U.S. Chamber of Commerce

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

Re: Supervisory and Regulatory Approaches to Climate-related Risks

To Whom It May Concern:

The U.S. Chamber of Commerce's ("Chamber") Center for Capital Markets Competitiveness is pleased to provide comments on the consultation ("Consultation") by the Financial Stability Board ("FSB") on "Supervisory and Regulatory Approaches to Climate-related Risks."

The Chamber believes that practical, flexible, predictable, and durable market-based solutions and mechanisms are at the core of efforts to address climate risk and are reflected in the actions of the Chamber's members. Promoting private sector innovation across industry sectors will be central to solving climate change.

Climate-related financial services policy should also be informed by the best science and observations available and a rigorous assessment of available alternatives, outcomes, and cost-benefit tradeoffs to ensure that the optimal policies are implemented. We must consider the significant progress that the private sector has spurred by committing billions of dollars to research and development that have led to the creation and implementation of innovations that help manage climate risk and accelerate emissions reductions.

Regarding this Consultation on climate-related financial risk, the Chamber appreciates some of the thoughtful proposals, including the FSB's desire to "promote consistent approaches across sectors and jurisdictions." However, we offer the comments below on ways to improve some of the recommendations:

1. Due to the difficulty of measuring transition risk over a long-term horizon, the Chamber does not believe that immediate regulatory intervention is necessary.

Climate-related risk is one of a host of risks that financial institutions must prepare for in their strategic planning. They must institute different strategies to prepare for each type of risk. Many financial institutions are already demonstrating a significant understanding of these risks by integrating strategies to address climate-related risk throughout their organizations over various time horizons. Since a transition to net-zero carbon could take 30-50 years, supervisors should refrain from immediate mandates while companies continue to collect data and incorporate climate risks into their strategic planning.

Financial institutions are also making investments in more climate-smart, modern, resilient infrastructure to reduce overall risks over the asset life cycle. From a climate-risk perspective, financial institutions take into consideration the plausibility and certainty of a risk to determine whether the risk is material. Risks that meet these criteria will warrant greater attention by boards and management. If a financial institution determines that risks are speculative and distant, they generally will not consider them material or give them heightened scrutiny.

Financial institutions should be given the flexibility to determine what is material. We urge the FSB in any future recommendations not to place any undue emphasis on climate-related risks over others in a financial institution's overall risk strategy, which could lead the institutions to spend disproportionate time and resources on climate risks when others are more material.

The Chamber is also concerned about the call in the Consultation for more "granular and specific climate-related information." The Consultation suggests higher reporting standards and/or mandatory reporting and makes numerous references to the financing and exposure to Scope 3 emissions, pushing for more reporting of such activity. As the Chamber noted in our recent letter to the U.S. Securities and Exchange Commission (SEC) on its proposed rule on climate-related disclosures for investors, there are "myriad difficulties that...compromise the usefulness of Scope 3 emissions disclosure."[1] As we recommended to the SEC, instead of mandating Scope 3 emissions… "the SEC should allow companies to disclose Scope 3 emissions on a voluntary basis as each company determines is appropriate."[2] We urge prudential regulators to embrace a similar approach of voluntary disclosure and rather than mandate that financial institutions report Scope 3 emissions financing.

In any case, we ask the FSB to avoid redundant/conflicting reporting mandates that create confusion for financial institutions. Leveraging existing frameworks like the TCFD can allow financial institutions to grow as science and data quality improve, while leaving flexibility for strategic focus in different sectors and varying materiality assessments.

2. Any recommendations of the FSB to supervisors should not be about "greening the financial system."

While we agree that climate risk is serious and that financial institutions need to account for it, we underscore that any tools at the disposal of regulatory bodies should not be used to "green the financial system." The role of regulators is to understand and help financial institutions mitigate risk, which might manifest due to climate change and/or the green energy transition.

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[1] US Chamber Comments on SEC's Proposed Rule on Mandatory Climate Disclosures (June 2022): 4. Found at: https://www.centerforcapitalmarkets.com/letter/u-s-chamber-comments-on-secs-proposed-rule-on-mandatory-climate-disclosures/

[2] Ibid.

The Chamber is opposed to any forthcoming recommendations on climate-related financial risk that are intended to shift capital away from industries or sectors that may have, or are perceived to have, more environmental risk. We urge the FSB not to recommend standards that would determine capital allocation. Capital allocation should be determined by markets, not political decisions. We believe such actions could be inherently subjective and outside the scope of the FSB's charter. We encourage the FSB to limit its focus to supporting financial institutions in their assessment of climate risks only for financial stability purposes.

3. Some of the recommendations conflict with the U.S. state-level regulation of the insurance industry.

An additional consideration related to U.S. insurers is the fact that the states (not the federal government) are the primary regulators of the insurance industry—a system that has worked well. For years, the insurance industry has been forward leaning in addressing the impacts of climate change, taking voluntary actions to address climate-related financial risk, including changes in underwriting, promoting resilience and pre-disaster mitigation for at-risk assets insured by commercial P&C, and changes in long-term investment strategy. This work has not gone unnoticed by regulatory bodies. The U.S. Federal Reserve Board has recognized the health of the insurance industry in the face of climate-related risks: "P&C insurers are one type of financial institution whose leverage may be affected by climate change. Leverage at P&C insurers remained at historically low levels in the first half of 2021. The low leverage allowed P&C insurers to cover claims from recent severe weather events without solvency issues."[3]

Any forthcoming recommendations from the FSB for supervisors should take into account and build upon the work that the U.S. insurance industry and its state-based regulators have already undertaken.

4. The Chamber supports a clear differentiation between "scenario analysis" and "stress testing" and opposes potential new increased capital requirements.

The Consultation seems to draw a distinction between climate scenario analysis exercises and traditional regulatory stress testing exercises, which typically assess the potential impacts of transitory shocks to near-term economic and financial conditions. This is an important distinction:

> "Stress testing for climate change is starkly different from existing macro stress testing and given data and methodology challenges likely to be less reliable. First, the lack of historical data creates important challenges in modeling the interactions between climate, the macroeconomy, and the financial sector, which are necessary requirements in designing plausible and coherent scenarios. Second, climate stress testing attempts to measure outcomes over a much longer time horizon—30 to 50 years rather than nine

[3] Board of Governors of the Federal Reserve System Financial Stability Report (November 2021) at 41. Found at: The Fed - Financial Stability Report – November 2021 (federalreserve.gov)

quarters for macroeconomic stress testing. Third, models that generally relate credit losses to climate risk scenarios require large amounts of information about future counterparty behavior over a long time horizon. Fourth, climate stress tests generally assume that banks take no actions to hedge or reduce exposures to climate risks over that horizon. While macroeconomic stress testing has a similar assumption regarding hedging, and therefore may produce some error over a nine-quarter horizon, this assumption, however, becomes deeply counterfactual over a period of decades."[4]

The Chamber strongly opposes climate stress tests that incorporate new capital requirements. A more qualitative horizon scanning approach to longer time horizons is a more appropriate tool to help understand potential risks to a financial institution's balance sheet and inform its overall risk management strategy. We are concerned with who will be conducting the scenario analysis, whether regulators will be doing the analysis, or whether the responsibility fall to financial institutions or third parties.

Any recommendations aimed at increasing these requirements should take into account the health of the financial system throughout these recent shocks.

Conclusion

As the FSB reviews the current landscape of climate-related risk for financial institutions, it must recognize the remarkable progress that has already been achieved through market-based approaches and practices and increased communication between financial institutions and their customers. Any proposals related to climate risk for financial institutions should afford them the flexibility to adequately adopt disclosures that are appropriate, and should consider their particular business, operations, and financial performance.

The Chamber appreciates the opportunity to comment and stands ready to constructively work with you on these issues going forward.

Sincerely,

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Center for Capital Markets
Competitiveness
U.S. Chamber of Commerce

[4] Bank Policy Institute (BPI), Challenges in Stress Testing and Climate Change (October 2020), https://bpi.com/challenges-in-stress-testing-and-climate-change/