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Creating a climate of change digest

Climate risk regulatory developments in financial services

OCC continues taking a leadership role in bank supervision by stepping out from the pack to survey climate-related risk management maturity at large banks to inform its supervisory expectations.

On January 18, 2022, the Office of the Comptroller of the Currency (OCC) renewed its climate risk management survey of large banks to inform the agency's need for clarification or development of necessary supervisory expectations.[1] The OCC acknowledges "that banks' exposure to climate-related financial risks and their climate risk management practices may vary substantially based on institutions' size, complexity of operations, geographic footprint, business model, and risk profile."[2]

The purpose of the survey, a self-assessment consisting of 17 questions that closed on March 21, 2022, is to help the OCC develop "an understanding of climate risk management practices, specifically as they pertain to climate-related financial risk."[3] The OCC is in an information gathering and learning mode. The agency recognizes that banks are challenging themselves to think long term about their exposure to climate change and to adjust their risk models.[4]

Understandably, large banks are at various stages in their maturity models for climate risk management practices, especially those with significant international exposure. The information collected by the OCC may help banks to understand the path that the agency expects them to follow when developing their risk management practices.[6]

Questions in the OCC's climate survey are reported[5] to include:
What is the current maturity of the bank's climate risk management framework and program?
What best describes the bank's current governance structure that is responsible for management of climate-related financial risks at the bank?
What best describes the bank's plans for a governance structure, in the next 1-3 years, that addresses climate-related financial risks at the bank?
Does the bank's second line of defense currently have processes to oversee climate-related financial risks?
How would you characterize the work to date by internal audit on climate risk management?
Has the bank developed risk appetite statements or risk appetite metrics?
Are data and risk measurement metrics to estimate the bank's exposure to climate-related financial risks provided to senior management and the board?
Who has received training within the bank on climate risk management?
Please describe any climate-related commitments the bank has made (e.g., net-zero emissions) and associated dates below, and upload any related documentation to BankNet.
How is the bank currently using scenario analysis to measure climate-related financial risks?
There are a number of voluntary climate-related reporting frameworks. Please identify and provide recent examples of the disclosure framework used for the bank's own reporting.
Does the bank currently include climate-related financial risks and analysis in credit decisions and the pricing of financial products?
Does the bank have plans to offer new financial products or services related to sustainable finance or climate change over the next 12 months?
What are the short-term (1-2 years) challenges for the bank in identifying, measuring, and managing climate-related financial risks?
What are the long-term challenges (2-5 years) for the bank in identifying, measuring, and managing climate-related financial risks?
Please describe any challenges that OCC-supervised institutions face as they seek to manage climate-related financial risks while also meeting the credit and financial services needs of consumers and communities.
Briefly discuss any other challenges with respect to the development and execution of a climate risk management framework that are within the OCC's purview to address. Please upload any related documentation to BankNet.

The OCC's climate survey could yield critical information about how risk management frameworks have been designed to incorporate climate-related data to measure, monitor, and control the risks.

In a recent interview, the OCC's first Chief Climate Officer, Darrin Benhart, said the first climate-risk exams for banks could occur "at the earliest [in] late 2022 or into 2023." Notably, the climate survey can be viewed within the context of several recent developments.

In the OCC's draft principles issued in December 2021, the agency stated that the "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."[7] Banks will be encouraged to establish processes to identify, measure, and monitor material climate-related risks using exposure analysis, heat maps, climate risk dashboards, and scenario analysis.

Exercises like the climate survey are used to educate management and boards on the implications of climate change and the energy transition, as well as the key risk areas involved. The survey can inform and build on earlier efforts, such as a November 8, 2021 speech by Acting Comptroller Michael Hsu in which he posed five questions that large-bank boards of directors should ask to promote and accelerate improvements in climate risk management practices at their banks.[8]

As banking supervisors continue to develop their responses to these risks, the OCC's draft principles and those of the Basel Committee on Banking Supervision[9] offer insight into the potential trajectory of global supervisory expectations. The areas that continue to pose challenges for regulators and banks include climate-related data gathering, scenario analysis, and stress testing. To address these challenges, regulators will likely continue to assess needs and data gaps and embark on cross-agency information-sharing arrangements.[10]

Banking regulators, like the OCC's chief climate officer, acknowledge that the data and methodologies for assessing climate risk will continue to evolve.[11] Regulation of climate-related financial risk is still in its infancy, especially in the United States, and regulators will continue to actively seek input from the industry on these important topics in the months ahead.

Additional developments[12]

US Senator Elizabeth Warren expresses concerns to Securities and Exchange Commission (SEC) chair over climate disclosure rule delay.

In a letter to SEC Chair Gary Gensler dated February 9, 2021, Senator Warren (D-MA) expressed concerns with the delay in climate rulemaking as "unwarranted and unacceptable" and requested a plan for rulemaking timing in the weeks ahead.[13] In her letter, Senator Warren said the agency has "a responsibility to put in place the strongest rule to ensure that investors are adequately informed about the threats the climate crisis poses to their investments and the broader economy."[14] She told him to send a "clear timeline" for when the disclosure rule would be advanced by February 23, 2022.[15]

Proposed climate rulemaking is still tracking to mid-2022, with human capital management rulemaking to follow closely (likely in April 2022). Based on other recent SEC rulemaking developments, the comment period for the proposed climate disclosure rule could be 60 days (compared with the shorter comment period some observers were speculating). This development still tracks with the potential for a final climate disclosure rule by the end of the calendar year 2022, with an implementation period to be determined.

The Bank of England (BoE) announces a second round of Climate Biennial Exploratory Scenario (BES).

On February 9, 2022, the BoE announced its decision to run a second round of the Climate Biennial Exploratory Scenario (BES), which will involve the banks and insurers that participated in the first round.[16] The BoE has not disclosed the reasons for choosing to run a second round. However, the BoE clarified that the second round will focus on understanding the challenges to participants' business models and their likely responses to those challenges.

Previously, the BoE suggested that the second round of the exercise could explore interactions between participants' responses.[17] This could indicate that the BoE has identified correlations between banks participants' previously disclosed management actions and wishes to understand the concentrations that might arise due to banks' responses to the scenarios.

Additional Deloitte perspective on climate risks

For additional insights, please see our ongoing series on how climate risks are shaping US financial regulatory initiatives and the impact these developments may have on the financial services industry and the broader economy.

- ***Translating banks' climate commitments into action: going green isn't always black and white***
- ***Embedding climate risk into banks' credit risk management***
- ***Centering around sustainability in financial services firms: Navigating risks, finding opportunities***
- ***Addressing the business ramifications of climate risk on banks***

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Endnotes

1. Office of the Comptroller of the Currency (OCC), "Agency Information Collection Requirements; Information Collection Renewal; Comment Request; Climate Risk Range of Practice Questionnaire," 87 Fed. Reg. 2667, January 18, 2022.
2. Ibid.
3. Ibid.
4. Alliance for Innovative Regulation (AIR), "Make money green: Climate, ESG and financial regulation," February 24, 2022.
5. Matthew Bisanz et al., "US OCC extends climate risk survey," Mayer Brown, January 20, 2022.
6. Ibid.
7. OCC, "Principles for Climate-Related Financial Risk Management for Large Banks," December 16, 2021.
8. Michael J. Hsu, "Five climate questions every bank board should ask," speech, OCC, November 8, 2021.
9. Basel Committee on Banking Supervision (BCBS), "Principles for the effective management and supervision of climate-related financial risks," November 16, 2021.
10. Sharon Thiruchelvam, "Benhart: Banks should start revising for OCC's climate exams," Risk.net, February 22, 2022.
11. Ibid.
12. Please note: The US and global regulatory developments highlighted in the newsletter are not exhaustive of all activities occurring between January and mid-February 2022 but rather are a representative sample of them.
13. Senator Elizabeth Warren, "Letter to SEC Chair Gary Gensler," February 9, 2022.
14. Ibid.
15. Ibid.
16. Bank of England (BoE), "Bank of England launches a second round of the Biennial Exploratory Scenario (BES) exercise on financial risks from climate change," news release, February 9, 2022.
17. Ibid.

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