April 5, 2023

VIA ELECTRONIC SUBMISSION

Adrienne Harris, Superintendent
New York State Department of Financial Services
1 State Street
New York, NY 10004-1511

Re: Proposed Guidance for New York State Regulated Banking and Mortgage Organizations Relating to Management of Material Financial Risks from Climate Change

Dear Superintendent Harris:

The Institute of International Bankers (the "IIB")[1] and the Securities Industry and Financial Markets Association ("SIFMA")[2] appreciate the opportunity to submit this letter in response to the request for feedback issued by the New York State Department of Financial Services (the "NYDFS") on its Proposed Guidance for New York State Regulated Banking and Mortgage Organizations Relating to Management of Material Financial Risks from Climate Change (the "Proposal").[3] The management of climate-related financial risk is an important issue, and one that is particularly significant for our members. As such, we welcome the opportunity to offer our perspectives.

Our members recognize the global significance and importance of addressing climate-related financial risk. Many of our members are already in the process of incorporating climate-related risk drivers into their existing risk management frameworks at the enterprise level, across multiple jurisdictions. As such, we applaud the efforts of the NYDFS to coordinate with other domestic and international prudential regulators on climate-related financial supervision and appreciate that the Proposal is broadly

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[1] The IIB represents internationally headquartered financial institutions from over 35 countries around the world doing business in the United States. The IIB's members consist principally of international banks that operate branches, agencies, bank subsidiaries, and broker-dealer subsidiaries in the United States.

[2] SIFMA is the leading trade association for broker-dealers, investment banks, and asset managers operating in the U.S. and global capital markets. On behalf of its industry's nearly one million employees, SIFMA advocates on legislation, regulation, and business policy affecting retail and institutional investors, equity and fixed income markets, and related products and services.

[3] New York State Department of Financial Services, Proposed Guidance for New York State Regulated Banking and Mortgage Organizations Relating to Management of Material Financial Risks from Climate Change (Dec. 21, 2022), available *here*.

compatible with other domestic and international climate-related financial risk management guidance.

We also appreciate that the Proposal takes a principles-based approach to climate-related financial risk management and that it "is not intended to and does not instruct Regulated Organizations on the outcomes of their specific risk assessments, including how credit or investment decisions might evolve to account for climate-related financial risks."[4] Specifically, we appreciate that the Proposal does not create new credit risk lending limits.

Finally, we support the concept of proportionality as it is set forth in the Proposal and appreciate the comprehensive nature of the guidance in that it seeks to address the unique structure of New York state-licensed branches and agencies of foreign banking organizations ("FBOs") and the way in which they operate in the United States.

Notwithstanding this, there are certain provisions in the Proposal that can be clarified to more fully reflect how FBOs govern their operations and risk management here in the United States. We discuss these provisions in more detail below. In particular, we recommend that:

- To more fully enable FBOs to manage climate-related financial risks in a manner consistent with how they govern their operations and risk management in the United States, the final guidance should provide additional clarity in several places.

- The final guidance should clarify that "equivalent bodies" to the boards of directors may include U.S. risk committees, and other board- and management-level committees, and should further distinguish the responsibilities of the board from those of management.

- The NYDFS should not propose additional or supplemental reporting requirements.

- The final guidance should exclude smaller Regulated Organizations based on a minimum asset threshold.

- The final guidance should better reflect how climate scenario analysis is used by Regulated Organizations.

We respond to certain request for feedback questions at the end of this letter.

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[4] Proposal ¶ 7.

I. To more fully enable FBOs to manage climate-related financial risks in a manner consistent with how they govern their operations and risk management in the United States, the final guidance should provide additional clarity in several places

We appreciate that even as it applies to a broad range of financial institutions, including New York State-regulated banking organizations, mortgage bankers and mortgage servicers, the Proposal seeks to address the unique structure of New York State-licensed branches and agencies of FBOs. We further appreciate that FBOs "may take into account home-country regulators' requirements, as appropriate."[5]

Further, the Proposal acknowledges that the "risk management process and control functions" of an FBO's state-licensed branch or agency may be "performed outside of the United States" ("Paragraph 22").[6] Paragraph 22 also advises that for a state-licensed branch or agency of an FBO that relies on risk management performed outside of the United States, "the FBO's oversight function, policies and procedures, and information systems should be sufficiently transparent to allow U.S. supervisors to assess their adequacy for the branch or agency in relation to the FBO's climate-related financial risks."[7] FBOs share the objective of the NYDFS to ensure the safe and sound operations of their state-licensed branches and agencies and appreciate the flexibility that Paragraph 22 would afford FBOs. In line with the historical supervisory approach of the NYDFS of focusing on the Regulated Organization, we read Paragraph 22 as indicating that the supervisory expectations of the NYDFS with respect to the transparency of an FBO's oversight function, policies and procedures, and information systems, would be limited *to what is reasonably necessary* to assess their adequacy in relation to the FBO's New York State-licensed branch or agency.

Our members also support the Proposal's recognition that a "Regulated Organization that is part of a group of affiliated entities or a holding/parent company structure ('Group') may," subject to certain conditions, "leverage the policies, procedures, and processes developed at the Group level for managing climate-related financial risk" ("Paragraph 21").[8] We note, however, that an FBO's state-licensed branch or agency's climate-related financial risk management may also be developed or coordinated at organizational levels other than the Group level (*e.g.*, oversight by a U.S. risk committee), consistent with its U.S. operating model and applicable U.S. regulatory requirements. Accordingly, we urge that the final guidance clarify that a state-licensed branch or agency of an FBO may rely on climate-related financial risk management policies, procedures, and processes

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[5] Proposal ¶ 6.

[6] Proposal ¶ 22.

[7] Ibid.

[8] Proposal ¶ 21.

developed not only at the Group level, but at other organizational levels as well, consistent with its U.S. operating model and applicable U.S. regulatory requirements.

The Proposal also states that if the conditions for a Regulated Organization to rely on Group-level policies, procedures, and processes are met, "references in this Guidance to a Regulated Organization's board may also refer to the board of the parent/holding company of the relevant Group."[9] However, as discussed further in Section II, the relevant board or designated equivalent body for an FBO's U.S. operations may be at the level of its combined U.S. operations, not the Group level. Accordingly, the discussion of the board of the parent/holding company in Paragraph 21 should be broadened to enable an FBO to rely on the appropriate board or designated equivalent body responsible for oversight of climate-related financial risk management, which may be at the Group level or elsewhere. In addition, the final guidance should clarify that, consistent with the focus of the NYDFS on the Regulated Organization, the scope of the supervisory expectations of the NYDFS for the relevant board or designated equivalent body is limited to that body's climate-related financial risk oversight responsibilities for the Regulated Organization.

Paragraph 21 and Paragraph 22 generally provide important guidance on how FBOs may meet the Proposal's various expectations based on how they govern their operations and risk management in the United States, and in deference to home-country standards, as relevant. Accordingly, we request the final guidance expressly acknowledge that these expectations, such as the stated examples that Regulated Organizations "build capacity"[10] and "consider enhancing existing [information technology] systems,"[11] may be satisfied at the home office or other relevant organizational levels.

II. The final guidance should clarify that "equivalent bodies" to the boards of directors may include U.S. risk committees, and other board and management-level committees, and should further distinguish the responsibilities of the board from those of management

We appreciate that the Proposal provides that "[r]eferences to boards of directors of Regulated Organizations throughout this document include equivalent bodies that perform the same functions as boards of directors."[12] However, the final guidance should expressly permit FBOs to rely on designated committees and existing U.S. risk governance (including U.S. risk committees or other U.S. entities) to conduct board oversight of climate-related financial risks in the United States. In addition, FBOs should also be able to rely on U.S.-based management for the relevant U.S. climate-related

[9] Ibid.

[10] Proposal ¶ 31.

[11] Proposal ¶ 55.

[12] Proposal ¶ 5.

financial risk obligations of senior management. This arrangement would be consistent with the existing U.S. risk governance frameworks of FBOs.

Further, we urge that the final guidance better distinguish the responsibilities of a Regulated Organization's board – or equivalent delegated body – from that of its U.S. management. For example, the Proposal assigns the board responsibilities with respect to identifying and controlling climate-related financial risks.[13] These and other similar responsibilities are better suited for U.S. management. Therefore, we urge that the final guidance define board responsibilities so that they are consistent with its role to oversee management's efforts to identify, measure, monitor, and control climate-related financial risks.

III. The NYDFS should not propose additional or supplemental reporting requirements[14]

The reporting and disclosure of climate-related financial risk information is important and useful for regulators, customers, and investors alike. However, it is paramount that various reporting and disclosure frameworks be aligned. The IIB represents the U.S. operations of financial institutions headquartered in over 35 countries around the world. Many of the IIB's member institutions are already engaged in producing climate-related reports and disclosures for their home jurisdictions, at the enterprise or other levels, consistent with widely adopted frameworks, such as the recommendations of the International Sustainability Standards Board or Task Force on Climate-related Financial Disclosures.[15] In addition, our member firms that are U.S. Securities and Exchange Commission ("SEC") registrants will be subject to the SEC's climate disclosure regime once it is finalized. These reports and requirements will provide comprehensive information regarding the climate-related financial risk of our member firms.

Additional climate disclosure requirements from the NYDFS would be duplicative and confusing to investors and regulators. The costs of requiring climate disclosures at the level of an FBO's state-licensed branch or agency would outweigh any benefit from such a production. In addition, to the extent that climate-related financial risk management is

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[13] Proposal ¶¶ 39, 42.

[14] This section is responsive to Feedback Question 3:

> The Guidance does not contain a provision regarding disclosure of material financial risks from climate change for Regulated Organizations. Should existing regulatory reporting requirements be supplemented to capture Regulated Organizations' exposure to material financial risks from climate change and their management of such risks, and if so, what should the supplemental report look like?

[15] *See* Exposure Draft IFRS S2 Climate-related Disclosures (Mar. 31, 2022), available *here*; Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017), available *here*.

integrated into existing risk management frameworks, these risks should be captured in current regulatory reports. Accordingly, the NYDFS should not propose any additional or supplemental reporting requirements.

IV. The final guidance should exclude smaller Regulated Organizations based on a minimum asset threshold

As noted above, we support the concept of proportionality as it is set forth in the Proposal and acknowledge the Proposal's concern with respect to the climate-related financial risks that small financial institutions face.[16] That said, while the NYDFS has stated that it would take a proportionate approach to climate-related financial supervision, the expectations set out in the Proposal for the risk management capabilities of Regulated Organizations would still pose an outsized burden on smaller Regulated Organizations relative to their climate-related financial risks. Given the size and relative lack of complexity of smaller Regulated Organizations, we believe smaller Regulated Organizations can adequately manage their climate-related financial risks with traditional risk management practices. Additionally, we do not believe the climate-related financial risk of smaller Regulated Organizations pose a material risk to the safety and soundness of the financial system.

As such, the final guidance should exclude smaller Regulated Organizations based on a minimum asset threshold.[17] This asset threshold should be based only on the assets of the Regulated Organization, which in the case of an FBO would be the New York State-licensed branch or agency of the FBO.

V. The final guidance should better reflect how climate scenario analysis is used by Regulated Organizations

We agree with the high-level approach taken by the NYDFS with respect to climate scenario analysis and with the distinction that the NYDFS makes between scenario analysis and stress testing.[18] Climate scenario analysis exercises need to remain distinct from any prudential stress tests because they pursue fundamentally different objectives using different methodologies, indicators, and timeframes. We also appreciate the insight

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[16] *See* Proposal ¶ 20.

[17] For example, federal prudential regulators have suggested an asset threshold of $100 billion in their proposed climate-related financial risk management guidance. Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 75267 (Dec. 8, 2022), available *here*.

[18] Proposal ¶ 56.

of the NYDFS that both qualitative and quantitative assumptions may be useful in informing climate scenario analysis exercises.[19]

Many of our members are conducting exploratory climate scenario analysis exercises at the enterprise level, often at the direction of home-country regulators and supervisors. In particular, the U.S. operations of FBOs often rely on home office or enterprise-level models and procedures for climate-related financial risk management, including for scenario analysis exercises. The Proposal appears to provide ample flexibility to conduct scenario analysis exercises at the home office or enterprise level.[20]

In line with the Proposal, many of our member institutions use or are developing climate scenario analysis exercises to "identify[] data and methodological limitations and uncertainty in management of [climate-related financial] risks."[21] Accordingly, we ask that the final guidance further clarify that climate scenario analysis exercises are internal tools that Regulated Organizations can use to help them develop their climate-related risk management capabilities.

VI. Response to Feedback Questions

Below we respond to specific questions for feedback from the Proposal:

1. The Guidance does not establish a timeline for implementation. Should a timeline for implementation be established? If yes, what timeline and what is the reasoning supporting that timeline?

Regulated Organizations can benefit from the final guidance as they make progress toward developing and implementing appropriate climate-related financial risk management responses. However, as the Proposal recognizes, the development of climate-related financial risk management practices will be iterative and informed by improvements in data availability and the evolution of more advanced methodological capabilities.[22] Therefore, it would be premature for the NYDFS to establish today a timeline for implementation of practices that would rely on data and methodologies that are widely understood to be underdeveloped and unreliable. However, if the NYDFS were to adopt an implementation timeline once data and methodologies in this field are sufficiently improved, we suggest that it be organized in phases to afford Regulated Organizations the time needed to develop capabilities based on the improved data and methodologies.

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[19] Proposal ¶ 57.

[20] Proposal ¶¶ 21, 22.

[21] Proposal ¶ 57.

[22] *See* Proposal ¶¶ 9, 43, 51.

Further, Regulated Organizations may face challenges related to the allocation of internal resources and technological investment as they build capacity to come into conformance with the climate-related regulatory regimes of multiple domestic and international prudential regulators across multiple jurisdictions. Accordingly, in line with its efforts to "to coordinate with its state, federal, and international counterparts on climate-related financial supervision,"[23] and with the recognition that FBOs may take into account the requirements of home-country regulators, the NYDFS should give deference in its own phasing to the expectations of its federal and international counterparts that supervise Groups more broadly, thus allowing for a build out from the top down of climate-related financial risk management capabilities.

2. Recognizing that there is a wide range of complexity in climate scenario analysis, how can smaller institutions benefit from climate scenario analysis? What does appropriate climate scenario analysis look like for them? Which kind of support do they need in establishing these scenarios?

As discussed in Section IV above, we believe the final guidance should exclude smaller Regulated Organizations with assets below a reasonable threshold. As such, we do not believe the expectations of the NYDFS with respect to climate-related financial risk management in general and, with respect to scenario analysis in particular, should extend to smaller Regulated Organizations.

To the extent, however, that the NYDFS believes the final guidance should apply to smaller Regulated Organizations, we agree with the Proposal that, "[t]he development and implementation of climate scenario analysis should be commensurate with a Regulated Organization's size, complexity, business activity, and risk profile."[24] As such, while many smaller Regulated Organizations may conduct scenario analysis exercises at the home office or enterprise level, for certain smaller Regulated Organizations, the technical and operational investments required to perform climate scenario analysis exercises may pose an outsized burden relative to their climate-related financial risk. Accordingly, given the Proposal's emphasis on proportionality, we believe the final guidance should clarify that the NYDFS would not expect a smaller Regulated Organization to conduct climate scenario analysis exercises if the Regulated Organization is otherwise able to manage its climate-related financial risks.

3. The Guidance does not contain a provision regarding disclosure of material financial risks from climate change for Regulated Organizations. Should existing regulatory reporting requirements be supplemented to capture Regulated Organizations' exposure to material financial risks from climate change and their

[23] Proposal ¶ 10.

[24] Proposal ¶ 57.

management of such risks, and if so, what should the supplemental report look like?

We believe the NYDFS should not propose any additional or supplemental reporting requirements for the reasons discussed in Section III, above.

4. Are there other aspects of climate-related financial risks that the Guidance should consider? Or are there other aspects of the Guidance that would benefit from further clarification, context, or reframing?

The Proposal states the NYDFS "expects Regulated Organizations to minimize and affirmatively mitigate adverse impacts on [low- and moderate-income ("LMI") communities and communities of color] while managing climate-related financial risks to address safety and soundness concerns." ("Paragraph 18")[25] As the Proposal notes, the obligations of Regulated Organizations towards LMI communities and communities of color are comprehensively enshrined in existing state and federal law. ("Paragraph 19")[26] As such, we read the expectations of the NYDFS in Paragraph 18 as referring to the existing obligations of Regulated Organizations discussed in Paragraph 19. Accordingly, we ask the NYDFS to consider whether inclusion of the final sentence of Paragraph 18 is merited given that it may result in confusion with respect to the expectations of the NYDFS.

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[25] Proposal ¶ 18.

[26] Proposal ¶ 19.

The IIB and SIFMA appreciate the opportunity to submit these comments. We look forward to engaging with the NYDFS and other prudential regulations on the development of climate-related financial risk management principles.

Sincerely,

Beth Zorc
Chief Executive Officer
Institute of International Bankers
bzorc@iib.org

Guowei Zhang
Managing Director, Head of Capital Policy
Securities Industry and Financial Markets Association
gzhang@sifma.org

Attachments: IIB's and SIFMA's comment letters to the federal financial regulators on their proposed climate-related financial risk management proposals.

Attachments

INSTITUTE OF INTERNATIONAL BANKERS

299 Park Avenue, 17th Floor
New York, N.Y. 10171
Direct: (646) 213-1147
Facsimile: (212) 421-1119
Main: (212) 421-1611
www.iib.org

February 6, 2023

VIA ELECTRONIC SUBMISSION

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Principles for Climate-Related Financial Risk Management for Large Financial Institutions (Federal Reserve Board Docket No. OP-1793)

Dear Ms. Misback:

The Institute of International Bankers (the "IIB") appreciates the opportunity to submit this letter in response to the request for comment issued by the Board of Governors of the Federal Reserve System (the "FRB") on its Principles for Climate-Related Financial Risk Management for Large Financial Institutions[1] (the "Proposal"). The management of climate-related financial risk is an important issue for our members, especially given ongoing international focus on this subject. As such, we welcome the opportunity to offer our unique perspective.

The IIB represents internationally headquartered financial institutions from over 35 countries around the world doing business in the United States. The IIB's members consist principally of international banks that operate branches, agencies, bank subsidiaries, and broker-dealer subsidiaries in the United States. The U.S. operations of foreign banking organizations ("FBOs") are an important source of credit for U.S. borrowers. FBOs comprise the majority of U.S. primary dealers and enhance the depth and liquidity of U.S. financial markets. FBOs also contribute greatly to the U.S. economy

[1] Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 75267 (Dec. 8, 2022), available *here*.

The Institute's mission is to help resolve the many special legislative, regulatory and tax issues confronting **internationally headquartered** financial institutions that engage in banking, securities and/or insurance activities in the United States.

through the direct employment of U.S. citizens and permanent residents, as well as through other operating and capital expenditures.

FBOs recognize the global significance and importance of addressing climate-related financial risk. Many FBOs are already in the process of incorporating climate-related risk drivers into their existing risk management frameworks at their home offices or at the enterprise level, across multiple jurisdictions. As such, the IIB applauds the FRB's efforts to coordinate with other prudential regulators, both internationally and domestically, to ensure that climate-risk management guidance is consistent and principles-based. The IIB also supports plans by the Federal Deposit Insurance Corporation (the "FDIC"), the Office of the Comptroller of the Currency (the "OCC"), and the FRB to finalize the climate principles jointly.[2]

The IIB appreciates the high-level, principles-based approach taken in the Proposal, as noted in our comment letters to the FDIC and the OCC on their proposed climate-related risk management principles (see attached).[3] We agree with the objective that the FRB articulates for the principles: to "promote a consistent understanding" of climate-related financial risk management.[4]

We appreciate that the FRB recognizes that "the incorporation of climate-related financial risks into risk management frameworks *remains under development* in many financial institutions and *will continue to evolve over time*" and "that the incorporation of material climate-related financial risks into various planning processes will be *iterative*, as measurement methodologies, models, and data for analyzing these risks continue to mature."[5] We support the Proposal's clarification that scenario analysis, as a tool for financial institutions to assess climate-related financial risk, is exploratory and distinct from regulatory stress testing – and, accordingly, should not impact capital requirements.

The IIB also appreciates the evolution of the draft principles and that the Proposal appears to respond in places to the industry's feedback on the FDIC's and OCC's earlier proposals on climate-related financial risk management. For instance, we note that the Proposal, consistent with the IIB's comment letters to the FDIC and OCC, states that

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2 Because FRB-supervised FBO branches and agencies are also supervised by state regulators, we urge the FRB to coordinate with state agencies, such as the New York State Department of Financial Services ("NYDFS"), with respect to their climate-related risk management guidelines as well. *See, e.g.*, NYDFS, Proposed Guidance for New York State Regulated Banking and Mortgage Organizations Relating to Management of Material Financial Risks from Climate Change (Dec. 21, 2022) ("NYDFS Proposed Climate Guidance"), available *here*.

3 As relevant, this letter incorporates by reference comments included in our letters to the OCC and FDIC.

4 87 Fed. Reg. at 75267.

5 87 Fed. Reg. at 75268–69 (emphasis added).

institutions may incorporate climate-related financial risk management into existing risk management practices, rather than establish new, standalone structures.[6]

Accordingly, we focus our comments in this letter on provisions in the Proposal that are new, as well as certain other provisions that raise unique concerns when applied to the U.S. operations of FBOs subject to FRB supervision and regulation. In particular, as we discuss in more detail below, the IIB requests that the FRB make the following modifications to the final guidance.

- The final guidance should better reflect how FBOs govern their operations and risk management in the United States.
- The final guidance should clarify references to the "board of directors" as they relate to the U.S. operations of FBOs and expressly permit FBOs to rely on designated committees for board oversight of U.S. climate-related financial risk management.
- The final guidance should not be prescriptive in its expectations for the governance of scenario analysis exercises.
- The final guidance should clarify its applicability to the U.S. operations of FBOs.

I. The final guidance should better reflect how FBOs govern their operations and risk management in the United States

The IIB supports the flexibility that the Proposal provides to individual financial institutions in implementing climate-related financial risk management approaches that are consistent with their unique circumstances and proportionate to their respective risk profiles.[7] The IIB agrees that "[e]ffective risk management practices should be appropriate to the size of the financial institution," or, in the case of an FBO, the size of its U.S. operations, "and the nature, scope, and risk of its activities."[8] The IIB also appreciates that the FRB "anticipates that differences in financial institutions' complexity of operations and business models will result in different approaches to addressing climate-related financial risks."[9]

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[6] 87 Fed. Reg. at 75269.

[7] We note that this concept is also echoed and supported by the NYDFS in the NYDFS Proposed Climate Guidance which states that "Regulated Organizations should take a *proportionate approach* to the management of the climate-related financial risks they face, appropriate to each organization's exposure to climate-related financial risks." NYDFS Proposed Climate Guidance at 6 (emphasis added).

[8] 87 Fed. Reg. at 75268.

[9] Ibid.

We note that the FRB has in the past allowed FBOs to leverage the risk management practices of their U.S. operations with those of their global and home-office operations.[10] The final guidance should build upon how the FRB's risk-related regulatory obligations apply to FBOs today. For example, the Proposal allows for a financial institution's management to "identify, measure, monitor, and control climate-related financial risk exposures *within the financial institution's existing risk management framework*."[11] In the context of FBOs, the final guidance should recognize that climate-related financial risk management is often an enterprise-wide effort that routinely is developed and coordinated at the home office or group level. Accordingly, FBOs should be able to leverage existing risk management frameworks such as home-office or enterprise-level programs, policies, models, and procedures to comply with U.S. requirements. For example, as discussed in Section III below, many FBOs conduct exploratory climate scenario analysis exercises at the enterprise level to inform their global risk management frameworks.

II. The final guidance should clarify references to the "board of directors" as they relate to the U.S. operations of FBOs and expressly permit FBOs to rely on designated committees for board oversight of U.S. climate-related financial risk management

The IIB appreciates the Proposal's delineation of the roles of a financial institution's management and board. However, we ask that the final guidance better reflect how FBOs operate their climate-related risk management governance structures. Specifically, the final guidance should expressly permit FBOs to rely on designated committees and existing U.S. risk governance (*e.g.*, a U.S. risk committee, or other relevant committee or entity) to conduct board oversight of climate-related financial risks in the United States. In addition, FBOs also should be able to rely on U.S.-based management for the relevant U.S. climate-related financial risk obligations of senior management. This arrangement would be more consistent with the FRB's risk governance framework and expectations for FBOs.

Regarding the Proposal's governance expectations more generally, and particularly its guidance on review of compensation policies,[12] we note that compensation practices already generally reflect risk metrics, which may be informed in part by climate-related financial risk. Compensation practices also are generally within the purview of a financial institution's governing body, consistent with their business and risk objectives, values,

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[10] *See, e.g.*, Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations, 79 Fed. Reg. 17239, 17287 (noting that "foreign banking organizations generally may rely on their parent company's enterprise-wide risk management policies.") (Mar. 27, 2014), available *here*.

[11] 87 Fed. Reg. at 75269 (emphasis added).

[12] 87 Fed. Reg. at 75296.

and strategic goals. For FBOs, compensation practices may also be determined at an enterprise level.

III. The final guidance should not be prescriptive in its expectations for the governance of scenario analysis exercises

As mentioned above and in our letters to the OCC and FDIC, the IIB supports the use of scenario analysis, as distinct from regulatory stress testing. Many FBOs are conducting exploratory climate scenario analysis exercises at the enterprise level (in many cases to satisfy home country regulatory mandates or requirements) and climate scenario exercises need to remain distinct from any prudential stress tests. Climate scenario analysis exercises pursue fundamentally different objectives using different methodologies, indicators, and timeframes from prudential stress testing exercises, which are designed to test resilience against a historically large, short-term shock. It is therefore inappropriate for regulators to impose any capital requirements or other prudential consequences as a result of climate scenario analysis exercises – and we appreciate that the FRB continues to emphasize that it is not appropriate to do so.[13]

Based on the experiences of our members with scenario analysis, we also echo the Proposal's view that scenario analysis is still "*emerging* as an important approach" and that it may be used in "*exploring* the impacts of climate-related financial risks."[14] We welcome further dialogue with the FRB about how best to use scenario analysis to inform bank climate-related financial risk management policies and frameworks.

As noted in Section I above, the U.S. operations of FBOs often rely on home office or group-level models and procedures for climate-related financial risk management, including for scenario analysis exercises. Country- or state-level scenario analysis exercises may not fully capture the effects of "global emissions" or changes in "global temperatures."[15] Accordingly, the final guidance should reflect how FBOs conduct climate scenario analysis exercises at the enterprise level, and how home country or enterprise-level exercises inform the governance of U.S.-level risk management.

Finally, given the exploratory and evolving nature of scenario analysis, the final guidance should provide flexibility regarding the level of governance, validation, and communication required for any scenario analysis exercise.

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[13] *See, e.g.*, Jerome Powell, Senate Banking, Housing, and Urban Affairs Committee Hearing on the Nomination of The Honorable Jerome Powell (Jan. 11, 2022) ("I would stress that [climate stress scenarios] are very different from regular stress tests which affect capital.").

[14] 87 Fed. Reg. at 75270 (emphasis added).

[15] 87 Fed. Reg. at 75267 n. 2 (quoting Financial Stability Oversight Council, Report on Climate-Related Financial Risk, at 10 (Oct. 2021), available *here*).

IV. The final guidance should clarify its applicability to the U.S. operations of FBOs

Based on the language of the Proposal, it is unclear how the final guidance would apply to FBOs. For instance, Footnotes 1 and 4 indicate applicability to "foreign banking organizations with respect to their U.S. operations."[16] In addition, Footnote 4 includes a reference to "intermediate holding companies."[17] However, Footnote 8 indicates that the FRB would "consider the total consolidated assets of a branch or agency itself for branches and agencies of" FBOs.[18]

Therefore, we recommend that the final guidance clarify that the principles apply to FBOs in a consistent manner based on the size of their combined U.S. operations.

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The IIB appreciates the opportunity to submit these comments. We look forward to engaging with the FRB and other agencies on the development of climate-related financial risk management principles.

Sincerely,

Beth Zorc
Chief Executive Officer
Institute of International Bankers
bzorc@iib.org

Attachments: IIB comment letter to the FDIC (May 31, 2022), IIB comment letter to the OCC (February 14, 2022)

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16 87 Fed. Reg. at 75268–79 n. 1, 4.

17 *Compare* 87 Fed. Reg. at 75268 n. 1 *with* Id. at 75269.

18 87 Fed. Reg. at 75268 n. 8.

INSTITUTE OF INTERNATIONAL BANKERS

299 Park Avenue, 17th Floor
New York, N.Y. 10171
Direct: (646) 213-1147
Facsimile: (212) 421-1119
Main: (212) 421-1611
www.iib.org

May 31, 2022

James P. Sheesly, Assistant Executive Secretary
Attention: Comments—RIN 3064-ZA32
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions (RIN 3064-ZA32)

Dear Mr. Sheesly:

The Institute of International Bankers (the "**IIB**") submits this letter in response to the "Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions" issued by the Federal Deposit Insurance Corporation (the "**FDIC**") on March 30, 2022 (the "**FDIC Draft Principles**").[1] We welcome the FDIC's plans to release future guidance on the effective management of climate-related financial risks (the "**Final Guidance**"), and we appreciate the opportunity to provide our unique perspective on the topic. In sum, we believe that Final Guidance that is closely based on the FDIC Draft Guidance would support the work of financial institutions with respect to their climate-related financial risk management and would provide them with the flexibility that will allow them to do this work efficiently and effectively. We appreciate this opportunity to provide additional thoughts and look forward to engaging in further conversations on this topic with you and your team.

As FDIC Chairman Gruenberg and many others have made clear,[2] climate change and its associated financial risks are a global problem, necessitating dialog and coordination among regulatory and supervisory bodies across all jurisdictions. Disparate initiatives on climate-related financial risk across various jurisdictions could lead to circumstances in which different sets of requirements result in inefficient and duplicative efforts or even conflict with one another. To that end, the IIB applauds the FDIC's decision[3] to join the Network of Central Banks and Supervisors for Greening the Financial System, as well as its domestic coordination on climate-related financial regulatory work, including as a member of the Financial Stability Oversight Council ("**FSOC**"). We urge the FDIC to continue its cooperative efforts with domestic and international regulators, as well as with industry participants.

We especially applaud the FDIC for its cooperation with its domestic counterparts, including with the Office of the Comptroller of the Currency (the "**OCC**") on the OCC's own recent "Principles for Climate-Related Financial Risk Management" (the "**OCC Draft Principles**").[4] This kind of coordination

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[1] FDIC, *Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions*, 87 Fed. Reg. 19507 (Apr. 4, 2022).
[2] Director Martin Gruenberg, FDIC Board of Directors, *The Financial Stability Risk of Climate Change* (Dec. 8, 2020).
[3] Chairman Martin Gruenberg, FDIC, *FDIC Priorities for 2022* (Feb. 7, 2022).
[4] OCC, *Principles for Climate-Related Financial Risk for Large Banks* (Dec. 16, 2021), https://www.occ.treas.gov/news-issuances/news-releases/2021/nr-occ-2021-138a.pdf.

is critical to achieving a consistent regulatory regime for climate-related financial risk management, and the alignment between the draft principles of the FDIC and the OCC is encouraging.

Given the substantive similarities between the FDIC Draft Principles and the OCC Draft Principles, we offer below a high-level overview of our feedback and attach the IIB's comment letter submitted to the OCC, which addresses in considerable detail the text of the proposed principles.

At a high level, the IIB's comments focus on the following three points:

- The Final Guidance should continue to recognize that methodologies, models, and data for analyzing climate-related financial risk remain a work in progress;

- Domestic and international cooperation around consistent and comparable climate-related financial risk management principles is critical; and

- Any final guidance should consider the unique structure and governance of internationally headquartered financial institutions.

We believe that the FDIC Draft Principles embody a principles-based approach that would provide an internationally headquartered financial institution (which is subject to the laws and regulations of a non-U.S. jurisdiction on a consolidated, enterprise-wide basis) with the necessary flexibility to consider the regulatory posture of its home country and internationally agreed upon standards. Any Final Guidance that is consistent with the FDIC Draft Principles would be helpful and effective. If there are any material developments to the FDIC Draft Principles beyond the high-level approach already taken, we would expect that these developments would be open for additional review and comment to give industry and other stakeholders the chance to weigh in on these important issues.

The IIB supports the FDIC's approach to climate-related financial risk, and we appreciate the opportunity to share our perspective. We are, of course, available to discuss these comments and the specific concerns and experiences of our members, and we look forward to engaging in further conversation on this topic with you. Thank you for your consideration.

Sincerely,

Briget Polichene
Chief Executive Officer

Enclosure: IIB comment letter of February 14, 2022

INSTITUTE OF INTERNATIONAL BANKERS

299 Park Avenue, 17th Floor
New York, N.Y. 10171
Direct: (646) 213-1147
Facsimile: (212) 421-1119
Main: (212) 421-1611
www.iib.org

February 14, 2022

By Electronic Mail

Office of the Comptroller of the Currency
400 7th St. SW, Suite 3E-218
Washington, DC 20219

Re: Request for Feedback on Principles for Climate-Related Financial Risk Management for Large Banks (Docket ID OCC-2021-0023)

Dear Acting Comptroller Hsu:

The Institute of International Bankers (the "IIB") submits this letter in response to the request for public feedback on the "Principles for Climate-Related Financial Risk Management for Large Banks" (the "Draft Principles") issued by the Office of the Comptroller of the Currency (the "OCC") on December 16, 2021 (the "Request for Feedback").[1] We welcome the OCC's plans to release future guidance on climate-related financial risk management (the "Final Guidance"), a topic that is of great importance to many internationally headquartered financial institutions. We believe that Final Guidance closely based on the Draft Principles would effectively support and provide the needed flexibility to advance the efforts of financial institutions with respect to their climate-related financial risk management. We appreciate this opportunity to provide additional thoughts and look forward to engaging in further conversations on this topic with you.

A. IIB's Distinctive Perspective

The IIB represents internationally headquartered financial institutions from over 35 countries around the world doing business in the United States. The IIB's members consist principally of international banks that operate branches and agencies, bank subsidiaries, and broker-dealer subsidiaries in the United States.

Our members believe that financial institutions have an important role to play in facilitating the climate-related transition objectives of their clients and approach the topic of climate change and financial risk from an international perspective. Many of our members are headquartered in jurisdictions where financial regulators are in the process of implementing, or have implemented, regulations and supervisory expectations pertaining to climate-related financial risk. For instance, regulators in some of the jurisdictions of our members have formally assessed how financial institutions are managing climate-

[1] OCC, *Principles for Climate-Related Financial Risk Management for Large Banks* (Dec. 16, 2021).

related financial risk as compared to supervisory expectations or are asking financial institutions to conduct scenario analyses. In addition, many of our members already have deployed considerable resources toward the management of climate-related financial risk, including by developing greater internal climate risk management expertise (such as hiring dedicated personnel and teams), modeling and undertaking scenario analyses, and engaging with regulators on these issues.

We come to this Request for Feedback with enthusiasm about what principles-based, internationally consistent climate risk management guidance stands to achieve. We believe that a principles-based Final Guidance provides the best avenue for allowing financial institutions to make tailored risk management decisions and operate under multiple international regulatory regimes. As organizations in the business of managing risk, financial institutions are uniquely well-suited to help their clients meet their climate objectives and manage the challenges that a transition to a lower carbon economy could entail, while remaining focused on the financial institution's own management of physical and transition risks. Financial institutions have a role to play in the efforts of their clients to further climate-related transition objectives, including those clients operating in traditionally carbon-intensive industries. Participation in these efforts likely will take different forms and differ among financial institutions across timelines and geographies. Consequently, flexible, principles-based guidance – in contrast to prescriptive requirements[2] – maximizes the chances that financial institutions can bring innovation and resources to better support the climate-related transitions of their clients.

We would be pleased to meet with you to discuss the Request for Feedback and provide you with information about practices in non-U.S. jurisdictions, as well as our experiences with clients and other regulators. Further, under the understanding that the federal banking regulators are in dialog on this issue, we have copied the Board of Governors of the Federal Reserve System (the "Board") and the Federal Deposit Insurance Corporation ("FDIC") on this letter. We also have copied the New York State Department of Financial Services ("NYDFS"), which has also been focusing on climate-related risk management.

Below, we offer some additional considerations and request some key clarifications in relation to the issuance of any Final Guidance.

B. The Final Guidance Should Continue to Recognize that Methodologies, Models, and Data for Analyzing Climate-Related Financial Risk Remain a Work in Progress

We appreciate the OCC's acknowledgement in the Draft Principles that "incorporation of material climate-related financial risks into various planning processes is iterative as measurement methodologies, models, and data for analyzing these risks continue to evolve and mature over time." As the Financial Stability Oversight Council's ("FSOC") recent report similarly notes, "Defining, identifying, measuring, and monitoring exposures to climate-related financial risks will necessitate investment in data and analytic capacity by FSOC members, other government agencies, and the private sector."[3]

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[2] As Governor Brainard has stated in the context of climate risk, "We would not tell banks which sectors to lend to or which sector to not lend." See also Board Chair Jerome Powell, as quoted in Law360 (Jan. 11, 2022) ("Climate is appropriate for us as an issue to the extent it fits within our existing mandates. I think it does, in the sense of it's another risk over time that banks are going to run. But the broader answer to climate change has to come from legislators and the private sector").

[3] FSOC, *Report on Climate-Related Financial Risk* (Oct. 21, 2021).

Methodologies, models, and data for analyzing climate-related financial risk remain a work in progress. To take the example of data gaps, financial institutions are both producers and consumers of data. A financial institution can only fully evaluate its own financial risks by drawing upon relevant and appropriate data situated outside the financial institution's own operations. Such data must be collected from its clients, counterparties, and transactions, and there is no question that consistent and comparable data is not always easily available and does not always exist.[4] For example, broad corporate public disclosure lacks standardization, rigor, and granularity, and forward-looking data from clients on their transition plans is weak at best. While these sources mature, banks must continue to rely upon approximations and extrapolations derived from less direct data sources.

We believe that financial institutions should continue working to identify and understand gaps in methodologies, models, and data. As Acting Comptroller Hsu suggested in a recent speech, the risk management processes of banks and the questions that their boards should start posing to management can have an important role in illuminating gaps in information and tools.[5] These endeavors will be non-trivial given the multitude of overlapping, often inconsistent, and rapidly evolving private and public sector definitions and measurement approaches to climate risk, reporting regimes, and the vetting of numerous regionally limited third-party data offerings. Even as data becomes more available, the proliferation of definitions and measurement approaches could complicate the efforts of financial institutions to incorporate this information into their risk management frameworks. Thus, such efforts will take time and likely will necessitate cooperation between regulators and the financial services industry.

Scenario analysis as a risk management tool also remains in development, and the accuracy and effectiveness of scenario analysis depends on the availability of high-quality data, as well as advancements in modeling over medium and long time horizons. The Draft Principles make clear that scenario analysis is just one tool alongside others in enhancing climate-related financial risk management. Any Final Guidance should continue this position, and additionally make clear that scenario analysis is a separate exercise, distinct from traditional stress testing, and is not intended to affect capital requirements or supervisory actions regarding U.S. operations. We believe that attempts by other jurisdictions to incorporate scenario analysis into stress tests or capital requirements are premature[6] and have created confusion based on how nascent measurement methodologies and data would influence current capital requirements. To maximize the potential effectiveness of any guidance related to scenario analysis, we would urge further dialog between regulators and industry. We would be pleased to discuss our experiences with scenario analysis in other jurisdictions with the OCC.

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[4] Like the OCC, domestic and international regulators and standard-setting bodies have acknowledged the data gaps that affect the measurement of climate-related financial risk. Reports by a number of authorities have emphasized this important issue. See, e.g., Basel Committee on Banking Supervision ("BCBS"), *Climate-related financial risks – measurement methodologies* (Apr. 14, 2021); Networking for Greening the Financial System ("NGFS"), *Progress report on bridging data gaps* (June 3, 2021); Financial Stability Board, *The Availability of Data with Which to Monitor and Assess Climate-Related Risks to Financial Stability* (July 7, 2021); FSOC, *Report on Climate-Related Financial Risk* (Oct. 21, 2021); European Systemic Risk Board, *Positively green: Measuring climate change risks to financial stability* (June 8, 2020); Climate Financial Risk Forum, *Climate Data and Metrics,* (Oct. 21, 2021). See also Board Gov. Lael Brainard, "Building Climate Scenario Analysis on the Foundations of Economic Research" (Oct. 7, 2021).

[5] Acting Comptroller of the Currency Michael J. Hsu, "Five Climate Questions Every Bank Board Should Ask" (Nov. 8, 2021).

[6] See, e.g., Sec. Janet Yellen, as quoted in Bloomberg Law (Feb. 2, 2022) ("It's just premature at this point to talk about raising capital requirements . . . it's really important that regulators do the groundwork that's necessary for them to evaluate risks to individual firms") and Board Gov. Lael Brainard, "The Role of Financial Institutions in Tackling the Challenges of Climate Change" (Feb. 18, 2021) ("To be clear, scenario analysis is distinct from our traditional regulatory stress tests at banks").

If finalized largely as written, the Draft Principles would allow sufficient leeway for, and encourage, the continued development of methods, models, and data to quantify and understand climate-related financial risks.

C. Domestic and International Cooperation Around Consistent and Comparable Climate Change Risk Management Principles Is Critical

The risks and effects of climate change are rarely confined within state or national borders, making dialog and coordination among regulators essential. Disparate initiatives on climate-related financial risks among various jurisdictions could lead to circumstances in which different sets of requirements result in inefficient and duplicative efforts (or even worse, conflict with each other).

We applaud the OCC for its international work (e.g., participation in the NGFS as well as the BCBS's Task Force on Climate-related Financial Risks), its climate-related work under the FSOC umbrella, and other initiatives such as the creation of the Climate Change Risk Officer position, one of the aims of which was to expand the OCC's capacity to coordinate with stakeholders, and more. We urge the OCC to continue its coordination efforts among U.S. and international regulators (as the OCC indicated it would in development of the Final Guidance), as well as its dialog with industry participants. To foster clarity and efficiency, the Final Guidance should reflect the aggregate views of the U.S. prudential regulators (the Board, the FDIC, and the OCC) and, to the extent possible, consistency with state-level regulators. Inconsistent or uncoordinated guidance is likely to come at the expense of effective risk management.

Internationally headquartered financial institutions develop their risk management and strategic decisions for the consolidated organization at the level of head office, and the institution is subject to the laws and regulations of a non-U.S. jurisdiction on a consolidated, enterprise-wide basis. Consequently, a key consideration for an internationally headquartered financial institution is whether it can use the work that the financial institution does to understand, quantify, and manage climate-related financial risk in one jurisdiction across the organization to meet the expectations of other jurisdictions. Final Guidance that is flexible and principles-based, as the Draft Principles are, will allow for the development of methodologies, models, and data that are fit for multiple purposes across entities and geographies, including both host and home country supervisory expectations. Moreover, additional multinational and international frameworks for data, risk measurement, and other key financial institution tasks will undoubtedly be developed and adopted, and we urge the OCC to maintain sufficient flexibility such that a financial institution's adoption of those international standards will exhibit compliance with U.S. regulatory expectations as well. We believe that Final Guidance that incorporates the principles-based expectations of the Draft Principles would provide internationally headquartered financial institutions with the necessary flexibility to consider the regulatory postures of their home countries and of internationally agreed upon standards.

Even in the context of internationally consistent and comparable risk management guidance, issues will remain that should be addressed through cooperation among regulators. To name just a few examples, entities within an affiliated financial institution group that are subject to the rules of different jurisdictions are likely to encounter inconsistent timing requirements for implementation or for meeting regulatory expectations. Furthermore, the Draft Principles, like other climate-related financial risk management pronouncements by international regulators and standard-setters, use the term "material." Guidance from the OCC and other U.S. regulators should clarify that each institution should be able to make decisions of materiality based on its own facts, circumstances, geographical footprint, home country regulator, and other similar factors. In addition, "materiality" also has a specific meaning in the securities law context, and regulators should acknowledge that the investor focus of the securities laws and their disclosure requirements (including conservative development of forward-looking risk factors) does not

necessarily equate to what may be material for safety, soundness, and risk management purposes. These competing meanings of "materiality" provide just one example of the importance of flexible, principles-based guidance.

D. Any Final Guidance Should Consider the Unique Structure and Governance of Internationally Headquartered Financial Institutions

An important undercurrent to our comments is the theme of adaptability and iteration. We believe that flexible, principles-based Final Guidance in the same vein as the Draft Principles would best accommodate the ever-evolving climate risk management landscape. Supervisory activity stemming from the Final Guidance also should consider the reality that best practices around climate-related financial risk management remain in development and should support rather than dictate the efforts of firms to refine, readjust, and revisit their approaches in light of evolving capabilities and circumstances. To that end, any Final Guidance should constitute "guidance" under the OCC's framework for guidance.[7] We also would expect that the OCC would provide reasonable timeframes for banks to incorporate the principles of the Final Guidance into their risk management processes. Rather than require conformance with the new guidance by a certain date, the Final Guidance should focus on ensuring that banks are working effectively, in good faith, to establish and evolve their climate-related financial risk management practices. Any timeframes for implementing the Final Guidance should reflect and accommodate the iterative nature of climate-related financial risk management, particularly given limitations with respect to models, methodology, and data, as well as potential compliance obligations in different jurisdictions.

We applaud the OCC for its statement that it will tailor the Final Guidance "to reflect differences in banks' circumstances such as complexity of operations and business models." There are many different factors that shape a bank's climate-related financial risk profile (for example, even institutions that are the same size could have very different climate-related risk exposures). As previously mentioned, for internationally headquartered banks operating in the United States, the unique structure of their operations reflects a further need for appropriate tailoring to take into account the fact that enterprise-wide risk management principles, analyses, and business strategies are established by a bank's board and management at head office, and any risk management policies, procedures, and principles applied in the United States must necessarily be consistent with those enterprise-wide mandates. We also would ask that the OCC clarify that the Draft Principles (and subsequent Final Guidance) apply only to federal branches / agencies that have over $100 billion in total consolidated assets at the branch or the agency level and, separately, to internationally headquartered national bank subsidiaries of financial institutions that have over $100 billion in total consolidated assets.

We believe that Final Guidance that reflects the principles-based approach of the Draft Principles would be helpful and effective. If there is any material development of the Draft Principles beyond the high-level approach already taken (as we note that the OCC indicated that it likely would present a more granular Final Guidance taking into account additional views from the Board and FDIC, as well as further research into climate-related financial risk management), we would expect that these developments would be open to additional review and comment to give industry and other stakeholders the chance to weigh in on these important issues.

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[7] OCC, Role of Supervisory Guidance, 86 Fed. Reg. 9253 (Feb. 12, 2021).

We appreciate your consideration of our comments and would welcome the opportunity to discuss these comments and the specific concerns and perspectives of our members.

Sincerely,

Briget Polichene
Chief Executive Officer
Institute of International Bankers
bpolichene@iib.org

cc: Board of Governors of the Federal Reserve System

Federal Deposit Insurance Corporation

New York State Department of Financial Services

ISDA Safe, Efficient Markets

sifma

February 6, 2023

By electronic submission

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Principles for Climate-Related Financial Risk Management for Large Financial Institutions [Docket No. OP–1793]

Dear Ms. Misback:

The International Swaps and Derivatives Association, Inc. and Securities Industry and Financial Markets Association (collectively, the **"Associations"**)[1] appreciate the opportunity to provide input on the Board of Governors of the Federal Reserve System (the "**FRB"**) request for feedback on the Principles for Climate-Related Financial Risk Management for Large Banks (**"Principles**") published in the Federal Register on December 8, 2022.[2]

We appreciate the FRB's intent to closely align the proposed principles with the proposed climate-related financial risk consultations issued by both the Office of the Comptroller of the Currency (**"OCC"**) and Federal Deposit Insurance Corporation (**"FDIC"**). Given the intensifying pace of climate change, it is important to have a continuous dialogue with banking regulators to develop the best approach to the treatment of climate-related financial risks.

With a few exceptions that are set forth below, our comments on the proposed principles are similar to the comments we provided in response to the OCC and the FDIC's proposals.[3] The Associations support the OCC, FDIC and FRB's (collectively, **"agencies"**) goal to ensure the safe management of banks' exposures to climate-related financial risks. We support public sector efforts to establish regulatory principles and

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[1] Please see the Appendix for information regarding each Association.
[2] 87 Fed. Reg. 75267 (December 8, 2022) [hereinafter, "Proposal"].
[3] Our respective comment letters are posted on ISDA's website, available at: https://www.isda.org/2022/02/14/response-to-occ-on-principles-for-climate-related-financial-risk-management/; https://www.isda.org/2022/06/17/isda-and-sifma-respond-to-fdic-on-climate-related-financial-risk-management-for-large-banks/.

guidance surrounding climate-related financial risks that is consistent with the existing risk management operational framework.

Our member banks' risk management practices, in the context of climate-related financial risk, have centered around the identification and evaluation of potential climate-related financial risks under different scenarios, specifically focusing on assessing potential materiality for different risks over different time horizons.[4] These efforts have helped identify some inadequacies and challenges, including data limitations and complexities arising from a variety of different scenarios and time horizons.

Despite these efforts, banks are still at a developmental stage of embedding climate-related financial risks into their existing risk management, governance and business planning frameworks as related to material risks. Therefore, as explained in more detail below, given these challenges, we believe it is currently premature to incorporate climate-related financial risks into capital and liquidity adequacy assessment.

Our comments below focus on five (5) key aspects of the Principles:

- **Data**: The availability of relevant, accurate and timely data is the key impediment in quantifying climate-related financial risks into banks' exposures.
- **Scenario Analysis**: Institutions should have flexibility to create their own model designs with the data available based on principles-based regulatory guidance.
- **Responsibility of the Board and Senior Management**: An effective risk-management framework should clearly distinguish and define the role and responsibility of the board relative to senior management.
- **Considerations Related to U.S. Operations of Foreign Banking Organizations ("FBOs")**: The Principles should clarify what type of U.S. presence renders the Principles applicable, and better reflect how FBOs operate and manage risk in the United States.
- **Regulatory Coordination**: As climate-related financial risks are global in nature, regulators should coordinate on a regional and international basis when establishing principles or guidance that address climate risk.

<u>Data</u>

The key challenge that banks face in incorporating climate-related financial risk into their respective risk management frameworks is the fact that data and tools to measure and quantify climate-related financial risk—and in particular, longer-term transition and physical risks—are only just emerging. Such data will need to undergo substantial exploration, refinement, and adaptation over time. Although data capabilities are

[4] To-date, banks have employed various time horizons in determining climate-related risk.

improving, significant gaps in data sourcing, capture, standardization, and aggregation substantially affect the accuracy of projections and risk assessment. For example, there is a growing disparity between the increasing availability of transition risk data as compared to less available physical risk data. Though even for available transition risk data there persist severe data lags in reporting, sourcing and consumption. Consequently, banks' ability to understand and analyze climate change risks is still evolving.

We agree with the FRB's view that sound risk management is significantly dependent on the availability of relevant, accurate, and timely data. We also appreciate that the Principles provide flexibility for banks to tailor their approach to addressing climate-related risks, and acknowledge that the development of bank risk management frameworks to embed climate-related financial risks is iterative and will continue to evolve alongside wider developments, such as the availability of better quality, and more specific data.[5] Such a flexible approach is important in this area; for example, given the higher liquidity and shorter-term nature of trading book positions, banks may not deem particular climate-related financial risk as material, and thus, should have flexibility around how to incorporate climate risk into market risk measurement.

As drafted, the Principles may be too prescriptive with respect to banks' risk management practices and could contradict the FRB's intent to support a flexible principles-based approach and integration of climate-related risks as proportional to a banks' size, portfolio and businesses mix. We believe that, instead, climate-related risk tolerances should be integrated into existing broader risk-management frameworks.

Accordingly, any additional guidance published subsequent to these Principles should continue to take a flexible approach, encouraging banks to individually consider, with the data then available, how climate-related financial risks impact their business and risk management frameworks.

Scenario Analysis

We agree with the agencies that climate-related scenario analysis is an important tool that can be used to explore the potential impacts of climate-related financial risks on banks' portfolios and the overall business model. We recognize that such an exercise could help understand potential impacts, limitations, and could provide guidance on potential next steps for integrating climate-related financial risk.

We share the agencies' view that firms should develop and implement climate-related scenario analysis frameworks proportional to the bank's size, complexity, business activity, and risk profile. To-date, our members are actively engaged in developing their

[5] Proposal at 75268-75269.

scenario analysis capabilities and running exercises across different parts of their portfolios.

It is important to reach a consensus on available scientific and economic forecasts and a range of scenarios so that individual banks can then tailor their approach to reflect their specific business models and risk profiles. For example, the Network for Greening the Financial System, Representative Concentration Pathways, and International Energy Agency's scenarios can be used as a starting point to meet risk management and other internal scenario analysis needs. In addition, where the Principles apply to FBOs, those firms should also be given flexibility either to rely on the application of scenario analysis at group level, or to apply the scenario analysis developed elsewhere to their relevant U.S. operations.

Currently, publicly available climate scenarios do not provide banks with the appropriate sectoral and regional granularity to translate scenario output into readily consumable inputs for internal risk modeling. For banks, the value of climate scenario analysis can only be fully realized when the science-based or macroeconomic output is expanded into more granular financial impacts that can be applied across a diverse set of client industries and sub-sectors. Additionally, there is still a limited understanding of the climate economic models that drive these scenarios, which makes it more challenging for banks and vendors alike to expand scenario output while staying within the bounds of the model.

At this time, given these challenges, scenario analysis should be considered an exploratory exercise that enables firms to identify key areas of the business model that could be impacted by climate risk (both transition and physical) events. Conducting such exercises should also inform an individual firm's modelling strategies as the industry gradually develops more sophisticated capabilities. Indeed, many of our members are participating in industry-wide initiatives that look into developing scenario analysis frameworks and methodologies to assess climate-related impact. Since these initiatives are at their early stages, any guidance from the agencies should be principle-based and should allow institutions to create their own model designs with the information at-hand. We note that ISDA published a paper in Q4 2022[6] to provide a better understanding of the issues and challenges banks are facing when using scenario analysis for assessing climate risk.

[6] *See* ISDA and EY, Climate Risk Scenario Analysis for the Trading Book (Oct. 2022), *available at* https://www.isda.org/2022/10/20/climate-risk-scenario-analysis-for-the-trading-book/.

Responsibility of the Board and Senior Management

We appreciate that the draft Principles appropriately delineate the role of the board and management with respect to climate-related financial risks. We agree that any final principles should reflect the board's role as an oversight body that provides strategic direction to management and holds management accountable for the implementation of such strategies, including any directives to address climate-related financial risks. We also appreciate that the Principles place more direct responsibilities on monitoring the impact of climate-related financial risks on the banks' management. Such responsibilities are better suited for senior management and key staff who have access to the day-to-day information and can create and amend policies within the bank based on the available information. Blurring the lines between the roles of the board and management could run counter to the Principles' objective of ensuring a strong internal governance structure to address climate-related financial risks. Similarly, we believe that the board should not have direct responsibility over public statements about their institutions climate-related strategies. This responsibility should be left with management as they are better placed to ensure that statements regarding climate-related strategies are linked to climate risk management given that they are responsible for implementing the firm's climate strategies.

In addition, it's important to recognize that banks have different internal structures and may assign responsibilities across the banks in different ways. In order to ensure that climate-related financial risks are appropriately incorporated across a bank's structure, they must be flexible enough to seamlessly fit within various structures. By the same token, the Principles should clarify how board and senior management responsibilities should be applied with respect to FBOs, and should do so in manner that leverages established U.S. risk governance frameworks for FBOs.

Separately, it may be inappropriate for the board to consider changes to compensation policies based solely on climate-related financial risk. Compensation related metrics are currently designed in accordance with FRB guidance to ensure consistency with a bank's strategy, risk appetite, and safety and soundness. Banks are already appropriately calibrating compensation with the firm's priorities.

Accordingly, any final Principles should: (1) clearly delineate between the oversight role of the board versus the obligations of senior management, (2) provide flexibility to account for various bank structures, (3) specify how board and senior management responsibilities should be applied with respect to FBOs in a manner that leverages established U.S. risk governance frameworks for FBOs, (4) not consider changes to compensation policies based solely on climate-related financial risk, and (5) acknowledge that direct responsibilities over public statements related to climate strategies is beyond the scope of the board's responsibilities. Additionally, the FRB should encourage the

FDIC and OCC to finalize their respective proposed principles in line with the approach outlined above.

Considerations Related to FBOs

The FRB should provide more clarity regarding the application of the Principles to FBOs to reflect the governance specificities for how FBOs operate and manage risk in the United States and build upon established FRB U.S. risk expectations and U.S. risk governance frameworks for FBOs.

It's important to recognize that climate-related financial risk management is often an enterprise-wide effort that is routinely developed and coordinated at home office or group-level. Accordingly, FBOs should be able to leverage home office or group-level programs, policies, models, and procedures, and boards should be able to rely on designated U.S. committees and existing U.S. risk governance (e.g., a U.S. risk committee, or other relevant committee or entity) regarding the board oversight of climate-related financial risks in the United States. In addition, FBOs should also be able to rely on U.S.-based management for relevant U.S. climate-related financial risk obligations for senior management.

Moreover, based on footnotes 1, 4 and 8 of the Principles,[7] it is unclear how the Principles may apply to FBOs. The FRB should therefore clarify that the Principles apply to FBOs in a consistent manner based on the size of their combined U.S. operations.

Regulatory Coordination

Given a fast-evolving landscape, the effective global coordination of prudential and supervisory principles is critical. Our members are keen on global financial regulators developing common principles on how to address climate-related financial risks across the financial system.

Global regulatory coordination will allow banks to embed climate-related financial risks into their risk management frameworks, including across operating entities in different

[7] *See* footnote 4 of the Proposal ("In this issuance, the term 'financial institution' or 'institution' includes state member banks, bank holding companies, savings and loan holding companies, intermediate holding companies, foreign banking organizations with respect to their U.S. operations, and non-bank systemically important financial institutions (SIFIs) supervised by the Board."); footnote 8 of the Proposal ("The Board will consider the total consolidated assets of a branch or agency itself for branches and agencies of foreign banking organizations subject to Board supervision").

jurisdictions in a consistent manner. Any finalized Principles should address the need for harmonized supervisory principles, domestically and internationally.[8]

In this regard, we would welcome additional, coordinated guidance from the regulatory community in the following areas:

- Consensus around scientific and economic forecasts and further international coordination and collaboration on the development of climate-risk models;
- Solutions to overcome a lack of relevant granular data and development of robust climate-related financial risk model frameworks; and
- Collaboration between prudential and market regulators to mitigate any unintended negative impacts on capital markets, including transition finance market.

[8] *See, e.g.,* Basel Committee on Banking Supervision, June 15, 2022. *Principles for the effective management and supervision of climate-related financial risks*, https://www.bis.org/bcbs/publ/d532.htm.

ISDA Safe, Efficient Markets

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Conclusion

We appreciate the opportunity to submit our comments in response to the Principles for Climate-Related Financial Risk Management for Large Banks. We commend the FRB for considering these important issues.

Our members are strongly committed to maintaining the safety and efficiency of the U.S. financial markets and recognize that banks have a big role to play in the management of climate-related financial risks. We hope that the FRB will consider our suggestions, as they reflect the extensive knowledge and experience of financial market professionals within our memberships.

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Bella Rozenberg
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SIFMA

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Appendix

Overview of the Associations

Since 1985, **ISDA** has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 79 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.

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June 3, 2022

By electronic submission

James P. Sheesley
Assistant Executive Secretary
Attention: Comments—RIN 3064–ZA32
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Principles for Climate-Related Financial Risk Management for Large Financial Institutions (RIN 3064-ZA32)

Ladies and Gentlemen:

The International Swaps and Derivatives Association, Inc. and Securities Industry and Financial Markets Association (collectively, the **"Associations"**)[1] appreciate the opportunity to provide input on the Federal Deposit Insurance Company (the **"FDIC"**) request for feedback on the Principles for Climate-Related Financial Risk Management for Large Banks (**"Principles"**) published in Federal Register on April 4, 2022.[2]

We note that the FDIC's proposed principles align closely with the proposed climate-related financial risk principles of the Office of the Comptroller (**"OCC"**).[3] With a few exceptions that are set forth below, our comments on the proposed principles mirror the comments we provided in response to the OCC's proposal.[4]

The Associations support both the FDIC's and OCC's (collectively, **"agencies"**) goal to enhance the safe and sound management of banks' exposures to climate-related financial risks. Given the intensifying pace of climate change, it is important to have a continuous dialogue with banking regulators to develop and determine the best approach to the treatment of climate-related financial risks.

We welcome the agencies' principles-based approach to addressing risk management practices related to climate risk. We support public sector efforts to establish regulatory

[1] Please see Appendix for information regarding each Association.
[2] 87 Fed. Reg. 19507 (April 4, 2022).
[3] https://www.occ.gov/news-issuances/bulletins/2021/bulletin-2021-62.html
[4] https://www.isda.org/2022/02/14/response-to-occ-on-principles-for-climate-related-financial-risk-management/

principles and guidance surrounding new and emerging climate-related financial risks that align with the existing risk management regulatory framework. We believe that climate-related financial risks are drivers of existing risks. Accordingly, banks are at a developmental stage in embedding these risks into their existing risk management frameworks.

As an initial matter, we are concerned with a statement in the FDIC's preamble to the proposed principles that was not included in the OCC's proposal. Specifically, the FDIC's preamble states that "the manner in which financial institutions manage climate-related financial risks to address safety and soundness concerns should also seek to reduce or mitigate the impact that management of these risks may have on broader aspects of the economy." We are concerned that this vague statement suggests that financial institutions are subject to an obligation to manage risks in order to lessen the impact of activities "on broader aspects of the economy." This would not only be an unprecedented requirement for financial institutions to have to comply with, but it also could have the unintended impact of forcing banks to develop risk management practices related to the "broader economy" that are impossible to measure in practice. We therefore request that the FDIC delete this reference in the final iteration of these climate-risk guidelines.

Currently, our member banks' risk management practices, in the context of climate-related financial risk, have centered around the identification and evaluation of potential climate-related financial risks under different scenarios, specifically focusing on assessing potential materiality for different risks over different time horizons.[5] These efforts have helped identify some inadequacies and challenges, including data limitations and complexities arising from a variety of different scenarios and time horizons. However, given the various challenges our members face when conducting scenario analysis, as explained in more detail below, we believe it is currently premature to incorporate climate-related financial risks into capital and liquidity adequacy assessment.

Our comments below focus on four (4) key areas that are particularly important to our members as they are an integral part of an effective risk-management framework. These include:

- **Data**: The availability of relevant, accurate and timely data is the key impediment in quantifying climate-related financial risks into banks' exposures.
- **Scenario analysis**: Institutions should have flexibility to create their own model designs with the data available based on principles-based regulatory guidance.
- **Responsibility of the board**: An effective risk-management framework should clearly distinguish and define the role and responsibility of the board relative to senior management.

[5] To-date, banks have employed various time horizons in determining climate-related risk.

- **Regulatory coordination**: As climate-related financial risks are global in nature, regulators should use their best efforts to coordinate on a regional and international basis when establishing principles or guidance that address climate risk.

Data

The key challenge that banks face in incorporating climate-related financial risk into their respective risk management frameworks is the fact that existing data and tools to measure and quantify climate-related financial risk—and in particular, longer-term transition and physical risks—are only just emerging. Such data will need to undergo substantial exploration, refinement, and adaptation over time. Although data capabilities are improving, significant gaps in data sourcing, capture, standardization, and aggregation substantially affect the accuracy of projections and risk assessment. For example, there is a growing disparity between the increasing availability of transition risk data as compared to less available physical risk data. Consequently, banks' ability to understand and analyze physical risks is still evolving.

In this regard, we agree with the agencies' view reflected in the Principles that sound risk management is significantly dependent on the availability of relevant, accurate, and timely data. We also appreciate that the Principles acknowledge that the development of bank risk management frameworks to embed climate-related financial risks is iterative and will continue to evolve alongside wider developments, such as the availability of better quality, and more specific data.

Accordingly, any additional guidance published subsequent to these Principles should take a flexible approach, encouraging banks to individually consider, with the data presently available, how climate-related financial risks impact their particular business and respective risk management frameworks.

Scenario Analysis

We agree with the agencies that climate-related scenario analysis is an important tool that can be used to explore the potential impacts of climate-related financial risks on banks' portfolios and the overall business model. We recognize that such an exercise could enhance efforts to understand potential impacts, limitations, and improve our understanding of what needs to or can be done in the context of climate-related financial risk.

We are supportive of the agencies' view that firms should develop and implement climate-related scenario analysis frameworks in a manner commensurate to the bank's size, complexity, business activity, and risk profile. To-date, our members are actively

engaged in developing their scenario analysis capabilities and running exercises across different parts of their portfolios.

Given liquidity and shorter term nature of trading book positions, banks may not deem this risk as material and should have flexibility around how to incorporate climate into market risk measurement. We support further development of climate scenarios to reach a consensus on available scientific and economic forecasts and a range of scenarios, such that individual banks can then tailor their approach to reflect their bank specific business models and risk profiles. For example, the Network for Greening the Financial System, Representative Concentration Pathways, and International Energy Agency's scenarios can be used to meet regulatory and risk management needs.

Also, publicly available climate scenarios do not provide banks with the appropriate sectoral and regional granularity to directly translate scenario output into readily consumable inputs for internal risk modeling. For banks, the value of climate scenario analysis can only be fully realized when the science-based or macroeconomic output is expanded into more granular financial impacts that can be applied across a diverse set of client industries and sub-sectors. Additionally, there is still a limited understanding of the climate economic models that drive these scenarios, which makes it more challenging for banks and vendors alike to expand scenario output while staying within the bounds of the model.

Given these challenges, scenario analysis should be considered an exploratory exercise, at this point in time, that enables firms to identify key areas of the business model that could be impacted by climate risk (both transition and physical) events. Conducting such exercises should also inform the firm's modelling strategies as the industry gradually develops more sophisticated capabilities. Indeed, many of our members are participating in industry-wide initiatives developing scenario analysis frameworks and methodologies to assess climate-related impact. In this regard, any guidance from the agencies should be principle-based and should allow institutions to have flexibility to create their own model designs with the information at-hand.

Responsibility of the Board

We are concerned that, as drafted, the Principles sometimes inappropriately equate the role of the board to that of the senior management, and thus, improperly assign responsibilities to both the board and senior management interchangeably. For example, the Principles recommend that the board "incorporate climate-related risks into [banks'] internal control frameworks" and "monitor how climate-related financial risks affect the bank's exposure to risk related to changing prices." These types of responsibilities run counter to the board's role as an oversight body that oversees and challenges the executive management team, holding the executive to account. In this regard, we recommend that references to "monitoring" should include only management and not the

board. Such responsibilities are better suited for the senior management and key staff that have access to the day-to-day information and can create and amend policies within the bank based on the available information. Blurring the lines between boards and executives could defy the purpose of strong internal governance.

In addition, the Principles place a significant amount of responsibility on the board with respect to strategic direction as it relates to climate-related financial risk and fail to recognize banks' various internal management structures. For example, the board is expected to determine the bank's "risk appetite" in the context of climate-related financial risk, whilst this is typically the responsibility of senior management. In general, banks may assign these responsibilities in different ways. In certain cases, the board may play a more hands-on role; while in other cases, the senior management designs and crafts the banks' strategic direction, with the board endorsing the plan and providing general oversight.

We provide a few other examples where we think this distinction could be better clarified:

- **Governance section**
  - A materiality concept should be included in this section, as it is elsewhere (e.g., "actively oversee the bank's <u>*material*</u> *risk taking activities*").
  - The general statement "sound governance includes . . ." would benefit from some delineation between board and management responsibilities.
- **Strategic planning section –** "Boards" should not be included in references to public statements as this is beyond the scope of what the board would actually be tasked with, in particular "any" public statement.
- **Credit risk section –** Suggest amending the last sentence to "Management should determine changes to credit risk appetite or <u>*relevant risk management metrics* as a result of *climate risk, which would be approved by the board*</u> ~~these risks~~." The Principles should also clarify that management "determines" and the board approves credit risk appetite.

Accordingly, the Principles would benefit from: (1) more flexibility in acknowledging various bank structures, (2) clear differentiation between the roles of the board and senior management, and (3) recognition that, in general, a board's responsibilities with respect to the governance are distinct from the responsibilities of the bank's senior management.

Regulatory Coordination

Given a fast-evolving landscape, the effective global coordination of prudential and supervisory principles is critical. Our members are keen on global financial regulators

developing common principles of how to address climate-related financial risks across the financial system.

Global regulatory coordination will support banks in embedding climate-related financial risks into their risk management frameworks, including across operating entities in different jurisdictions. Any finalized Principles should address the need for harmonized supervisory principles, domestically and internationally.

In this regard, we would welcome additional, coordinated guidance from the regulatory community in the following areas:

- Consensus around scientific and economic forecasts and further international coordination and collaboration on the development of climate-risk models.
- Solutions to overcome a lack of relevant granular data and development of robust climate-related financial risk model frameworks; and
- Collaboration between prudential and market regulators to mitigate any unintended negative impacts on capital markets, including transition finance market.

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Conclusion

We appreciate the opportunity to submit our comments in response to the Principles for Climate-Related Financial Risk Management for Large Banks. We commend the agencies for their consideration of these important issues. We look forward to the issuance of further guidance relating to climate-related financial risks.

Our members are strongly committed to maintaining the safety and efficiency of the U.S. financial markets and recognize that banks have a big role to play in the management of climate-related financial risks. We hope that the FDIC will consider our suggestions, as they reflect the extensive knowledge and experience of financial market professionals within our memberships.

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February 14, 2022

By electronic submission

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th St. SW, Suite 3E-218
Washington, DC 20219

Re: Docket ID OCC-2021-0023

Ladies and Gentlemen:

The International Swaps and Derivatives Association, Inc. and Securities Industry and Financial Markets Association (collectively, the **"Associations"**)[1] appreciate the opportunity to provide input on the Office of the Comptroller of the Currency's (the **"OCC"**) request for feedback on the Principles for Climate-Related Financial Risk Management for Large Banks (**"Principles"**) released on December 16, 2021.[2] The Associations support the OCC's goal to enhance the safe and sound management of banks' exposures to climate-related financial risks. Given the intensifying pace of climate change, it is important to have a continuous dialogue with banking regulators to develop and determine the best approach to the treatment of climate-related financial risks.

We welcome the OCC's principles-based approach to addressing risk management practices related to climate risk. We support the OCC's efforts to establish regulatory principles and guidance surrounding new and emerging climate-related financial risks that align with the existing risk management regulatory framework. We believe that climate-related financial risks are drivers of existing risks. Accordingly, banks are at a developmental stage in embedding these risks into their existing risk management frameworks.

Currently, our member banks' risk management practices, in the context of climate-related financial risk, have centered around the identification and evaluation of potential climate-related financial risks under different scenarios, specifically focusing on assessing potential materiality for different risks over different time horizons.[3] These efforts have helped identify some inadequacies and challenges, including data limitations and complexities arising from a variety of different scenarios and time horizons.

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We are supportive of the OCC's view that firms should develop and implement climate-related scenario analysis frameworks in a manner commensurate to the bank's size, complexity, business activity, and risk profile. To-date, our members are actively engaged in developing their scenario analysis capabilities and running exercises across different parts of their portfolios.

At present, banks find it difficult to capture the specific impact of a climate-related event on the trading book given the limited availability of useable data (e.g., discount curves or price curves that capture climate risk). We support further development of climate scenarios to reach a consensus on available scientific and economic forecasts and a range of scenarios, such that individual banks can then tailor their approach to reflect their bank specific business models and risk profiles. For example, the Network for Greening the Financial System, Representative Concentration Pathways, and International Energy Agency's scenarios can be used to meet regulatory and risk management needs.

Also, publicly available climate scenarios do not provide banks with the appropriate sectoral and regional granularity to directly translate scenario output into readily consumable inputs for internal risk modeling. For banks, the value of climate scenario analysis can only be fully realized when the science-based or macroeconomic output is expanded into more granular financial impacts that can be applied across a diverse set of client industries and sub-sectors. Additionally, there is still a limited understanding of the climate economic models that drive these scenarios, which makes it more challenging for banks and vendors alike to expand scenario output while staying within the bounds of the model.

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Accordingly, the Principles would benefit from: (1) more flexibility in acknowledging various bank structures, (2) clear differentiation between the roles of the board and senior management, and (3) recognition that, in general, a board's responsibilities with respect to the governance are distinct from the responsibilities of the bank's senior management.

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Global regulatory coordination will support banks in embedding climate-related financial risks into their risk management frameworks, including across operating entities in different jurisdictions. Any final OCC document should address the need for harmonized supervisory principles, domestically and internationally.

In this regard, we would welcome additional, coordinated guidance from the regulatory community in the following areas:

- Consensus around scientific and economic forecasts and range of scenarios and further international coordination and collaboration on the development of climate-risk models and scenarios
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Senior Counsel and Head of Legal and Regulatory Practice Group
ISDA

Carter McDowell
Managing Director and Associate General Counsel
SIFMA

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