, Financial Stability Oversight Council, Report on Climate-Related Financial Risk, at 49 (Oct. 2021), https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf ("While a large amount of potentially

useful tool for evaluating the potential economic and financial risks posed by different climate outcomes. By contrast, traditional regulatory stress tests inform the size of capital and liquidity buffers banks are required to maintain.[24] We agree with the Interim Report that the scope of analytical tools that regulators use to address climate-related risk depends on their mandates.[25] The RMA Consortia believe it is premature for assessments of, or incorporating, climate-related financial risks that impact a bank's capital or liquidity requirements.

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Thank you for your consideration of these comments. If there are any questions, please do not hesitate to contact me.

Sincerely,

Fran Garritt
Director
Risk Management Association

relevant data for climate-related physical risks currently exists, more work is needed to improve access to this data and incorporate it into financial risk assessments.").

[24] *See, e.g.*, *id.*, at 90; Jerome Powell Remarks, Green Swan Conference, hosted by the Bank for International Settlements (Jun. 4, 2021) (stating that scenario analysis is "not meant to be setting up a regulatory consequence, which obviously does flow from our regulatory stress tests").

[25] *See* Interim Report, *supra* note 2, at 45.

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