July 11, 2023

U.S. federal financial regulators are beginning to address the systemic financial risks associated with the climate crisis. The 2023 Climate Risk Scorecard provides a summary of their progress in taking concrete action. This effort follows up on our 2021 and 2022 Climate Risk Scorecards. Since then, we have observed movement beyond initial foundational actions towards implementing critical change. To better document regulator actions addressing climate-related financial risks and reflect recent regulator commitments and evolving public expectations, we updated the scorecard to cover July 2022 through June 2023 and expanded the assessment categories to incorporate additional recommendations outlined in the October 2021 Financial Stability Oversight Council's Report on Climate-Related Financial Risk.

TABLE OF CONTENTS

EXECUTIVE SUMMARY ....................................................................................................................................................4

2023 Climate Risk Scorecard ................................................................................................................................................6

Key Findings of the 2023 Scorecard .....................................................................................................................................6

REGULATOR ASSESSMENTS ..............................................................................................................................................9

Treasury ................................................................................................................................................................................9

Mandate ...............................................................................................................................................................................9

Assessments .......................................................................................................................................................................9

Recommendations ..............................................................................................................................................................16

Federal Reserve ....................................................................................................................................................................18

Mandate ..............................................................................................................................................................................18

Assessments .....................................................................................................................................................................19

Recommendations ...........................................................................................................................................................22
<table>
<thead>
<tr>
<th>Agency</th>
<th>Mandate</th>
<th>Assessments</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>OCC</td>
<td>25</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>FDIC</td>
<td>31</td>
<td>31</td>
<td>34</td>
</tr>
<tr>
<td>NCUA</td>
<td>37</td>
<td>37</td>
<td>39</td>
</tr>
<tr>
<td>SEC</td>
<td>42</td>
<td>42</td>
<td>46</td>
</tr>
<tr>
<td>MSRB</td>
<td>47</td>
<td>48</td>
<td>49</td>
</tr>
<tr>
<td>PCAOB</td>
<td>51</td>
<td>52</td>
<td>53</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

Ceres’ annual Climate Risk Scorecard assesses the actions that U.S. federal financial regulators take within their existing authority to address the systemic impacts of climate-related financial risk. The first iteration, published in 2021, found that regulators were behind in acting on these threats. The 2022 Scorecard showed that agencies had made significant progress in addressing climate financial risk.

Our 2023 Scorecard found that the 10 regulators assessed have collectively taken over 100 public actions to address climate-related financial risk between July 2022 and June 2023.

The regulators are still making significant progress as they transition from the initial stages of action – such as dedicating staff and resources – towards progress that is more complex, impactful, and in step with global counterparts – including implementing climate-related financial risk management oversight through supervisory guidance and regulation.

Most of the agencies assessed made meaningful strides in producing research and data on climate financial risk, and all but two have made critical progress in integrating climate risk into their supervision of regulated entities.

Climate-related financial risk permeates capital markets, similar to cyber security risk and the coronavirus pandemic, posing grave threats to financial institutions and markets of all sizes, business models, and geographies.

These climate-fueled extreme weather events are increasing in both frequency and severity.

In 2021, there were 20 separate weather and climate disaster events in the U.S. where losses exceeded $1 billion, costing over $155 billion, according to the National Oceanic and Atmospheric Administration. In 2022, there were 18 separate events where losses exceeded $1 billion, costing at least $165 billion, with Hurricane Ian alone resulting in nearly $113 billion in damages.

In just the last few years, California has experienced a recording-breaking number and size of wildfires, which have taken hundreds of lives, bankrupted the state’s largest utility, left millions without power, and caused three major insurers to date to drop property coverage in the state.

Florida is facing rapidly rising sea levels and now-routine flooding that are eroding coastal property values and wiping out freshwater supplies. Just this year, the Florida legislature was forced to substantially reform its own state-run property insurance corporation as an increasing number of insurance companies flee the state or deny coverage to Floridians – though rates are still nearly three times the national average.

These acute and progressive risks have seriously disrupted the financial sector, as well as the communities they serve.

According to a report issued this year by the National Credit Union Administration (NCUA), at least two credit unions have closed in connection with natural disasters and one-quarter of federally-insured credit unions – comprising one-third of system-wide assets – are located in relatively high or very high-risk geographies. Areas that are least likely to be able to withstand financial stress are also those most likely to bear a disproportionate burden of both the physical and financial impacts.
Despite regulatory advancement, the current understanding of how the increasing frequency and intensity of climate risks will impact the U.S. financial sector is incomplete. Due to the interconnectedness of the U.S. financial system, interactions between risks or compounding effects of multiple concurrent or consecutive climate events could trigger cascading systemic risks or macroprudential contagion, impacting and undermining the integrity of the entire U.S. economy.

The recent collapse of four U.S. banks within two months of each other—three of which were taken over by the Federal Deposit Insurance Corporation (FDIC) before being sold to other banks—demonstrates just how quickly unmanaged risk can sweep through the financial system. Strong capital and disclosure matter. The financial sector must implement stronger management to better assess and capture a broader range of emerging, unpriced risks and contagion channels to understand the potential consequences of unforeseen events.

But financial institutions and capital markets cannot do this on their own. Regulators must continue to strengthen their internal capacity and supervision.

Based on the progress reflected in this year’s scorecard, it is clear that the agencies have established a solid base upon which to implement meaningful climate risk management expectations. The financial regulators must continue to bolster data availability and use their statutory authority to oversee and protect capital markets and the financial sector.

The 2023 Climate Risk Scorecard provides an in-depth and expanded assessment of the overall performance of 10 federal financial agencies in addressing climate-related financial risk. Based on these agency actions and the unique mandates of each, we lay out recommendations for further necessary actions to address climate-related financial risk within the nine categories. These recommendations and the details of each agency’s progress are described in the interactive 2023 Climate Risk Scorecard website.

The 2023 Scorecard assesses nine categories, expanding on the six categories assessed last year to further demonstrate progress by regulators and areas in need of attention. These new categories include increasing transparency of climate risk management activities, conducting climate-related scenario analysis, and bifurcating inclusion of climate risk in supervisory guidance and regulation into two separate categories. This year’s iteration also reintroduces an agency assessed in 2021.

The assessment categories are drawn from the Financial Stability Oversight Council’s (FSOC) October 2021 Report on Climate-Related Financial Risk, which lays out 35 recommendations for financial regulators regarding actions to measure and manage these risks.
2023 Climate Risk Scorecard

This table assesses more than 100 public actions that federal financial regulators implemented between July 2022 and June 2023 to address climate-related financial risk and displays the level of progress they made in nine categories.

### Key Findings of the 2023 Scorecard

Together, the 10 agencies assessed have taken more than 100 additional public actions to address climate-related financial risk. These actions represent a notable shift beyond the initial foundational actions assessed in the first scorecard towards implementing clear climate-related risk management expectations more in step with global counterparts.

Nine regulators have publicly affirmed climate as a systemic risk to the financial system. This public affirmation sends a strong signal to the market and public that federal regulators understand that climate risk may adversely impact their regulated entities as well as the broader economy.
The Public Company Accounting Oversight Board (PCAOB) is still the only regulator that hasn’t publicly affirmed climate as a systemic financial risk since the scorecard was first published in 2021. This is an important, early step that federal regulators must take given the systemic nature of climate-related financial risks and the extent to which it falls under each agency’s mandate and impacts regulated entities.

Mirroring last year’s update, six of the 10 agencies have robust internal climate-related capacities, but this year has seen additional progress from those still developing their staffing and technical expertise. Expanding and investing in sustainable, well-resourced internal capacity ensures the agencies are equipped to effectively handle the complexities of climate risk and its implications for regulated entities. We encourage every agency to share these critical advances with the public.

Importantly, all but two agencies improved transparency regarding their actions to measure and manage climate-related financial risks at their regulated entities. Although this category was not assessed in the previous scorecard iterations, the need for transparency is threaded throughout each category. Certain actions are only impactful when publicly and transparently shared with stakeholders, signaling to the market the agencies’ understanding of climate-related financial risks to their industry and ensuring the financial system is prepared for physical and transition risks. Transparency also helps give the public an understanding of the process and reasoning of how and why regulators are addressing these risks, building trust in that oversight.

The Federal Housing Finance Agency (FHFA) led the way in advancements this year. The agency received the highest score in six assessment categories – the most of any agency assessed. Notably, the FHFA is the only agency to demonstrate significant progress in two categories: including climate risk in supervisory guidance and assessing climate risks to financially vulnerable communities. These are both critical measures in protecting our capital markets, financial institutions, housing, and communities from climate-related financial risks.

For agencies with authority that encompasses consideration of financially vulnerable communities, minimal progress was made. Since last year, only the FHFA and NCUA made progress in addressing the impacts of climate events on financially vulnerable communities, while two – the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) – have not made the public aware of any progress. The FHFA’s Consumer Protection Working Group within its climate committee developed an internal framework to address climate-related impacts on consumers, including underserved communities. The FHFA likewise worked with its GSEs to produce Equitable Housing Finance Plans that incorporated climate resiliency targets and outcomes.

In August 2022, the Federal Reserve System (Fed), Office of the Comptroller of the Currency (OCC), and FDIC received public comments on their proposed rulemaking to modernize the Community Reinvestment Act, which includes climate resiliency investment provisions. While recognizing the implications of the recent banking crisis, we note the agencies have not yet published the final rule or indicated its expected release date.

While every agency should continue enhancing the breadth and depth of their research and data collection, we found that all 10 agencies developed their institutional knowledge on data gaps and climate-related financial risks to their regulated entities since June 2022. The Treasury and FHFA in particular advanced agency capabilities to obtain and analyze the interaction between climate risks and financial services, including impacts specific to vulnerable communities. Notably, the NCUA issued its first analysis on climate risks to credit unions, similarly noting the disproportionate impacts on disadvantaged communities, and the Municipal Securities Rulemaking Board’s 2022 visiting scholar focused on ESG-related disclosures in the municipal securities market.
The U.S. Treasury also displayed impressive progress this year, achieving notable progress in five categories. Overall, the agency implemented more than 30 agency actions – the most of any agency assessed. In addition to scoring highly in five categories and showing some progress in every category within its mandate, the Treasury is the only agency to receive the highest score in improving climate-related disclosure. The Treasury has used its unique position and platform to work with federal, state, and international agencies, expounding the importance of disclosures across the financial sector. This speaks to the administration’s progress on its 2021 Executive Order on Climate-Related Financial Risk, which outlines “a whole-of-government approach to mitigating climate-related financial risk,” and sends an important signal to the agencies about the importance of regulatory standards in managing climate risks.

The SEC has undertaken an impressive effort in response to its landmark proposed rule that would require mandatory climate disclosure from public companies. The agency is currently in the process of reviewing a record-breaking 15,000 comments as part of its work to finalize the rule. The enormity of this evaluation, covering a large range of technical issues, should not be overlooked. The SEC is also the only assessed agency to initiate incorporation of climate-related risk expectations into its regulations.

Critically, the Fed reached a milestone towards ensuring the safety and soundness of the U.S. financial system, announcing the federal government’s first climate-related scenario analysis exercise. This pilot climate scenario analysis exercise will examine how the nation’s six largest banks currently handle climate-related shocks, and where gaps in management may exist. While this is a significant step for the U.S. central bank, it is important to note that at least 31 regulators around the world have already conducted or are currently conducting scenario analysis exercises or stress tests with their supervised banks, allowing those institutions to more accurately measure the risks and assisting smaller banks in building out their own climate risk management frameworks. These exercises vary in approach, scope, and coverage, but many are more complex than the Fed’s pilot, and some may also have capital consequences depending on the results.

Of similar importance, the Fed also issued draft supervisory guidance on climate-related financial risk management for financial institutions with over $100 billion in assets. The Fed, OCC, and FDIC plan to jointly publish final supervisory guidance outlining a high-level framework for the safe and sound management of exposure to climate-related financial risks. Finalizing jointly would ensure consistency and ease compliance, while promoting the resilience of individual firms and our financial system. The NCUA also took its first step towards potential guidance, issuing a request for information on how to bolster its ability to identify and assess climate-related financial risks faced by federally insured credit unions.

The past 12 months have seen the growth of a more sophisticated regulatory environment, with all 10 of the regulators taking steps towards addressing climate-related financial risk management for their supervised entities through data collection, supervisory guidance, and more comprehensive consideration of financially and climate-vulnerable communities. However, the federal financial regulators are still far behind their global peers. With the frequency and intensity of climate-related extreme weather events increasing every year, expectations – and the stakes – for a robust framework are greater than ever.

These agencies can help avert the next banking crisis, but must take more concrete action. Implementation of final guidance documents and publication of final rules to accurately measure and manage climate risk is paramount. Without these tools, institutions and the market cannot make any meaningful, coherent progress, exposing our entire financial system and the people that rely on it to disorderly, unpriced risks.
REGULATOR ASSESSMENTS

The following section provides a detailed overview of each regulator’s progress in the nine assessment categories. This analysis reflects the same information found in the 2023 Climate Risk Scorecard interactive web tool. Based on these actions and the individual responsibilities of each of the different agencies, we lay out recommendations for further necessary actions to address climate-related financial risk within the nine categories.

Treasury

Mandate

The U.S. Department of the Treasury’s mission is to maintain a strong economy and create economic and job opportunities by promoting economic growth and stability at home and abroad, fostering improved governance in financial institutions, and managing the U.S. government’s finances and resources effectively. While Treasury itself has limited direct rulemaking authority over financial entities, it is responsible for policy formulation, promoting economic conditions that protect the integrity of the U.S. financial system, and fostering improved governance in financial institutions.

The Secretary of the Treasury chairs the Financial Stability Oversight Council (FSOC), which is responsible for identifying risks to the financial stability of the country and responding to emerging threats. FSOC facilitates regulatory coordination among financial regulators, facilitates information sharing and collection, designates firms and financial market utilities as系统ically important, and intervenes with firms that pose a threat to financial stability.

The Office of Financial Research (OFR) supports FSOC and member agencies by collecting and providing data to FSOC, performing research, developing tools for risk measurement and monitoring, and assisting member agencies in determining the types and formats of necessary data.

The Office of State and Local Finance (OSLF) coordinates Treasury’s policies on state and local issues, providing research and analysis on infrastructure financing, developing policy responses to fiscally stressed entities, and serving as a central point of contact for state and local finance officials, municipal market regulators, standards bodies, and bankers.

The Federal Insurance Office (FIO) monitors all aspects of the insurance sector, including the extent to which traditionally underserved communities have access to affordable non-health insurance products. It also represents the U.S. on prudential aspects of international insurance matters.

The Treasury works with other federal agencies and international financial institutions to improve the safeguards of our financial systems and prevent economic and financial crises. As noted by FSOC, “[t]he increasing economic effects of climate change imply that climate-related financial risks are an emerging threat to the financial stability of the United States.” By addressing these risks, Treasury is fulfilling its duties to contribute to the greater stability and resiliency of the broader U.S. economy.

Assessments

1. Publicly affirm climate as a systemic risk [Assessment: Green]

The Treasury has consistently and emphatically affirmed climate as a risk to the financial system. Secretary Janet
Yellen and other senior staff have continued to deliver public remarks since the 2022 Scorecard acknowledging the systemic nature of climate-related financial risk:

- Secretary Yellen comments at a meeting with the heads and private sector leads of several of the multilateral development banks (MDBs), underscoring effects of climate risk on vulnerable communities (July 2022)

- Secretary Yellen statement at an FSOC meeting regarding the importance of creating the Climate-related Financial Risk Committee (CFRC) and the work of FSOC member agencies to advance knowledge on climate risk (July 2022)

- Under Secretary Nellie Liang statement following the launch of Treasury’s Climate Hub (July 2022)

- Under Secretary Liang remarks at the OFR’s Climate Implications for Financial Stability Conference (September 2022)

- Deputy Secretary Wally Adeyemo remarks at the BPI Annual Conference on financing transition (September 2022)

- Secretary Yellen remarks at Cypress Creek Renewables on the macroeconomic impacts of climate change (September 2022)

- Secretary Yellen remarks at the Coalition of Finance Ministers for Climate Action meeting on the importance of finance in addressing climate change (October 2022)

- Deputy Secretary Adeyemo remarks on the importance of the Inflation Reduction Act’s focus on equitable climate-related financial incentives (October 2022)

- Superintendent Elizabeth Dwyer statement at an FSOC meeting on climate-related financial risk in the insurance sector, including an update on Hurricane Ian and its effect on local communities (November 2022)

- Director Steven Seitz statement at an FSOC meeting on FIO’s climate-related efforts including the proposed data collection and international engagement (November 2022)

- Assistant Secretary Alexia Latortue statement at COP27 on Treasury’s work to scale up public and private climate finance flows (November 2022)

- OFR Acting Director James Martin remarks at the Financial Stability Conference (November 2022)

- Deputy Assistant Secretary Sandra Lee statement on FSOC’s priorities, which include assessing climate-related financial risk (February 2023)

- Secretary Yellen remarks at the first FSOC Climate-related Financial Risk Advisory Committee that climate risk “can lead to declines in asset values that could cascade through the financial system” (March 2023)

- Assistant Secretary Graham Steele statements at Ceres Global on Treasury’s work to address climate-related risks in the insurance and other financial sectors (March 2023)

- Under Secretary Jay Shambaugh comments regarding need for governments, regulators, and private companies to work together on addressing climate-related financial risks at a Brooking Institution event (April 2023)

- Under Secretary Liang remarks at the International Swaps and Derivatives Association Annual General
Meeting mentioning the importance of developing of voluntary carbon markets (May 2023)

- Secretary Yellen remarks at a global event hosted by the Coalition of Finance Ministers for Climate Action, highlighting Treasury’s steps to address climate risk (June 2023)

Additionally, the Office of Financial Research (OFR) launched its Climate Data and Analytics Hub pilot in July 2022, a tool to help financial regulators assess climate-related financial stability risks, which was absorbed into the Joint Analysis Data Environment (JADE) after initial success with the pilot. Treasury also included addressing climate-related financial risks as one of its five goals in its FY 2022-2026 Strategic Plan, and provided an update on this work in its FY 2022 Agency Financial Report. Treasury’s OIG likewise added climate risks as a new Management Challenge in its 2022 update, stating that Treasury will play a significant role working with other federal agencies, foreign governments, and international financial institutions in addressing climate-related financial risk.

2. Expand internal climate-related capacities [Assessment: Green]

In the FSOC’s 2021 climate report, Treasury noted the creation of what would become OFR's Climate Data and Analytics Hub pilot to coordinate and enhance existing climate-related activities by harnessing tools, capabilities, and expertise from across Treasury and other financial regulators. OFR launched the pilot in July 2022 in partnership with the Federal Reserve Board and the Federal Reserve Bank of New York. The Climate Data and Analytics Hub was intended to help participating agencies integrate “climate-related data with their public supervisory data for a more precise view of the relationship between climate change and financial stability risk,” and is “equipped with statistical and visualization applications that will allow deeper insight into climate-related financial risks and vulnerabilities.”

In April 2023, OFR announced it is developing an expanded and enhanced version of the Climate Data and Analytics Hub, following the successful pilot. The new platform, Joint Analysis Data Environment (JADE), will support comprehensive financial stability research by providing a platform to integrate and analyze a broad spectrum of financial and other relevant data. OFR anticipates releasing the JADE pilot in the second half of 2023 and plans to gradually expand its availability to all FSOC member agencies and include climate-related data.

In February 2022, the Federal Advisory Committee on Insurance (FACI), which provides advice and recommendations to FIO, launched the Climate Related Financial Risk Subcommittee. Similarly, Treasury co-chairs Helsinki Principle 4 (HP4) in the Coalition of Finance Ministers for Climate Action, which focuses on fiscal mitigation and adaptation policies.

In October 2022, Treasury’s FSOC established the Climate-related Financial Risk Advisory Committee (CFRAC) and announced the first 20 committee members. The CFRAC acts in a solely advisory capacity and is intended to assist FSOC in gathering information, conducting analysis, and making recommendations to identify, assess, and mitigate climate-related financial risks. The CFRAC reports to the Climate-related Financial Risk Committee (CFRC), which FSOC established in 2021.

In July 2021, Treasury appointed Graham Steele as assistant secretary of financial institutions. Treasury’s Climate Counselor John Morton, appointed in April 2021 to head Treasury’s Climate Hub (separate from OFR’s Climate Data and Analytics Hub pilot), resigned in December 2022. Treasury’s April 2023 action plan for increasing agency sustainability lists two Climate Hub senior advisors, but no climate counselor to replace John Morton has yet been announced. This action plan also includes implementing a climate literacy program for Treasury staff, with a completion goal of September 2023.
Treasury's 2023 budget request also included a request for funding to support the Climate Hub and related staffing. Likewise, Treasury's FY 2024 budget justification included funding designated to support Climate Hub and JADE resources and staffing.

3. Increase transparency regarding climate-related risk management activities [Assessment: Green]

Treasury has addressed climate-related financial risks as an area of concern in multiple agency publications. In July 2022, the agency published a fact sheet describing FSOC and its member agencies’ progress in addressing climate-related financial risk. FSOC also heard updates from CFRC and other agency officials during five of its last eight public council meetings: July 2022, October 2022, November 2022, December 2022, and February 2023. The November 2022 meeting included an update and discussion on climate-related insurance gaps and FIO’s RFI.

Additionally, Treasury included addressing climate-related financial risks as one of its five goals in its FY 2022-2026 Strategic Plan, provided an update on this work in its FY 2022 Agency Financial Report, added climate risks as a new Treasury OIG Management Challenge in 2022, and included discussion of its climate risk work in FIO’s 2022 Annual Report. Likewise, FSOC included discussions of climate-related risks and member agencies’ progress in its 2022 Annual Report. Treasury also participated in the EU-US Joint Financial Regulatory Forum, which discussed issues related to sustainable finance and management of climate-related financial risks.

4. Assess climate risks on financially vulnerable communities [Assessment: Yellow]

In October 2021, Treasury launched a study with the Financial Literacy and Education Commission (FLEC) on the impact of climate change on communities and households, focusing on low- to moderate-income (LMI) and historically disadvantaged communities. The FLEC Climate Resiliency Committee provided brief updates on its study and report during July and November 2022 FLEC meetings. These FLEC meetings also included further discussion of the financial impacts climate change has in agriculture and housing, particularly for those who are unbanked or in underserved communities.

Treasury also launched a series of roundtable discussions on Inflation Reduction Act programs that incentivize investment in underserved communities: October 2022, April 2023, and April 2023. Relatedly, Treasury and the Internal Revenue Service (IRS) issued two guidance documents on these Inflation Reduction Act programs, which describe program design, application process, and program criteria. In May 2023, Treasury convened a discussion on climate-focused community finance with Community Development Financial Institutions (CDFIs), highlighting how Inflation Reduction Act resources will be targeted to address climate challenges in underserved communities and how CDFIs may access and harness them.

However, no public information or analysis has yet come of the FLEC climate resiliency study, and no research on potential policy solutions or their impacts has been undertaken. Although Treasury previously indicated that the report would be published in 2022, it has since indicated to Ceres that it anticipates releasing the report in 2023. Similarly, although Treasury does not directly oversee financial institutions or the Community Reinvestment Act, it should consider providing recommendations to FSOC member agencies and their regulated entities regarding avenues to identify and address climate-related financial risks specific to LMI and other financial vulnerable communities, with particular focus on how to avoid inadvertently engaging in discriminatory practices (i.e. bluelining).

5. Produce research and data on climate risk [Assessment: Green]

As noted in last year's scorecard, Treasury has identified, inventoried, and planned for additional data collection...
and research on climate-related financial risk. FSOC is also developing climate-related risk indicators for the banking and insurance sectors and for capital markets, including new exposure metrics for bank and insurance holdings of commercial and residential real estate and other asset classes.

Treasury supports FSOC members in their own data collection, providing data it has collected, collection and analysis methodologies, and tools to collect additional data. Specifically, OFR meets with FSOC members to discuss the potential impact of climate change and monitors various sectors of the economy for impacts to financial stability. It is performing a survey of relevant commercial data vendors, government agency data sets, academic data hubs, and other key sources to identify, categorize, and share climate data with FSOC and its members.

OFR's Climate Data and Analytics Hub pilot and upcoming JADE are intended to assist FSOC member agencies identify climate-related data gaps and evaluate how to close those gaps. OFR also held the OFR Climate Implications for Financial Stability Conference in September 2022, which included presentations by climate finance experts and panel discussions on macro-prudential issues, asset valuations, credit markets, stress testing, and financial system externalities. Similarly, Treasury's SECURE integrated tool suite provides a data collection, modeling, and visualization platform to identify the operational links among financial institutions and supporting infrastructure. It also supports analysis of how physical hazards to critical infrastructure may impact financial sector operations.

Treasury also informed Ceres that OFR's Research and Analysis Center (RAC) is working with FSOC's CFRC to prioritize climate datasets that would be helpful in researching climate-related financial risk. To do this work, RAC researchers are primarily using OFR’s Analytical Environment (OFRAE), “which was designed and built specifically for the OFR to securely support computing-intensive work with large datasets.” In 2022, RAC conducted an inventory of available and necessary data for this research and worked with each FSOC agency to gather input on their priorities. It then identified the top priority climate datasets, which included public, academic, and commercial data. Since then, RAC has been working to obtain access to those datasets for OFR and FSOC member agency researchers.

Additionally, FIO issued two RFIs on climate risk in the insurance industry. The 2021 RFI focused on helping the agency better understand which data elements are necessary to accurately assess climate risk, which data elements remain unavailable, and how FIO could collect this data. The 2022 RFI focused on the agency’s proposed data collection relating to insurers’ underwriting metrics and related insurance policy information to help FIO assess climate-related exposures on insurance availability and affordability for policyholders. FIO has indicated it is working on addressing next steps on this proposed data collection.

In June 2023, FIO published a report with an analyzing climate-related issues and supervision gaps in the insurance sector, and provided 20 recommendations to better integrate climate-related considerations into regulation. This is an important report and FIO deserves credit for this valuable research. Treasury also participated in a Brookings event that reviewed the FIO report findings, reactions to the report, and efforts at the state level. Relatedly, Ceres hopes Treasury will provide public updates or outlines on the status of research and data it has obtained through the Climate Hub or other avenues.

6. Conduct climate-related scenario analysis [Assessment: N/A]

This assessment category is not within the Treasury’s mandate or authority.

7. Improve climate-related disclosure [Assessment: Green]
Although Treasury has limited direct rulemaking authority over financial entities, it is responsible for policy formulation and promoting conditions that protect the integrity of the financial system, and has taken some steps towards improving public climate-related disclosure in that role. As noted in last year’s scorecard, Treasury’s Office of State and Local Finance convened a virtual roundtable for state and local governments that included discussion of best practices for climate risk identification and disclosure strategies in the municipal debt market. Secretary Yellen also publicly supported the SEC’s proposed climate disclosure rule.

FIO’s 2021 RFI also included a question on key factors for the insurance sector in developing standardized, comparable, and consistent climate-related financial risk disclosures, such as those set forth by TCFD. Its 2022 RFI focused on data collection from insurers relating to underwriting metrics and related insurance policy information. FIO’s planned climate report may also include an analysis of climate-related disclosures for the insurance sector.

Additionally, Treasury is a member of the Financial Stability Board (FSB) taskforces establishing enhanced climate-related corporate disclosures, a member of G7, and co-chairs the G20’s Sustainable Finance Working Group (SFWG). The SFWG is working to improve approaches to climate-related financial disclosures and reporting, and issued recommendations on improving sustainability reporting and disclosure standards. Following its April 2023 meeting, G7 released a communiqué “urging[ing] the implementation of mandatory climate-related financial disclosures that provide consistent and decision-useful information for market participants.” Treasury also met with asset managers and insurers in September 2022 to discuss opportunities and challenges of climate considerations in investment, including enhanced disclosures.

In its 2022 Annual Report, FSOC included a discussion of climate-related financial risk and recommended FSOC agencies continue to promote consistent, comparable, and decision-useful disclosures that allow investors and financial institutions to consider climate-related financial risks in their investment and lending decisions. FSOC’s CFRC has also served as a key forum for interagency information sharing and coordination to advance the FSOC’s climate report recommendations, including on disclosure.

However, FIO’s climate report is not yet published. Based on the FIO request for information, it is possible their final rule will provide recommendations to update or enhance disclosure requirements. Likewise, Treasury has not yet translated its work with the FSB and G20 into concrete analysis or implementation recommendations for financial institutions or financial regulators.

8. Include climate risk in supervisory guidance [Assessment: Yellow]

Although Treasury has limited direct rulemaking authority over financial entities, it is responsible for policy formulation and promoting conditions that protect the integrity of the financial system and has taken several steps towards assessing climate risk management and assisting financial regulators to address their climate risk-related supervisory efforts. Treasury is a member of the FSB taskforces working to establish effective and consistent supervisory and regulatory approaches to address climate-related risks within the financial sector, and participated in discussions regarding the FSB’s Roadmap for Addressing Climate-related Financial Risks.

The Office of State and Local Finance also reconvened its Summer Series on Resources for the State and Local Government Climate Transition to discuss climate-oriented tools and resources for the municipal sector and how state and local governments can implement opportunities in the Inflation Reduction Act. Similarly, Treasury held a discussion with senior Administration officials and representatives from CDFIs, researchers, and advocates on climate-focused community finance to “help open new channels for access to capital to financially underserved communities ... which are disproportionately impacted by climate events” and how federal resource-
es such as the Inflation Reduction Act’s Greenhouse Gas Reduction Fund will target those issues. A post-discussion listening session was held to hear best practices from CDFIs on climate-focused community finance.

OFR also launched its Climate Data and Analytics Hub pilot to coordinate and enhance existing climate-related activities by harnessing tools, capabilities, and expertise from across Treasury and other financial regulators. The pilot was intended to assist FSOC member agencies assess climate-related financial risks by integrating “climate-related data with their public supervisory data for a more precise view of the relationship between climate change and financial stability risk.” Following the pilot’s success, OFR announced the creation of JADE, which will support financial stability research by providing FSOC agencies a platform to integrate and analyze financial and other relevant data, including on climate risk.

In its 2022 Annual Report, FSOC named climate-related financial risk as one of four key priorities to address risks and vulnerabilities in the financial system. The report included a discussion of this risk and made several recommendations, including: (1) state and federal agencies coordinate to identify, prioritize, and procure data necessary for monitoring climate risk, (2) state and federal agencies continue to collect data on and study climate risk and how it factors into supervisory expectations of regulated entities’ risk management practices, (3) continue to promote consistent, comparable, and decision-useful disclosures that allow investors and financial institutions to consider climate-related financial risks in their investment and lending decisions, and (4) have FSOC agencies enhance coordination of data and risk assessment through the CFRC.

FSOC provides an important forum for facilitating interagency discussions around best practices for climate risk management, and Secretary Yellen has publicly supported the financial regulators’ efforts to manage these risks. At the December 2022 FSOC meeting, Secretary Yellen “said she looked forward to continuing to work with [FSOC] members on this [FSOC] priority in 2023.” FSOC’s CFRC has served as a key forum for interagency information-sharing and coordination to advance the FSOC’s climate report recommendations, including through four working groups focused on data infrastructure, data requirements, risk assessment, and scenario analysis. The CFTC’s CFRAC also plans to enable gathering of information and analysis from a broad array of stakeholders to advance FSOC member agencies’ understanding of climate-related financial risks.

Additionally, FIO’s 2021 RFI included questions on climate-related issues or gaps in the supervision and regulation of insurers, and how FIO should assess the effectiveness of insurance regulatory and supervisory policies in addressing and managing climate-related financial risks. Similarly, FIO’s 2022 RFI, which focused on data collection from insurers, is intended to assist FIO in its assessment of climate-related exposures and help the agency build foundational knowledge to develop more comprehensive approaches to address climate-related financial risks in the future. FIO’s planned climate report will also purportedly include initial analyses of selected at-risk insurance markets. In June 2023, FIO published a report analyzing climate-related issues and supervision gaps in the insurance sector, and provided recommendations to better integrate climate-related considerations into regulation.

However, Treasury has not yet adapted its work with CFRAC, OFR, or the FSB into concrete supervision and regulation recommendations for financial institutions or financial regulators. Relatedly, Ceres hopes Treasury will provide public updates or outlines on the status of research and data it has obtained through the Climate Hub or other avenues.

9. Include climate risk in regulation [Assessment: N/A]

This assessment category is not within the Treasury’s mandate or authority.
Recommendations


The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on the Treasury’s score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
   - Continue to publicly acknowledge the systemic nature of climate-related financial risk in agency speeches and publications.

2. Expand internal climate-related capacities
   - Appoint and announce Treasury’s Climate Counselor/head of the Climate Hub, and staff that report to this appointee.
   - Continue work with the CFRC, CFRAC, FLEC, Basel, NGFS, and other interagency climate risk working groups.
   - Continue internal staff education and training on climate-related financial risks.
   - Update the Treasury’s Climate Action Plan to include how the agency will address climate-related financial risk and support FSOC member agencies, including goals and priorities.

3. Increase transparency regarding climate-related risk management activities
   - Provide updates on its climate risk-related activities outside of its scheduled, cumulative reports and assessments.
   - Establish a designated page on its website to provide updates on completed and ongoing climate risk-related activities, including what the Climate Hub, CFRC, CFRAC, and JADE are working on (such as what research each is undertaking and with which FSOC member agencies); announce other staff assigned to work on these issues, disclose budgets and resources; and other recommendations in this section.

4. Assess climate risks on financially vulnerable communities
   - Actively and transparently engage in interagency coordination on assessing risk to financially vulnerable communities, provide updates, and publish findings.
   - Publish the FLEC Climate Resiliency Group’s report on the climate-related financial impacts to consumers and vulnerable communities.
   - Consider the policy implications of climate-related financial risk supervision and regulation on LMI and BIPOC communities.
   - Provide recommendations and guidance to FSOC member agencies on how to assess climate-related financial risks specific to vulnerable and underserved communities and how to avoid inadvertent injustices.
tently engaging in discriminatory practices (i.e. bluelining).

- Although Treasury does not oversee the CRA, consider issuing recommendations to the Fed, FDIC, and OCC to better align CRA activity with the needs of the communities that banks serve, consistent with a bank's safety and soundness and incorporating climate-related financial risks to LMI and other financially vulnerable communities.

5. Produce research and data on climate risk
   - Provide updates on the agency’s climate risk-related data collection and research, what additional data is needed, and its plan for collecting such data, including information and data collected through FIO’s most recent RFI.
   - Provide easily searchable access to white papers, blogs, infographics, etc. that demonstrate data collection and research on climate-related financial risk.
   - Issue a request for information on available data, models, or other information that could be used, in addition to existing data, to inform the agencies on climate-related risks to the financial system and the economy, including data on the adverse financial effects of climate on LMI communities.
   - Provide support to FFIEC members to conduct a climate risk policy spring to develop common definitions and review current and evolving risks to financial institutions.
   - Provide support to FFIEC members to develop a Climate Risk Assessment Tool similar to the Cybersecurity Assessment Tool to help financial institutions (particularly smaller, community financial institutions) identify their climate-related financial risks associated as well as their preparedness under various climate scenarios and actionable steps to mitigate risks.

6. Conduct climate-related scenario analysis
   - N/A

7. Improve climate-related disclosure
   - Issue recommendations on standards – such as the TCFD framework – for financial institutions and publicly traded companies to ascertain data on their GHG emissions to guarantee that disclosures among institutions are consistent, comparable, and reliable.
   - Draft recommendations, through FIO or other appropriate Treasury offices, regarding public disclosure requirements for the entities it oversees and state insurance offices, and update policies and recommendations to include climate related risks.

8. Include climate risk in supervisory guidance
   - Draft recommendations, through OSLF or other appropriate Treasury offices, to enhance climate risk guidance or requirements for the entities it oversees and state insurance offices.
   - Through FIO, evaluate the adequacy of state insurance regulators’ oversight of climate-related risks.
   - Draft recommendations for FSOC member agencies regarding priority actions to address climate-related financial risks based on each agency’s individual mandate.
Develop a green taxonomy for U.S. financial institutions to identify sustainable economic activities that contribute to climate goals and encourage investors and institutions to implement long-term transition strategies and business model reforms.

Recommend to the Fed that prudential standards and reporting and disclosure requirements for nonbank financial companies and large bank holding companies be made more stringent than for institutions that do not present similar financial stability risks.

Through FIO, recommend that FSOC designate an insurer as an entity subject to regulation by the Fed.

Continue to support expansion of FSOC member agency internal climate risk management capacity.

Continue to include climate-related financial risk provisions in its Strategic Plans and Financial Reports to send a consistent message about climate-related financial risks.

9. Include climate risk in regulation

N/A

These recommendations, all within the Treasury’s mandate and authority, are designed to address climate-related financial risks and protect our capital markets, financial system, and communities.

Federal Reserve

Mandate

The Federal Reserve System (Federal Reserve or Fed) is the central bank of the United States and one of the largest central banks in the global financial system.

The Fed is comprised of the Board of Governors and 12 regional banks, which are the operating arms of the Federal Reserve System. Each reserve bank operates within its own geographic area of the U.S., gathering data and other information about the businesses and the needs of local communities. That information is then factored into policy decisions by the Federal Open Market Committee (FOMC), which sets national monetary policy and makes all decisions regarding the conduct of open market operations, and the Federal Reserve’s Board of Governors, which oversees the reserve banks and ensures the Fed fulfills its statutory responsibilities.

The Fed’s mission is to foster the stability, integrity, and efficiency of the nation’s monetary and financial systems, in order to maximize economic performance. It sets U.S. monetary policy, supervises and regulates financial institutions, monitors financial system risks, and promotes consumer protection. Of particular importance, it supervises bank holding companies and other key financial institutions. The Fed’s potential impact on risk response, management, and mitigation is enormous. Its response to the coronavirus pandemic, to use a current example, underscores the scope and scale of its potential to impact every aspect of the U.S. financial system.

The Fed is responsible for ensuring that supervised financial institutions are resilient to all material risks, both macroprudential and microprudential. Climate risk – and its associated economic and financial market consequences – directly and indirectly impacts bank balance sheets, strategies, and operations, and could increase credit, market, liquidity, and operational risk at financial institutions. Because this will implicate the safety and
soundness of both individual firms and the financial system as a whole, the Fed must understand and address these risks.

**Assessments**

1. **Publicly affirm climate as a systemic risk** [Assessment: Green]

   The Fed has consistently affirmed climate as a risk to the financial system. Since last year’s assessment, the Fed has continued to deliver remarks publicly acknowledging the systemic nature of climate-related financial risk:

   - Vice Chair Michael Barr remarks to U.S. Senate Banking Committee including Fed’s work on climate risk (November 2022)
   - Vice Chair Barr remarks at FSOC meeting regarding the Fed’s two climate-related supervisory priorities and collaboration with the OCC and FDIC in approaching climate-related financial risks (December 2022)

   Additionally, the Fed has included the risks presented by climate change to the financial system in its November 2022 *Supervision and Regulation Report*, November 2022 *Financial Stability Report*, and 2023 Annual Performance Plan. The agency also joined the Network for Greening the Financial System (NGFS) and its Supervision Climate Committee Chair co-leads the Basel Committee’s Task Force on Climate-Related Financial Risks. Importantly, the Fed published draft *Principles for Climate-Related Financial Risk Management for Large Financial Institutions* that largely mirror those published by the OCC and FDIC and announced a pilot climate scenario analysis exercise for the six largest U.S. banks, publishing instructions for the scenarios the banks will conduct in 2023.

   In addition to these public remarks and publications, Ceres is aware of board members and staff who have offered alternative views on the relevance, extent, or urgency of climate-related financial risks.

2. **Expand internal climate-related capacities** [Assessment: Green]

   In 2021, the Fed created the Supervision Climate Committee (SCC), the Financial Stability Climate Committee (FSCC), and the System Climate Network to address climate-related risks to financial stability and recommend how the Fed should incorporate climate risk into its existing supervision framework. The SCC engages with domestic stakeholders and other supervisors from a prudential perspective, while the FSCC assesses climate-related risks to financial stability from a macroprudential perspective. In 2021, the Fed appointed staff to lead the SCC and FSCC, and assigned additional full-time staff to each committee. The Federal Reserve Board and the Federal Reserve Bank of New York are also the first participating agencies in the Treasury’s Climate Hub, launched in July 2022.

3. **Increase transparency regarding climate-related risk management activities** [Assessment: Yellow]

   In its November 2022 *Supervision and Regulation Report*, the Fed flagged that it will work with the OCC and FDIC to provide guidance to large banks on the financial risks of climate change, as it is an emerging risk to the safety and soundness of financial institutions and the stability of the financial system. The Fed states the guidance is intended to help large banks identify, measure, monitor, and manage climate-related risk exposure and incorporate those risks into their risk-management frameworks.

   Both the November 2022 *Supervision and Regulation Report* and the November 2022 *Financial Stability Report* highlight the Fed’s pilot climate scenario analysis exercise, which will assess the resilience of the six largest U.S. banks under different hypothetical climate-related scenarios. The Financial Stability Report also notes that the
Fed is engaging with other central banks, international forums such as the Financial Stability Board (FSB) and Network for Greening the Financial System (NGFS), and other U.S. financial regulators through the FSOC’s Climate-related Financial Risk Committee.

In its 2023 Annual Performance Plan, the Fed identified development of a systemwide supervisory approach to address climate-related financial risks as an objective to promote the safety, soundness, and stability of financial institutions by improving forward-looking risk-identification and assessment capabilities that inform policy and supervision.

However, the Fed does not provide updates on its climate risk research or management activities on its webpage, and does not provide regular updates on its work or outcomes outside of its scheduled, cumulative reports and assessments.

4. Assess climate risks on financially vulnerable communities [Assessment: Yellow]

In January 2023, the New York Fed held an event on equitable growth that focused in part on natural disaster resiliency. The New York Fed also held five invite-only interactive webinars that focused on strategies to finance upgrades to heating, cooling, energy systems, and insulation in New York City’s affordable housing. The webinars followed the publication of a report, Sustainable Affordable Housing: Strategies for Financing an Inclusive Energy Transition. Additionally, the Richmond Fed held an event on how communities are preparing to navigate and build resilience to the impact of extreme weather on local economies.

In May 2022, the Fed, OCC, and FDIC jointly released a notice of proposed rulemaking to amend their regulations implementing the Community Reinvestment Act (CRA), which proposes the inclusion of climate resiliency activities to assist communities prepare for and adapt to climate risks. This is an important step towards climate justice for low- to moderate-income communities, as these communities are more likely to be located in vulnerable areas impacted by natural disasters, which are increasing in frequency and intensity, and are therefore disproportionately burdened by the associated financial risks and losses. Recognizing the recent banking crisis, the agencies have not yet published the final rule or indicated when the final rule will be released.

The Fed’s 2022 draft Climate Principles inquired whether it should modify existing regulations and guidance to address the impact of climate-related financial risks on those communities. The Fed has also indicated that a representative from the Division of Community Affairs is assigned to FLEC on climate work, although this role has not been publicly announced. In March 2023, Vice Chair Barr delivered remarks at the National Community Reinvestment Coalition Just Economy Conference highlighting CRA reform priorities for the forthcoming inter-agency rule, including: advancing the purpose of the statute, addressing changes in the banking sector, providing clarity, consistency and transparency in what counts for CRA credit, and aligning CRA evaluations and data collection to bank size and type.

5. Produce research and data on climate risk [Assessment: Yellow]

In addition to the staff research and webinars highlighted in the 2022 Scorecard, the Fed has continued to participate in discussions centering climate-related financial risk as well as publishing additional research papers:

- San Francisco Fed virtual Seminar on Climate Economics (semimonthly)
- San Francisco Fed blog Understanding Climate Risk: What We Learned from CDFIs (June 2022)
- Fed attended EU-U.S. Joint Financial Regulatory Forum which discussed sustainable finance and management of climate-related financial risks (July 2022)
We note that the publication of these papers does not necessarily indicate concurrence by other members of the research staff or the Board of Governors. In addition to these publications, Ceres is aware of staff papers that have offered alternative views on the relevance, extent, or urgency of climate-related financial risks.

Importantly, the Fed announced in 2022 a pilot climate scenario analysis (CSA) exercise it will conduct to learn how the six largest U.S. banks are assessing and managing climate-related financial risk. The Fed noted that the “[i]nformation collected ... will include detailed documentation of governance and risk-management practices, measurement methodologies, data challenges and limitations, estimates of the potential impact on specific portfolios, and lessons learned from this exercise that could inform any future CSA exercises.”

Additionally, the Fed’s Supervision Climate Committee (SCC) and the Financial Stability Climate Committee (FSCC) are also tasked with gathering key data resources, such as acquiring external data and making existing publicly available climate data more useful for modeling and research capabilities. The Fed also formed the System Climate Network (SCN) to collaborate and develop institutional capacity on climate-related financial risks across the Federal Reserve System. In 2022, the Board of Governors and the New York Fed participated in the
Treasury's Climate Data and Analytics Hub research and computing pilot.

However, the Fed has not provided any public update on the work of these committees beyond the broad description provided in the FSOC report and publication of the CSA instructions. There is no designated page on the Fed’s website for either committee or the SCN, and no public detail regarding the agency’s research collaboration with NGFS or the Basel Committee is available.

6. Conduct climate-related scenario analysis [Assessment: Green]

In September 2022, the Fed announced that it would conduct a pilot climate scenario analysis (CSA) exercise for the six largest U.S. banks, and in January 2023 published instructions for the scenarios the banks would run later that year. Although the CSA is exploratory and will not have capital consequences, the Fed expects the pilot to assist it and the banks understand climate risks the banks are exposed to, how they are currently managing them, and where the gaps in data and risk management are. This is a significant step in addressing climate-related financial risk and protecting the resiliency of U.S. financial markets. Ceres hopes that future iterations of the CSA will include additional banks and scenarios.

7. Improve climate-related disclosure [Assessment: Red]

In its draft climate principles, the Fed requested information on what existing requirements could be modified to capture exposure to climate-related financial risks, but did not specify whether or how it will use the resulting information to review and potentially enhance its existing public disclosure requirements. Although the Fed has the authority to amend uniform disclosure systems such as the Call Report with other Federal Financial Institutions Examinations Council (FFIEC) members, there is no public information to indicate any action in this area.

8. Include climate risk in supervisory guidance [Assessment: Yellow]

The Fed’s December 2022 draft Principles for Climate-Related Financial Risk Management for Large Financial Institutions outlines guidance it expects its regulated entities to follow regarding climate risk management. The Fed, OCC, and FDIC have indicated that they intend to publish final climate principles jointly. However, there is no indication when the final guidance will be published.

9. Include climate risk in regulation [Assessment: Red]

Ceres is not aware of any progress in this category.

Recommendations


The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on the Fed’s score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
o Continue to publicly acknowledge the systemic nature of climate-related financial risk in agency speeches and publications.

2. Expand internal climate-related capacities

o Continue work within the SCC, FSCC, CFRAC, FLEC, Basel, NGFS, and other interagency climate risk working groups.

o Continue internal staff education and training on climate-related financial risks.

o Train bank examiners on climate-related financial risk and how these risks fit within existing risk frameworks.

o Train CRA examiners on the new community development definition for climate resiliency activities.

o Support expansion of financial institutions’ internal climate risk management capacity.

o Establish and announce an internal plan for how the Fed will address climate-related financial risk to its regulated financial institutions, including goals and priorities.

3. Increase transparency regarding climate-related risk management activities

o Establish a designated page on its website to provide updates on completed and ongoing climate risk-related activities, including what the SCC and FSCC are working on (such as what research each is undertaking), announce other staff assigned to the committees, disclose what the committees’ budgets and resources are, and other recommendations in this section.

4. Assess climate risks on financially vulnerable communities

o Actively and transparently engage in interagency coordination on assessing risk to financially vulnerable communities, provide updates, and publish findings, such as advances made with the FLEC Climate Resiliency Group.

o Consider the policy implications of climate-related financial risk supervision and regulation on LMI and BIPOC communities.

o Ensure the inclusion of climate resiliency activities survives and is strengthened in the final CRA rule.

o Provide recommendations and guidance to regulated financial institutions, including in the final Climate Principles, on how to assess climate-related financial risks specific to vulnerable and underserved communities and how to avoid inadvertently engaging in discriminatory practices (i.e. bluelining).

5. Produce research and data on climate risk

o Provide updates on the agency’s climate risk-related data collection and research, what additional data is needed, and its plan for collecting such data.

o Provide easily searchable access to staff papers, blogs, infographics, etc. that demonstrate data collection and research on climate-related financial risk.
• Issue a request for information on available data, models, or other information that could be used, in addition to existing data, to inform the agencies on climate-related risks to the financial system and the economy, including data on the adverse financial effects of climate on LMI communities.

• Leverage the Regional Fed offices, Governor’s Office, and other Federal partners to access research, share best practices, and assess regional climate impacts and vulnerabilities.

• Conduct a horizontal review of large financial institutions that have significant exposure to climate risk to gain a better understanding of strategies and practices for risk identification and management, grouping banks with large exposures to climate risk or banks with loan concentrations in particularly vulnerable geographic areas.

• Conduct a climate risk policy sprint with FFIEC members to develop common definitions and review current and evolving risks to financial institutions.

• Develop a Climate Risk Assessment Tool similar to the Cybersecurity Assessment Tool with FFIEC members to help financial institutions (particularly smaller, community financial institutions) identify their climate-related financial risks associated as well as their preparedness under various climate scenarios and actionable steps to mitigate risks.

6. Conduct climate-related scenario analysis

• Conduct climate scenario analysis exercises with additional financial institutions to assess safety and soundness and ability to withstand climate impacts, starting with those over $100 billion in assets, moving to over $50 billion then over $10 billion, and eventually to all regulated financial institutions irrespective of asset size.

• Conduct climate scenario analysis exercises and stress tests that include physical and transition risks, disorderly transition, concurrent and consecutive risks, insurance gaps, impacts on multiple traditional risk categories, short- and long-term horizons, etc.

• Increase capital requirements or buffers where the results indicate insufficient levels to absorb losses.

7. Improve climate-related disclosure

• Amend uniform disclosure systems such as the Call Report with other FFIEC members.

• Amend the Uniform Bank Performance Report (UBPR) to create standardized measurements of climate risk at individual institutions as well as risks among peer groups and in the aggregate, allowing examiners to assess a bank's financial condition and risks and to compare an institution with its peers. As a publicly accessible report, the UBPR is widely used by industry to conduct a peer analysis.

• Issue guidance that provides standards – such as the TCFD framework – for financial institutions to ascertain data on their GHG emissions to guarantee that disclosures among institutions are consistent, comparable, and reliable.

8. Include climate risk in supervisory guidance

• Finalize the Climate Principles jointly with the OCC and FDIC.

• Issue additional detailed, binding guidance on climate risk management, including scenario analysis
guidance, net zero transition plans, and what banks need to do to meet their net zero commitments.

- Expand guidance to smaller financial institutions, and account for the unique risks (i.e. geographic and sectoral concentration) these institutions face, while tailoring guidance to reflect these differences and supporting the education of bank boards and management on climate risk and why it matters to their bank.

- Continue to include climate-related financial risk provisions in the Supervision and Regulation Reports to send a consistent message to financial institutions about supervisory expectations.

- Issue Supervision and Regulation Letters on climate-related financial risk to regulated banks and bank holding companies to acknowledge that climate poses risks to the financial system and individual financial institutions, indicate that it is part of the Fed’s supervisory expectations, and provide guidance on how to identify and monitor those risks.

- Issue guidance through the FFIEC to raise awareness of climate risks, encourage financial institutions to integrate climate risks into their enterprise risk frameworks, and provide guidance on how to measure and mitigate risks, including through best practices.

- Explicitly integrate climate risk into CAMELS ratings and bank examinations.

9. Include climate risk in regulation

- Propose and issue detailed regulation for climate-related financial risk management requirements.

*These recommendations, all within the Fed’s mandate and authority, are designed to address climate-related financial risks and protect our financial institutions, financial system and communities.

---

**OCC**

**Mandate**

The Office of the Comptroller of the Currency (OCC) is an independent bureau of the U.S. Department of the Treasury. The OCC charters, regulates, and supervises all national banks, federal savings associations, thrift institutions, and federal branches and agencies of foreign banks. The OCC coordinates with the FDIC and Federal Reserve on maintaining the safety and soundness of the U.S. banking sector.

The OCC ensures that the banks it supervises operate in a safe and sound manner, provide fair access to financial services, treat customers fairly and equally, and comply with applicable laws and regulations. The OCC helps banks be leaders in safe and sound community development financing and in making financial services accessible to underserved communities and consumers.

OCC examiners conduct on-site reviews of banks and provide ongoing supervision of the banks’ operations. The OCC issues rules and regulations that govern the banks it supervises, taking supervisory actions against banks that do not comply with these statutes or that otherwise engage in risky practices.

If climate risk remains unaddressed in the economy by regulators, financial institutions across the country will face risks throughout their lending portfolios. Climate risk – and its associated economic and financial mar-
ket consequences – directly and indirectly impacts bank balance sheets, strategies, and operations, and could increase credit, market, liquidity, and operational risk at financial institutions. Because this will implicate the safety and soundness of both individual firms and the financial system as a whole, the OCC must understand and address these risks.

Assessments

1. Publicly affirm climate as a systemic risk [Assessment: Green]

The OCC has consistently affirmed climate as a risk to the financial system since the previous scorecard. Acting Comptroller Michael Hsu and Chief Climate Risk Officer Nina Chen have continued to deliver public remarks since the 2022 Scorecard acknowledging the systemic nature of climate-related financial risk:

- Acting Comptroller Hsu speech discussing climate risk management and the Community Reinvestment Act as priorities (September 2022)
- Acting Comptroller Hsu testimony in front of the Senate Committee on Banking, Housing, and Urban Affairs noting climate risk as one of OCC’s four regulatory priorities (November 2022)
- Chief Climate Risk Officer Chen remarks at Ceres webinar on federal financial regulator progress on climate-related financial risk (December 2022)
- Acting Comptroller Hsu remarks at FSOC meeting supporting the Fed’s issuance of draft Climate Principles and collaboration with the Fed and FDIC in approaching climate-related financial risks (December 2022)


2. Expand internal climate-related capacities [Assessment: Green]

In September 2022, the OCC announced the establishment of the Office of Climate Risk and appointment of Nina Chen as its chief climate risk officer. The Office has at least one other full-time staff analyst and reports directly to the acting comptroller. It is tasked with overseeing the OCC’s activities pertaining to climate-related financial risks and supervision, including developing communication guidance and training for examiners and other OCC staff, co-leading the development of policies on climate-related financial risk supervision, developing examination strategy guidance and review of strategies for largest financial institutions with over $100 billion in assets, and promoting interagency collaboration and knowledge sharing.

3. Increase transparency regarding climate-related risk management activities [Assessment: Yellow]

The OCC has addressed climate-related financial risks as an area of concern in multiple agency publications. In its FY23 2023 Bank Supervision Operating Plan, the OCC stated that it would continue information gathering efforts and conduct additional industry outreach. The Plan also stated that examiners will monitor the development of climate-related financial risk frameworks at the largest banks and engage with bank management to
understand the challenges banks face, including limits on data, governance, and procedures, as well as strategic planning, scenario analysis capabilities and techniques, and incorporation into current risk management processes.

In its Fall 2022 Semiannual Risk Perspective, the OCC noted that it is actively engaged with the Financial Stability Oversight Council’s (FSOC) newly established Climate-related Financial Risk Committee (CFRC). The Perspective also noted that OCC examiners are continuing to develop an understanding of banks’ efforts in integrating climate-related financial risks into their risk management frameworks.

In its 2022 Annual Report, the OCC flagged that it is still considering comments it received in response to its draft 2021 Climate Principles and is working with the Fed and FDIC to determine the next steps in this area. The Report also flagged the agency’s interactions with community banks regarding their experiences handling acute weather events.

However, the OCC does not provide updates on its climate risk research or management activities on its designated webpage, and does not provide regular updates on its work outside of its scheduled, cumulative reports and assessments.

4. Assess climate risks on financially vulnerable communities [Assessment: Yellow]

The OCC's 2021 draft Climate Principles inquired whether it should modify existing regulations and guidance to address the impact of climate-related financial risks on those communities.

In May 2022, the OCC, FDIC, and Fed jointly released a notice of proposed rulemaking (NPR) to amend their regulations implementing the CRA, which proposes the inclusion of climate resiliency activities to assist communities prepare for and adapt to climate risks. This is an important step towards climate justice for low-to-moderate income communities, as these communities are more likely to be in vulnerable areas impacted by natural disasters, which are increasing in frequency and intensity, and are disproportionately impacted by the associated financial risks and losses.

However, the agencies have not yet published the final rule or indicated when the final rule will be released. Similarly, the OCC has not indicated whether it is actively engaged with FLEC and other FLEC members to understand the impacts of climate-related financial risks on vulnerable communities.

5. Produce research and data on climate risk [Assessment: Yellow]

In 2021, the OCC established the internal Climate Risk Implementation Committee to address climate risk, and a senior leadership roundtable for OCC decision-makers to discuss climate change-related issues affecting the OCC and banks. However, the OCC has not provided any public update on what these groups are focusing on other than the broad description provided in the FSOC report, and no related information is available on the OCC’s climate webpage.

Additionally, the OCC has made progress in collecting and requesting the data it needs to assess climate risk through public requests for information and comment. This includes requesting papers and research on climate risk and finance in banking, convening a symposium to discuss academic papers and policy research on climate risk in banking and finance, publishing the Principles for Climate-Related Financial Risk Management for Large Banks with a request for feedback, and requesting information from industry on climate risk management practices through the Climate Risk Range of Practice Questionnaire.
In its 2022 Bank Supervision Operating Plan, the OCC asserted that it will continue information gathering efforts and conduct additional industry outreach. It also indicated that examiners should focus on establishing a baseline understanding of the effects of physical and transition risks at the largest banks, including the development of climate risk management frameworks and governance processes. Likewise, the agency has conducted a “range of practice” activity review at the largest banks and is engaging with relevant stakeholders and larger banks to gather information as they build capabilities and risk management processes evolve.

In its update for the FSOC report, the OCC stated that its economists are conducting research into how the physical and transition risks of climate change translate into financial risks to the banking system, how these risks may create differential community impact and disproportionately affect certain groups, and how the OCC can develop an independent view of rating a bank’s exposure to climate risk.

6. Conduct climate-related scenario analysis [Assessment: Red]

Ceres is not aware of any progress in this category.

7. Improve climate-related disclosure [Assessment: Red]

In its climate principles, the OCC requested information on what existing requirements could be modified to capture exposure to climate-related financial risks but did not specify whether or how it will use the resulting information to review and potentially enhance its existing public disclosure requirements. Although the OCC has the authority to amend uniform disclosure systems such as the Call Report with other Federal Financial Institutions Examinations Council (FFIEC) members, there is no public information to indicate any action in this area.

8. Include climate risk in supervisory guidance [Assessment: Yellow]

The OCC’s December 2021 draft Principles for Climate-Related Financial Risk Management for Large Financial Institutions outlines guidance it expects its regulated entities to follow regarding climate risk management. The OCC, FDIC, and Fed have indicated that they intend to publish final climate principles jointly. However, there is no indication when the final guidance will be published.

9. Include climate risk in regulation [Assessment: Red]

Ceres is not aware of any progress in this category.

**Recommendations**


The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on the OCC’s score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
1. Continue to publicly acknowledge the systemic nature of climate-related financial risk in agency speeches and publications.

2. Expand internal climate-related capacities
   - Continue work within the CFRAC, FLEC, Basel, NGFS, and other interagency climate risk working groups.
   - Continue internal staff education and training on climate-related financial risks.
   - Train bank examiners on climate-related financial risk and how these risks fit within existing risk frameworks.
   - Train CRA examiners on the new community development definition for climate resiliency activities.
   - Support expansion of financial institution internal climate risk management capacity.
   - Establish and announce an internal plan for how the OCC will address climate-related financial risk to its regulated financial institutions, including goals and priorities.

3. Increase transparency regarding climate-related risk management activities
   - Update the Office of Climate Risk’s designated webpage to provide updates on completed and ongoing climate risk-related activities, including what the office is working on, announce other staff assigned to the office, disclose what the office’s budget and resources are, and other recommendations in this section.

4. Assess climate risks on financially vulnerable communities
   - Actively and transparently engage in interagency coordination on assessing risk to financially vulnerable communities, provide updates, and publish findings, such as advances made with the FLEC Climate Resiliency Group.
   - Consider the policy implications of climate-related financial risk supervision and regulation on LMI and BIPOC communities.
   - Ensure the inclusion of climate resiliency activities survives and is strengthened in the final CRA rule.
   - Provide recommendations and guidance to regulated financial institutions, including in the final Climate Principles, on how to assess climate-related financial risks specific to vulnerable and underserved communities and how to avoid inadvertently engaging in discriminatory practices (i.e. bluelining).

5. Produce research and data on climate risk
   - Provide updates on the agency’s climate risk-related data collection and research, what additional data is needed, and its plan for collecting such data.
   - Provide easily searchable access to white papers, blogs, infographics, etc. that demonstrate data collection and research on climate-related financial risk.
- Issue a request for information on available data, models, or other information that could be used, in addition to existing data, to inform the agencies on climate-related risks to the financial system and the economy, including data on the adverse financial effects of climate on LMI communities.

- Conduct a horizontal review of large financial institutions that have significant exposure to climate risk to gain a better understanding of strategies and practices for risk identification and management, grouping banks with large exposures to climate risk or banks with loan concentrations in particularly vulnerable geographic areas.

- Conduct a climate risk policy sprint with FFIEC members to develop common definitions and review current and evolving risks to financial institutions.

- Develop a Climate Risk Assessment Tool similar to the Cybersecurity Assessment Tool with FFIEC members to help financial institutions (particularly smaller, community financial institutions) identify their climate-related financial risks associated, as well as their preparedness under various climate scenarios and actionable steps to mitigate risks.

6. Conduct climate-related scenario analysis

- Design and conduct climate scenario analysis exercises with financial institutions to assess safety and soundness and ability to withstand climate impacts, starting with those over $100 billion in assets, moving to over $50 billion then over $10 billion, and eventually to all regulated financial institutions irrespective of asset size.

- Conduct climate scenario analysis exercises and stress tests that include physical and transition risks, disorderly transition, concurrent and consecutive risks, insurance gaps, impacts on multiple traditional risk categories, short- and long-term horizons, etc.

- Increase capital requirements or buffers where the results indicate insufficient levels to absorb losses.

7. Improve climate-related disclosure

- Amend uniform disclosure systems such as the Call Report with other FFIEC members.

- Amend the Uniform Bank Performance Report (UBPR) to create standardized measurements of climate risk at individual institutions, as well as risks among peer groups and in the aggregate, allowing examiners to assess a bank’s financial condition and risks and to compare an institution with its peers. As a publicly accessible report, the UBPR is widely used by industry to conduct a peer analysis.

- Issue guidance that provides standards – such as the TCFD framework – for financial institutions to ascertain data on their GHG emissions to guarantee that disclosures among institutions are consistent, comparable, and reliable.

8. Include climate risk in supervisory guidance

- Finalize the Climate Principles jointly with the Fed and FDIC.

- Issue additional detailed, binding guidance on climate risk management, including scenario analysis guidance, net zero transition plans, and what banks need to do to meet their net zero commitments.

- Expand guidance to smaller financial institutions, and account for the unique risks (i.e. geographic
and sectoral concentration) these institutions face, while tailoring guidance to reflect these differences and supporting the education of bank boards and management on climate risk and why it matters to their bank.

- Issue guidance through the FFIEC to raise awareness of climate risks, encourage financial institutions to integrate climate risks into their enterprise risk frameworks, and provide guidance on how to measure and mitigate risks, including through best practices.

- Incorporate climate-related financial risk into the relevant Comptroller’s Handbooks to acknowledge that climate poses risks to the financial system and individual financial institutions, indicate that it is part of the OCC’s supervisory expectations, and provide financial institutions and examiners guidance on how to identify and monitor those risks based on established risk factors that are very familiar to banks and examiners.

- Explicitly integrate climate risk into CAMELS ratings and bank examinations.

9. Include climate risk in regulation

- Propose and issue detailed regulation for climate-related financial risk management requirements.

*These recommendations, all within the OCC’s mandate and authority, are designed to address climate-related financial risks and protect our financial institutions, financial system and communities.

**FDIC**

**Mandate**

The Federal Deposit Insurance Corporation (FDIC) is a government corporation providing deposit insurance to depositors in U.S. commercial banks and savings banks, individually and together. The FDIC coordinates with the Federal Reserve, the OCC, and state banking regulators to maintain the safety and soundness of the U.S. banking sector. The FDIC is also responsible for protecting the Deposit Insurance Fund (DIF) – the reserve of money devoted to insuring deposits of individuals covered by the FDIC – from threats to the banking system.

If climate risk remains unaddressed in the economy by regulators, banks across the country will face credit and liquidity risks throughout their lending portfolios and operations. Large increases in loan defaults could cause bank failures, requiring FDIC intervention. If banks start to fail, public confidence in the DIF itself and its federal guarantees could be threatened.

**Assessments**

1. Publicly affirm climate as a systemic risk [Assessment: Green]

The FDIC has affirmed climate as a risk to the financial system. Since last year’s scorecard, Chair Martin Gruenberg has made additional public remarks acknowledging the systemic nature of climate-related financial risk:

- Chair Gruenberg remarks at the American Bankers Association Annual Convention on the financial risks of climate change (October 2022)
• Chair Gruenberg remarks at the International Association of Deposit Insurers conference on the importance of deposit insurers considering climate risk (October 2022)

• Chair Gruenberg remarks the National Association of Affordable Housing Lenders (November 2022)

• Chair Gruenberg testimony in front of the U.S Senate Banking Committee on FDIC’s continued efforts to address climate risk “through a thoughtful and measured approach” (November 2022)

• Chair Gruenberg remarks at an FSOC Open Session regarding climate-related financial risks and collaboration with the Fed and OCC in approaching climate-related financial risks (December 2022)

Additionally, the FDIC addressed climate-related risks to banks as an area of concern and an emerging issue in its 2021 Annual Report and 2022 Annual Performance Plan, and a key risk to banks in its 2022 Risk Review. The FDIC also announced the interdisciplinary Climate Working Group, involving senior management across the FDIC, which will provide research and analysis on climate-related financial risks. The FDIC also became a member of the Network for Greening the Financial System (NGFS) in April 2022.

Most notably, the FDIC published, with the Fed and OCC, draft Principles for Climate-Related Financial Risk Management for Large Financial Institutions in March 2022 and requested feedback on the principles. These climate principles describe the physical and transition risks financial institutions are likely to face from climate change and outline general actions they should take to address these risks.

2. Expand internal climate-related capacities [Assessment: Yellow]

In February 2022, the FDIC established the interdivisional, interdisciplinary Climate Working Group, and has indicated that staff are developing subject matter expertise in this area. However, the agency has not publicly announced appointments to lead and staff the working group.

3. Increase transparency regarding climate-related risk management activities [Assessment: Yellow]

The FDIC has addressed climate-related financial risks as an area of concern in multiple agency publications, including its 2021 Annual Report, 2022 Annual Performance Plan, 2022 Risk Review, and 2022 Annual Report. The FDIC also announced its interdisciplinary Climate Working Group in February 2022, added climate-related financial risk to its Risk Inventory as part of the FDIC’s Enterprise Risk Management (ERM) program in November 2022, and in April 2023 noted its participation in the efforts of the Council of Inspectors General on Financial Oversight to assess FSOC’s efforts to address the requirements of Executive Order 14030.

In addition to the public statements highlighted in 2022’s Scorecard, Chair Gruenberg has since delivered remarks at the October 2022 ABA Annual Convention on the financial risks of climate change; the October 2022 IADI conference on the importance of deposit insurers considering climate risk; and the November 2022 National Association of Affordable Housing Lenders. The Chair also testified in front of the U.S Senate Banking Committee in November 2022 on FDIC’s continued efforts to address climate risk “through a thoughtful and measured approach” and made remarks at FSOC’s December 2022 Open Session regarding climate-related financial risks.

The FDIC does not have a designated webpage for its Climate Working Group. We are not aware of any regular updates on its work outside of its scheduled, cumulative reports and assessments.

4. Assess climate risks on financially vulnerable communities [Assessment: Yellow]
Research highlighted in the FDIC’s 2022 Annual Performance Plan included an assessment of the effects of climate events on low- and moderate-income areas. Likewise, the Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions published by the FDIC in March 2022 inquired whether the FDIC should modify existing regulations and guidance to address the impact of climate-related financial risks on those communities.

In May 2022, the FDIC, Fed, and OCC jointly released a notice of proposed rulemaking (NPR) to amend their regulations implementing the CRA, which proposes the inclusion of climate resiliency activities to assist communities prepare for and adapt to climate risks. This is an important step towards climate justice for low- to moderate-income communities, as these communities are more likely to be located in vulnerable areas impacted by natural disasters, which are increasing in frequency and intensity, and are therefore disproportionately burdened by the associated financial risks and losses. During the National Community Reinvestment Coalition’s 2023 Just Economy Conference, Chair Gruenberg noted the FDIC’s role in understanding the risks climate poses to the services banks provide to communities. The agencies have not yet published the final rule or indicated when the final rule will be released.

Similarly, the FDIC has not indicated whether it is actively engaged with FLEC and other FLEC members to understand the impacts of climate-related financial risks on vulnerable communities.

5. Produce research and data on climate risk [Assessment: Yellow]

In 2021, the FDIC’s Center for Financial Research issued a call for papers on finance and climate change for the FDIC’s Annual Bank Research Conference, which included several sessions and papers on finance and climate change. In 2022, the FDIC began working with both the Financial Stability Board’s Resolution Steering Group and the Basel Committee on Banking Supervision’s Climate Committee. The FDIC also assigned a staff member to FSOC’s Climate-Related Financial Risk Committee.

The FDIC’s 2021 and 2022 Annual Performance Plans note the agency is conducting research related to the potential impact of climate change on the financial sector and the effects of climate events on local economic and banking conditions, including a review of six of the most severe weather events in U.S. history. However, the FDIC has not made this information public, including whether it has identified and reviewed the information it has or needs to conduct climate risk assessments, and what plan it has made for obtaining additional necessary information.

In June 2022, the FDIC published a Staff Studies Report on Severe Weather Events and Local Economic and Banking Conditions. The report summarizes the net effect of six of the most severe weather events over the past two decades on local economic conditions and the structure of the local banking landscape, including the impacts on low- to moderate-income communities and community banks. In July 2022, the FDIC attended the EU-US Joint Financial Regulatory Forum, where participants discussed climate-related financial risks and the European Central Bank presented the aggregate results of its climate risk stress test.

6. Conduct climate-related scenario analysis [Assessment: Red]

Ceres is not aware of any progress in this category.

7. Improve climate-related disclosure [Assessment: Red]

Although the FDIC has the authority to amend uniform disclosure systems such as the Call Report with other Federal Financial Institutions Examinations Council members, there is no public information to indicate any ac-
tion in this area. In its climate principles, the FDIC requested information on what existing requirements could be modified to capture exposure to climate-related financial risks but did not specify whether or how it will use the resulting information to review and potentially enhance its existing public disclosure requirements.

8. Include climate risk in supervisory guidance [Assessment: Yellow]

The FDIC’s March 2022 draft Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions outlines guidance it expects its regulated entities to follow regarding climate risk management. The FDIC, OCC, and Fed have indicated that they intend to publish final climate principles jointly. However, there is no indication when the final guidance will be published.

Recognizing the seriousness of severe weather impacts on financial institutions and customers, within the last year, the FDIC released several guidance letters outlining steps for regulatory relief and recovery in affected areas including, Puerto Rico, Mississippi, Arkansas, Tennessee, and Guam. In accordance with their guidance, FDIC-supervised financial institutions can receive CRA credit for community development loans, investments, and services in support of disaster recovery.

9. Include climate risk in regulation [Assessment: Red]

Ceres is not aware of any progress in this category.

Recommendations


The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on the FDIC’s score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
   o Continue to publicly acknowledge the systemic nature of climate-related financial risk in agency speeches and publications.

2. Expand internal climate-related capacities
   o Establish an office and/or committee(s) to focus on climate-related financial risk.
   o Appoint senior leadership and staff to the office and/or committee(s) focusing on climate-related financial risk.
   o Continue work within the CFRAC, FLEC, Basel, NGFS, and other interagency climate risk working groups.
   o Continue internal staff education and training on climate-related financial risks.
- Train bank examiners on climate-related financial risk and how these risks fit within existing risk frameworks.

- Train CRA examiners on the new community development definition for climate resiliency activities.

- Support expansion of financial institution internal climate risk management capacity.

- Establish and announce an internal plan for how the FDIC will address climate-related financial risk to its regulated financial institutions, including goals and priorities.

3. Increase transparency regarding climate-related risk management activities

- Establish a designated webpage to provide updates on completed and ongoing climate risk-related activities, including what the work the FDIC has undertaken, staff assigned to the issue, what budget and resources are allocated for the work, and other recommendations in this section.

4. Assess climate risks on financially vulnerable communities

- Actively and transparently engage in interagency coordination on assessing risk to financially vulnerable communities, provide updates, and publish findings, such as advances made with the FLEC Climate Resiliency Group.

- Consider the policy implications of climate-related financial risk supervision and regulation on LMI and BIPOC communities.

- Ensure the inclusion of climate resiliency activities survives and is strengthened in the final CRA rule.

- Provide recommendations and guidance to regulated financial institutions, including in the final Climate Principles, on how to assess climate-related financial risks specific to vulnerable and underserved communities and how to avoid inadvertently engaging in discriminatory practices (i.e. bluelining).

5. Produce research and data on climate risk

- Provide updates on the agency’s climate risk-related data collection and research, what additional data is needed, and its plan for collecting such data.

- Provide easily searchable access to white papers, blogs, infographics, etc. that demonstrate data collection and research on climate-related financial risk.

- Issue a request for information on available data, models, or other information that could be used, in addition to existing data, to inform the agencies on climate-related risks to the financial system and the economy, including data on the adverse financial effects of climate on LMI communities.

- Conduct a horizontal review of large financial institutions that have significant exposure to climate risk to gain a better understanding of strategies and practices for risk identification and management, grouping banks with large exposures to climate risk or banks with loan concentrations in particularly vulnerable geographic areas.

- Conduct a climate risk policy sprint with FFIEC members to develop common definitions and review current and evolving risks to financial institutions.
1. Develop a Climate Risk Assessment Tool similar to the Cybersecurity Assessment Tool with FFIEC members to help financial institutions (particularly smaller, community financial institutions) identify their climate-related financial risks associated, as well as their preparedness under various climate scenarios and actionable steps to mitigate risks.

6. Conduct climate-related scenario analysis

   a. Design and conduct climate scenario analysis exercises with financial institutions to assess safety and soundness and ability to withstand climate impacts, starting with those over $100 billion in assets, moving to over $50 billion then over $10 billion, and eventually to all regulated financial institutions irrespective of asset size.

   b. Conduct climate scenario analysis exercises and stress tests that include physical and transition risks, disorderly transition, concurrent and consecutive risks, insurance gaps, impacts on multiple traditional risk categories, short- and long-term horizons, etc.

   c. Increase capital requirements or buffers where the results indicate insufficient levels to absorb losses.

7. Improve climate-related disclosure

   a. Amend uniform disclosure systems such as the Call Report with other FFIEC members.

   b. Amend the Uniform Bank Performance Report (UBPR) to create standardized measurements of climate risk at individual institutions as well as risks among peer groups and in the aggregate, allowing examiners to assess a bank’s financial condition and risks and to compare an institution with its peers. As a publicly accessible report, the UBPR is widely used by industry to conduct a peer analysis.

   c. Issue guidance that provides standards – such as the TCFD framework – for financial institutions to ascertain data on their GHG emissions to guarantee that disclosures among institutions are consistent, comparable, and reliable.

8. Include climate risk in supervisory guidance

   a. Finalize the Climate Principles jointly with the Fed and OCC.

   b. Issue additional detailed, binding guidance on climate risk management, including scenario analysis guidance, net zero transition plans, and what banks need to do to meet their net zero commitments.

   c. Expand guidance to smaller financial institutions, and account for the unique risks (i.e. geographic and sectoral concentration) these institutions face, while tailoring guidance to reflect these differences and supporting the education of banks boards and management on climate risk and why it matters to their bank.

   d. Issue guidance through the FFIEC to raise awareness of climate risks, encourage financial institutions to integrate climate risks into their enterprise risk frameworks, and provide guidance on how to measure and mitigate risks, including through best practices.

   e. Issue an exam manual dedicated to or incorporate into an existing exam manual the identification and management of climate-related financial risks based on established risk factors.
- Explicitly integrate climate risk into CAMELS ratings and bank examinations.

9. Include climate risk in regulation
   - Propose and issue detailed regulation for climate-related financial risk management requirements.

“These recommendations, all within the FDIC’s mandate and authority, are designed to address climate-related financial risks and protect our financial institutions, financial system and communities.

**NCUA**

**Mandate**

The National Credit Union Administration (NCUA) is an “independent federal agency that insures deposits at federally insured credit unions, protects the members who own credit unions, and charters and regulates federal credit unions.” This agency monitors over 4,903 federally insured credit unions with 131.0 million members.

The NCUA’s mission is to ensure a safe credit union system. It does so by insuring shares (deposits) at all covered entities (credit unions), establishing rules and expectations for credit unions to follow, and mandating annual reports from credit unions.

There are various areas under the NCUA’s mission where it could act to affirm and address climate risk. Other banking regulators, including the Federal Reserve, have taken initial steps to assess how climate change can affect their covered institutions. The NCUA could follow suit for credit unions and develop guidance on how they should integrate climate change into their risk management, internal controls, business strategies, governance, and disclosure practices. Additionally, the NCUA could leverage its connection with the Federal Financial Institutions Examinations Council (FFIEC) to modernize risk definitions as part of the supervision process (including supervision manuals) and influence best practices on climate risk management among the largest credit unions.

**Assessments**

1. Publicly affirm climate as a systemic risk [Assessment: Green]

Since last year’s assessment, the NCUA has delivered several remarks publicly acknowledging the systemic nature of climate-related financial risk:

- Chair Todd Harper statement at the NCUA Board meeting discussing the climate-related financial risk RFI (April 2023)

- Climate-Related Financial Risk Working Group Co-Chair Rachel Cononi testimony at the NCUA Board meeting discussing the climate-related financial risk RFI (April 2023)

- Climate-Related Financial Risk Working Group Co-Chair Lisa Roberson testimony at the NCUA Board meeting discussing the climate-related financial risk RFI (April 2023)

In addition to these public remarks and publications, Ceres is aware of individual board members who have offered alternative views on the relevance, extent, or urgency of climate-related financial risks.
Additionally, the NCUA has included the risks presented by climate change to the financial system its 2023 Supervisory Priorities and 2022 Annual Report. Importantly, in April 2023, the NCUA published a request for information (RFI) on climate-related financial risks to federally-insured credit unions.

2. Expand internal climate-related capacities [Assessment: Yellow]

The FSOC’s 2021 report on climate-related financial risk describes the NCUA’s Climate-Related Financial Risk Working Group as being “composed of senior staff members from across the agency.” During the NCUA’s April 2023 Board meeting, at which the climate-related financial risk RFI was approved, Rachel Cononi and Lisa Roberson were identified as the working group’s co-chairs. However, further information on the working group staff and research is not yet available publicly.

3. Increase transparency regarding climate-related risk management activities [Assessment: Yellow]

In its 2023 Supervisory Priorities letter, the NCUA flagged that its consumer financial protection activities will include reviewing the impacts of climate-related financial risk on credit unions. Similarly, the NCUA’s 2022 Annual Report included climate-related financial risk as an area of focus for 2023. The agency noted it will need to enhance its understanding of these impacts, but stated that credit unions are best positioned to assess these risks.

However, the NCUA does not have a dedicated webpage for its Climate-Related Financial Risk Working Group or provide regular updates on its work or outcomes outside of its scheduled, cumulative reports and assessments.

4. Assess climate risks on financially vulnerable communities [Assessment: Yellow]

At its annual DEI Summit in November 2022, the NCUA hosted a panel on opportunities for credit unions to incorporate environmental justice and climate resiliency. The NCUA’s April 2023 RFI on climate-related financial risk also includes discussion of the risks that disproportionately impact low-income and minority communities, as well as three questions specific to financially vulnerable communities.

The NCUA indicated to Ceres that it participates with the FLEC Climate Resilience Group to study climate-related financial impacts on households, including financially vulnerable households, although this involvement is not indicated on the agency’s website and no research from the FLEC group is publicly available.

5. Produce research and data on climate risk [Assessment: Yellow]

The NCUA established Climate-Related Financial Risk Working Group “with the goal of further incorporating climate-related financial risks into the agency’s risk-monitoring framework.” In September 2022, this working group partnered with the Federal Emergency Management Agency and Hope Credit Union to hold a webinar on how credit unions can prepare for and build resiliency to climate-related disasters. In April 2023, this working group published a Research Note examining credit union exposure to climate-related physical risks. No details on the working group’s composition or research agenda is publicly available and the working group does not have a designated webpage.

The NCUA’s 2022 Annual Report also noted that it is participating in FSOC’s Climate-Related Financial Risk Committee and is collaborating with other financial regulators. NCUA personnel indicated to Ceres that participating staff are working to identify and inventory relevant data, develop data standards, relevant metrics and analytic tools, and facilitate data sharing.
6. Conduct climate-related scenario analysis [Assessment: Red]

Ceres is not aware of any progress in this category.

7. Improve climate-related disclosure [Assessment: Red]

Ceres is not aware of any progress in this category.

8. Include climate risk in supervisory guidance [Assessment: Yellow]

The NCUA’s RFI on Climate-Related Financial Risk broadly outlines the physical and transition impacts credit unions may face from climate-related financial risk and requests feedback on multiple topics, including governance, risk management, and opportunities. However, the RFI is not draft supervisory guidance, and specifically states that “information provided by credit unions as part of this RFI will not be used in the examination and supervision of individual credit unions” and “new requirements for credit unions associated with climate-related financial risk would require changes to examination and supervision procedures and Board action and approval before implementing.” The RFI also notes that it is seeking input that will strengthen its risk management supervision, but there is no indication whether supervisory guidance or regulations will be published as a result of the information collected.

9. Include climate risk in regulation [Assessment: Red]

Ceres is not aware of any progress in this category.

Recommendations


The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on the NCUA’s score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
   - Continue to publicly acknowledge the systemic nature of climate-related financial risk in agency speeches and publications.

2. Expand internal climate-related capacities
   - Announce the establishment of NCUA’s Climate-Related Financial Risk Working Group and co-chairs.
   - Appoint and announce staff assigned to the working group.
   - Continue work within the CFRAC, FLEC, NGFS, and other interagency climate risk working groups, particularly the Fed, OCC, and FDIC.
   - Initiate internal staff education and training on climate-related financial risks.
o Train credit union examiners on climate-related financial risk and how these risks fit within existing risk frameworks, including identification of risks specific to LMI communities in which credit unions are uniquely positioned to address.

o Support expansion of credit union internal climate risk management capacity.

o Establish and announce an internal plan for how the NCUA will address climate-related financial risk to its regulated financial institutions, including goals and priorities.

3. Increase transparency regarding climate-related risk management activities

o Establish a designated webpage to provide updates on completed and ongoing climate risk-related activities, including what the work the NCUA has undertaken, staff assigned to the issue, what budget and resources are allocated for the work, and other recommendations in this section.

4. Assess climate risks on financially vulnerable communities

o Actively and transparently engage in interagency coordination on assessing risk to financially vulnerable communities, provide updates, and publish findings, such as advances made with the FLEC Climate Resiliency Group.

o Consider the policy implications of climate-related financial risk supervision and regulation on LMI and BIPOC communities.

o Provide recommendations and guidance to federally-insured credit unions on how to assess climate-related financial risks specific to vulnerable and underserved communities and how to avoid inadvertently engaging in discriminatory practices (i.e. bluelining).

5. Produce research and data on climate risk

o Provide updates on the agency’s climate risk-related data collection and research, what additional data is needed, and its plan for collecting such data.

o Provide easily searchable access to research notes, blogs, infographics, etc. that demonstrate data collection and research on climate-related financial risk.

o Issue a request for information on available data, models, or other information that could be used, in addition to existing data, to inform the agencies on climate-related risks to the financial system and the economy, including data on the adverse financial effects of climate on LMI communities.

o Conduct a horizontal review of federally-insured credit unions with significant exposure to climate risk to gain a better understanding of strategies and practices for risk identification and management, grouping credit unions with large exposures to climate risk or credit unions with loan concentrations in particularly vulnerable geographic areas.

o Conduct a climate risk policy sprint with FFIEC members to develop common definitions and review current and evolving risks to financial institutions.

o Develop a Climate Risk Assessment Tool similar to the Cybersecurity Assessment Tool with FFIEC
members to help credit unions (particularly smaller, community institutions) identify their climate-related financial risks associated as well as their preparedness under various climate scenarios and actionable steps to mitigate risks.

6. Conduct climate-related scenario analysis
   - Design and conduct climate scenario analysis exercises with credit unions to assess safety and soundness and ability to withstand climate impacts, starting with those over $15 billion in assets, and eventually extending to all federally insured credit unions irrespective of asset size.
   - Conduct climate scenario analysis exercises and stress tests that include physical and transition risks, disorderly transition, concurrent and consecutive risks, insurance gaps, impacts on multiple traditional risk categories, short- and long-term horizons, etc.
   - Increase capital requirements or buffers where the results indicate insufficient levels to absorb losses.

7. Improve climate-related disclosure
   - Amend uniform disclosure systems such as the Call Report with other FFIEC members.
   - Amend the Financial Performance Report to create standardized measurements of climate risk at individual credit unions as well as risks among peer groups and in the aggregate, allowing examiners to assess a credit union’s financial condition and risks and to compare an institution with its peers.

8. Include climate risk in supervisory guidance
   - Issue detailed guidance for all federally insured credit unions on climate risk management following closure of its request for information on climate-related financial risk.
   - Ensure guidance contemplates smaller credit unions and CDFIs, accounting for the unique risks (i.e. geographic and sectoral concentration) these institutions face, while tailoring guidance to reflect these differences and supporting the education of boards and management on climate risk and why it matters to their credit union.
   - Issue guidance through the FFIEC to raise awareness of climate risks, encourage credit unions to integrate climate risks into their risk frameworks, and provide guidance on how to measure and mitigate risks, including through best practices.
   - Incorporate the identification and management of climate-related financial risks based on established risk factors into the Examiner’s Guide.
   - Explicitly integrate climate risk into CAMELS ratings, the seven supervisory risk categories, and credit union examinations.
   - Integrate climate-related risk management into the process for chartering new credit unions.

9. Include climate risk in regulation
   - Propose and issue detailed regulations for climate-related financial risk management requirements.

*These recommendations, all within the NCUA’s mandate and authority, are designed to address climate-related financial risks and protect our credit unions, financial system and communities.
SEC

Mandate

The Securities and Exchange Commission (SEC) is charged with regulating securities markets and the securities industry. Its core mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

The SEC is tasked with a broad and diverse set of responsibilities. This includes enforcing the federal regulations that govern the securities markets and their participants, interacting with and educating investors, overseeing approximately $82 trillion in securities trading annually on U.S. equity markets, reviewing the disclosures and financial statements of approximately 4,300 exchange-listed public companies with an aggregate market capitalization of $30 trillion, and overseeing the Public Company Accounting Oversight Board (PCAOB) and the Municipal Securities Rulemaking Board (MSRB).

To guarantee fair access to the markets, the SEC requires public companies, fund and asset managers, investment professionals, and other market participants to regularly disclose significant financial and other information to provide investors with timely, accurate, and complete information that will inform their investment decisions.

The federal securities laws are based on the enduring principle that regulation of the capital markets is necessary to avoid “national emergencies, which produce widespread unemployment and the dislocation of trade, transportation, and industry.” Physical and transition climate risks present a profound, systemic risk to U.S. capital markets, combining in unexpected and correlated ways, with serious, disruptive impacts on asset valuations, global financial markets, and global economic stability. Efforts to achieve significant mitigation of GHG emissions are underway in many nations, and these policies are likely to affect businesses and financial markets in profound ways, such as changing business models and shifting capital flows away from carbon-intensive activities. Further, climate risk poses a variety of material risks to companies of all sizes in all industries across the nation, ultimately impacting investors, workers, and savers.

The SEC plays a critical role in addressing the increasing call from investors lamenting the current weaknesses in climate risk data, and calling for more reliable and high-quality disclosures. To function effectively, capital markets need comprehensive, decision-useful data from enterprises facing material climate risks. Better climate disclosures would give investors and shareholders access to consistent, comparable, and reliable information, so that they can allocate capital in a manner that reduces risk. Similarly, climate risk offers opportunities for innovation, investment, and growth, and the SEC has a statutory mandate to identify, facilitate and enable the associated capital formation emerging from those opportunities.

Assessments

1. Publicly affirm climate as a systemic risk [Assessment: Green]

The SEC has consistently recognized the widespread nature of climate risks to issuers and other entities that it regulates, and has continued this recognition since last year’s scorecard:

- Chair Gary Gensler testimony before the Senate Banking Committee (September 2022)
- Commissioner Jaime Lizárraga remarks at the Future of ESG Data conference (October 2022)
• Senior Associate Chief Accountant Nigel James comments at the AICPA-CIMA Conference highlighting the SEC’s role on the International Financial Reporting Standards (IFRS) Foundation Monitoring Board, as well as the SEC’s 2010 climate disclosure guidance and 2021 sample comment letter (December 2022)

• Chair Gensler testimony before the House of Representatives Financial Services Committee (April 2023)

• Commissioner Lizárraga remarks at the North American Securities Administrators Association Public Policy Symposium (April 2023)

• Commissioner Lizárraga remarks at the 2023 SEC Municipal Securities Disclosure Conference (May 2023)

In addition to these public remarks and publications, Ceres is aware of individual board members who have offered alternative views on the relevance, extent, or urgency of climate-related financial risks.

The SEC continues to work on its climate disclosure, ESG fund names, and ESG disclosure proposed rules, and Chair Gensler has held three climate- and ESG-related sessions for his Office Hours educational video series. The SEC Investor Advisory Committee included a panel on ESG fund disclosure at its September 2022 meeting, which discussed greenwashing and the proposed climate disclosure rule. The agency also addressed climate and ESG in its FY 2022 Agency Financial Report, FY 2022-2026 Strategic Plan, FY 2023 Report on Objectives, FY 2024 Congressional Budget Justification, 2023 Examination Priorities, and 2023 Staff Report on Nationally Recognized Statistical Ratings Organizations.

2. Expand internal climate-related capacities [Assessment: Green]

In July 2021, the SEC appointed Mika Morse as climate counsel in the chair’s office. Staff have also been hired in various offices with significant climate background who are working on these issues, including on its Climate and ESG Enforcement Task Force and Climate and Sustainability Oversight Committee (CSOC), which were launched in 2021 and 2022 respectively. The CSOC provides recommendations on climate-related risks affecting the SEC’s own operations. The SEC also included climate-related disclosure work in its 2024 budget justification. Additionally, the SEC has invested significant staff time in reviewing the thousands of comments received in response to its proposed climate disclosure rule.

3. Increase transparency regarding climate-related risk management activities [Assessment: Green]

Chair Gensler regularly updates the public on the SEC’s climate- and ESG-related work through interviews, speeches, and Congressional hearings. The SEC has held dozens of meetings with interested parties concerning the climate disclosure rule, and included climate risks in the agency’s FY 2022-2006 Strategic Plan under two goals: “protect the investing public against fraud, manipulation, and misconduct” and “support a skilled workforce that is diverse, equitable, and inclusive and is fully equipped to advance agency objectives.” However, the SEC only discussed its work on climate risk to its own operations in its FY22 Agency Financial Report, and did not describe its climate and ESG-related risks.

The Office of the Investor Advocate’s 2023 Report on Objectives provided a detailed explanation of the SEC’s ESG and climate disclosure strategy and the importance of consistent, comparable disclosures for investors. The Office of Investor Education and Advocacy also includes a webpage dedicated to ESG investing and disclosure.

The Office of Credit Rating’s 2023 Staff Report on nationally recognized statistical rating organizations (NRSROs) identified ESG factors and products as potential risks to consider in NRSRO risk assessments and to incorporate into NRSRO exams. Similarly, the Division of Examination’s 2023 Examination Priorities report named ESG disclosures and labeling as a notable focus area.
Additionally, the SEC has a designated webpage for its climate and ESG activities, although this page is not regularly updated. The SEC also has a designated webpage for its Climate and ESG Enforcement Task Force, which includes multiple enforcement actions related to misleading investors.

4. Assess climate risks on financially vulnerable communities [Assessment: Red]

Ceres is not aware of any progress in this category.

The SEC has the authority to and should address aspects of racial and economic inequality. The SEC has previously issued an FAQ regarding an adviser’s fiduciary duty when considering factors relating to diversity, equity, and inclusion (DEI) in the selection or recommendation of other investment advisers, and approved Nasdaq rules which require issuers to disclose certain information about the diversity of the company’s board. Additionally, one of the SEC’s Office of Minority and Women Inclusion’s Strategic Plan goals is to use SEC resources and services in a manner that reflects diversity of investors and businesses. The SEC also provides several investor resources regarding affinity fraud, which may be based on common ties such as ethnicity and age, including resources specifically for Native American communities. Further, the SEC is a member of FLEC, and already provides resources and research on financial literacy.

The SEC has acknowledged the importance of providing investors accurate and comparable information on climate-related financial risks, and acknowledges the importance of financial literacy, diversity, and protecting investors from exploitation – the SEC should also undertake research to assess the intersection of these issues and engage with FLEC to this end.

5. Produce research and data on climate risk [Assessment: Yellow]

The SEC’s proposed climate disclosure rule included analysis of climate and related market risks, investor information demands, and the economics of the existing reporting baseline, proposed disclosures, and alternative reporting options. On May 10, the SEC hosted a Municipal Securities Disclosure Conference, which included discussion of ESG practices in the municipal market.

The SEC is also involved with the International Sustainability Standards Board, serving as members of their jurisdictional working group and the International Financial Reporting Standards Foundation Monitoring Board, which both work to develop and implement sustainability disclosure standards.

Additionally, the SEC is a member of the International Organization of Securities Commissions and has been participating as co-chair of a Technical Expert Group “to engage with the IFRS Foundation’s sustainability project” and “inform IOSCO’s views on its potential endorsement of the ISSB standards.”

6. Conduct climate-related scenario analysis [Assessment: N/A]

This assessment category is not within the SEC’s mandate or authority.

7. Improve climate-related disclosure [Assessment: Yellow]

As discussed in last year’s scorecard, the SEC has worked to improve climate-related disclosures through its 2010 Guidance Regarding Disclosure Related to Climate Change, 2021 Request for Comment on Climate Disclosure, 2022 proposed rule on Enhancement and Standardization of Climate-Related Disclosure for Investors, 2022 proposed rule on Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices, and 2022 proposed rule on Investment Company Names. The proposed climate disclosure rule would require “registrants to include certain
climate-related disclosures in their registration statements and periodic reports, including information about 
cclimate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements.”

The SEC reopened the comment period for this rulemaking in October 2022 to ensure that interested persons, including affected commenters, had the opportunity to comment on the proposal after a technological error was discovered in the submission process. The rule was originally slated to be finalized in spring 2023, but has attracted nearly 15,000 public comments, which the SEC continues to review in its work to finalize the rule. We recognize the enormity of this process and appreciate the work of the SEC to evaluate the detailed comments covering a wide range of technical issues.

Additionally, the SEC amended its rules governing proxy voting advice, which enabled investors to more readily request climate-related information through shareholder proposals, and reminded issuers of their obligations to comply with the SEC’s 2010 interpretive guidance on climate disclosure. Between July 2021 and March 2023, the SEC’s Division of Corporation Finance sent 448 comment letters to 271 issuers that related either to its 2010 guidance or to greenwashing. The SEC’s Climate and ESG Enforcement Task Force also investigates ESG-related misconduct and brings enforcement actions related to misleading investors.

8. Include climate risk in supervisory guidance [Assessment: Green]

The SEC has enhanced risk management expectations and guidance through its climate-related disclosure, examinations, rulemaking, and ESG funds initiatives. This includes its 2010 Guidance Regarding Disclosure Related to Climate Change, 2021 Sample Letter to Companies Regarding Climate Change Disclosures, 2023 Examination Priorities which included ESG disclosures and labeling as a notable focus area, and climate disclosure, ESG fund name, and ESG disclosure proposed rules.

The Office of Credit Rating identified ESG factors and products as potential risks to consider in NRSRO risk assessments and to incorporate into NRSRO exams, and the Division of Examination named ESG disclosures and labeling as a notable focus area. Likewise, the Office of the Investor Advocate provided a detailed explanation in its 2023 Report on Objectives of the SEC’s ESG and climate disclosure strategy and the importance of consistent, comparable disclosures for investors.

The SEC has also reminded issuers of their obligations to comply with the SEC’s 2010 interpretive guidance on climate disclosure, while the Division of Corporation Finance continues to send issuer comment letters and the Climate and ESG Enforcement Task Force works to identify and address emerging ESG-related disclosure gaps that threaten investors and the market. The task force investigates and brings enforcement actions on ESG-related conduct that misleads investors. This included penalizing an asset management firm for failing to follow its ESG investment procedures and a mining company for misleading disclosure prior to a deadly dam collapse.

9. Include climate risk in regulation [Assessment: Yellow]

As discussed in last year’s scorecard, the SEC has begun incorporating climate risk into its regulatory requirements through its proposed rules on Enhancement and Standardization of Climate-Related Disclosure for Investors, Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices, and Investment Company Names. The proposed climate disclosure rule would require “registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably
likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements. The required information about climate-related risks also would include disclosure of a registrant’s greenhouse gas emissions, which have become a commonly used metric to assess a registrant’s exposure to such risks.”

**Recommendations**


The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on the SEC’s score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
   - Continue to publicly acknowledge the systemic nature of climate-related financial risk in agency speeches and publications.
2. Expand internal climate-related capacities
   - Continue work with the CFRC, CFRAC, FASB, ISSB, and interagency climate risk working groups, and initiate work with FLEC to assess the resiliency of financially vulnerable communities.
   - Continue internal staff education and training on climate-related financial risks, ensuring sufficient enforcement and compliance capacity and knowledge.
3. Increase transparency regarding climate-related risk management activities
   - Update the designated climate and ESG webpage to provide information on completed and ongoing climate risk-related activities, including the status of proposed rulemakings, current relevant supervisory guidance, what staff are assigned to these issues and what they are working on, disclose budgets and resources, and other recommendations in this section.
4. Assess climate risks on financially vulnerable communities
   - Actively and transparently engage in interagency coordination on assessing risk to financially vulnerable communities, provide updates, and publish findings, such as advances made with the FLEC Climate Resiliency Group.
   - Consider the policy implications of climate-related financial risk supervision and regulation on LMI and BIPOC communities.
5. Produce research and data on climate risk
   - Provide updates on the agency’s climate risk-related data collection and research, what additional data is needed, and its plan for collecting such data.
6. **Conduct climate-related scenario analysis**
   - N/A

7. **Improve climate-related disclosure**
   - Move swiftly to finalize strong rules on climate disclosure and ESG fund disclosure.
   - Direct the PCAOB to issue guidance to public company auditors on how they should assess the adequacy of climate change disclosures.
   - Engage the MSRB to consider how climate can affect the credit quality of municipal bonds and issue guidance on needed disclosures in the market.

8. **Include climate risk in supervisory guidance**
   - Move swiftly to finalize strong rules on climate disclosure and ESG fund disclosure.
   - Update and expand its industry-specific disclosure requirements to incorporate material, industry-specific climate-related metrics.

9. **Include climate risk in regulation**
   - Move swiftly to finalize strong rules on climate disclosure and ESG fund disclosure.

“These recommendations, all within the SEC’s mandate and authority, are designed to address climate-related financial risks and protect our capital markets, financial system and investors.

**MSRB**

**Mandate**

The Municipal Securities Rulemaking Board (MSRB) is the principal regulator of the $4 trillion municipal securities market, where it “protects and strengthens the municipal bond market, enabling access to capital, economic growth, and societal progress in communities across the country.” As part of its mission, the MSRB regulates the conduct of municipal securities dealers and advisors and establishes the rules, related guidance, and supporting compliance resources that govern these entities.

Overseen by Congress and the Securities and Exchange Commission (SEC), the MSRB’s rules generally require SEC approval before they can be implemented. Although the MSRB is the principal regulator of the municipal securities market, it does not enforce its rules or perform compliance examinations. Rather, the MSRB supports the Financial Industry Regulatory Authority (FINRA), the SEC, and federal bank regulators who share responsibility for compliance exams and enforcing the rules that the MSRB is responsible for drafting.

Investors are increasingly aware of the significant climate and ESG risks inherent in their business activities and investment portfolios. Municipal bond investors and the municipalities themselves face unique climate risks as – unlike companies that can move their headquarters and critical facilities, shift their product mixes and supply
chains, and pivot their strategies – they are place-based and mission-constrained. Industry associations have developed voluntary best practices, and private vendors offer ESG certification services. However, adherence to these standards is optional and not standardized or regulated. The MSRB has an important role to play in protecting issuers, investors, and the overall fairness and efficiency of the municipal securities market through ensuring the disclosure of transparent, relevant climate information.

**Assessments**

1. **Publicly affirm climate as a systemic risk [Assessment: Green]**

MSRB CEO Mark Kim has previously confirmed climate as systemic risk as noted in last year’s scorecard, but neither Mr. Kim nor the MSRB has made public comments on or included climate risk in agency publications since that time.

2. **Expand internal climate-related capacities [Assessment: Yellow]**

The MSRB established an internal ESG working group, which includes several senior staff members including the chiefs of the MSRB’s Market Regulation and Market Structure departments. The MSRB notes that the working group continues to monitor developments related to climate risk, evolving market practices, and potential ESG-related regulatory compliance challenges in the municipal securities market, and serves as a test group for potential EMMA enhancements. This group was also tasked with reviewing comments to the ESG Practices in the Municipal Securities Markets RFI, although it is unclear how the MSRB is supporting staff training.

3. **Increase transparency regarding climate-related risk management activities [Assessment: Yellow]**

In August 2022, the MSRB released a summary of responses to that RFI. Although it concluded that it would “continue to monitor and engage with the broader market on understanding emerging ESG practices and their implications for market fairness, efficiency, and transparency,” the MSRB has not yet indicated what if any actions it is taking or will take to increase consistent, comparable disclosure of ESG- and climate-related risks and information.

The MSRB also has a dedicated webpage for information related to ESG investing and disclosure, although it has not indicated what actions beyond the 2021 RFI it is taking on these issues.

4. **Assess climate risks on financially vulnerable communities [Assessment: N/A]**

This assessment category is not within the MSRB’s mandate or authority.

5. **Produce research and data on climate risk [Assessment: Yellow]**

In December 2021, the MSRB issued an RFI on ESG Practices in the Municipal Securities Markets. It held a discussion of its comment review at an April 2022 board meeting, and released a summary of responses in August 2022. In June 2022, the MSRB announced Lourdes Germán of the Harvard University School of Design and the Public Finance Initiative as the agency’s next visiting scholar. In her time with the Visiting Scholar Program, Ms. Germán used MSRB data and technical support to research trends in the disclosure of ESG-related information, including climate risk, in the municipal securities market. She is now studying the impact of ESG labels on pricing trends and is finalizing a working paper on her research. However, this research has not yet been made public, and there does not appear to be a plan in place to gather additional market data or explore uniform standards for uniformity and transparency.
6. Conduct climate-related scenario analysis [Assessment: N/A]

This assessment category is not within the MSRB’s mandate or authority.

7. Improve climate-related disclosure [Assessment: Yellow]

As noted in last year’s scorecard, in October 2021 the MSRB updated its data and disclosure platform EMMA to include indicators that allow investors to see if bond issuances include ESG-related criteria, and whether that issuance is designated as Green, Climate, Social, or Sustainable. The update also included a new ESG Certifier field that shows whether an issuance has been certified by one of several verifiers that assess the issuance for adherence to ESG criteria. The same month the EMMA update was launched, the MSRB published a blog on ESG investing and municipal bonds. The agency plans to integrate a natural language keyword search, currently in development on the EMMA Labs innovation platform, to assist investors with locating available climate risk and other information within unstructured data disclosures on EMMA.

In its 2021 ESG RFI, the MSRB noted that “disclosure documents used by municipal issuers already must include any material ESG-related information required under existing disclosure standards” and that “market participants are seeking ESG-related information beyond” what is currently disclosed. However, its August 2022 summary of responses is brief and does not provide any substantial analysis of the approximately 50 comments the agency received. The MSRB has also not indicated what if any actions it will take to increase consistent, comparable disclosure of ESG- and climate-related risks and information.

The MSRB also sent a letter in response to the SEC Office of the Investor Advocate’s 2022 RFI on products and practices that may pose risks to individual investors in the municipal securities market, which included ESG as one of six issues raised. However, the agency does not discuss the quality or adequacy specific to those disclosures or what concrete steps it will take beyond “continu[ing] to monitor and engage with stakeholders.”

8. Include climate risk in supervisory guidance [Assessment: Yellow]

In December 2021, the MSRB issued an RFI on ESG Practices in the Municipal Securities Markets, and released a summary of responses in August 2022. Although the summary concluded that the agency would “continue to monitor and engage with the broader market on understanding emerging ESG practices and their implications for market fairness, efficiency, and transparency,” and it is important to note the role and jurisdiction of the MSRB is limited, the MSRB has not yet indicated what if any guidance or compliance resources it will issue to increase consistent, comparable disclosure of ESG- and climate-related risks and information.

9. Include climate risk in regulation [Assessment: Red]

While it is important to note the role and jurisdiction of the MSRB is limited and regulatory action must be approved by the SEC, Ceres is not aware of any progress in this category.

**Recommendations**

Ceres has provided the MSRB with specific recommendations that span the nine categories evaluated in this scorecard through comments submitted in response to the MSRB’s Request for Information on Environmental, Social and Governance (ESG) Practices in the Municipal Securities Market, 2020 report Addressing Climate as a Systemic Risk: A Call to Action for U.S. Financial Regulators, and 2021 report Turning Up the Heat: The Need for Urgent Action by U.S. Financial Regulators. The CFTC’s Climate-Related Market Risk Subcommittee Re-
port includes further recommendations for municipal securities regulators to examine the quality and adequacy of climate-related disclosures in municipal bonds, official statements, and continuing disclosures.

The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on MSRB's score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
   - Publicly acknowledge, through official statements and agency publications, the systemic nature of climate risk and the implications of that risk to the U.S. municipal bond market.

2. Expand internal climate-related capacities
   - Provide training, education, and resources to staff assigned to the internal working groups and/or committees to enable them to better identify, monitor, and report on climate-related risks to the auditing profession.
   - Invest in technological and analytical capabilities and financial resources that support staff on the internal working groups and/or committees.

3. Increase transparency regarding climate-related risk management activities
   - Establish a designated page on its website or update its ESG investing page to provide updates on completed and ongoing climate risk-related activities, announce other staff assigned to work on these issues, describe what the ESG working group is researching, disclose budgets and resources, and other recommendations in this section.

4. Assess climate risks on financially vulnerable communities
   - N/A

5. Produce research and data on climate risk
   - Conduct research and educate municipal issuers, investors, and other stakeholders about climate-related physical and transition risks.
   - Examine the quality of climate-related disclosures in the Official Statements and Continuing Disclosures Agreements of municipal bonds to determine whether disclosure is adequate for market participants to assess underlying climate risks.
   - Collaborate with the Treasury's Office of Financial Research, the Fed’s Research Division, and other peer agencies to identify and curate reliable and relevant data sources for municipal issuers to use in their disclosure.
   - Add a section to its website with access to climate risk data and research from both the MSRB and leading independent think tanks or research universities.
   - Research how risks facing municipalities differ from risks facing issuers, and explore options to enhance disclosure on these issues.
6. Conduct climate-related scenario analysis
   - N/A

7. Improve climate-related disclosure
   - Recommend that municipal issuers adopt the Task Force on Climate-Related Financial Disclosures (TCFD) disclosure framework in order to provide investors and stakeholders with timely, decision-useful climate-relevant information.
   - Further update EMMA to facilitate timely, machine-readable disclosure of climate risk and ESG factors and allow keyword searches.

8. Include climate risk in supervisory guidance
   - Encourage all U.S. municipal bond market stakeholders, such as bond counsel, data vendors, valuation services, bond insurers, municipal advisors, and especially rating agencies and other standard setters, to fully incorporate climate risk management into their internal processes.
   - Update the Municipal Securities Exams (for example the Series 52 and Series 53 exams) to test for climate risk management competency.
   - Enhance board governance and senior management expertise as it pertains to climate risk and create a board level standing committee on municipal bond market climate risk management.
   - Issue a public statement recommending key stakeholders improve disclosure (including municipalities, municipal advisers, and banks) if disclosure is found to be deficient for market participants to assess any underlying climate risk exposure.

9. Include climate risk in regulation
   - Given the MSRB’s limited mandate, work with the SEC to update regulations to require more extensive disclosures on the material climate risks of municipal bonds as well as the efforts by municipal issuers to mitigate these risk.
   - Given the MSRB’s limited mandate, work with the SEC to update regulations to require that all offering statements for municipal bonds be filed in a singular, machine-readable format so that analysts do not have to pull climate risks by hand from these disclosure documents.

*These recommendations, all within the MSRB’s mandate and authority, are designed to address climate-related financial risks and protect our municipal bond markets and financial system.

**PCAOB**

**Mandate**

The Public Company Accounting Oversight Board (PCAOB) is a nonprofit corporation established by Congress in 2002 to oversee the then-self-regulated audit profession following the financial crisis and numerous accounting frauds at large public companies and audit firms. The PCAOB oversees accounting professionals who audit
publicly traded companies, as well as brokers and dealers registered with the Securities and Exchange Commission (SEC), in order to protect investors and further the public interest by providing accurate and independent audit reports. To this same end, the PCAOB establishes auditing and related attestation, quality control, ethics, and independence standards for these auditors.

The PCAOB registers public accounting firms and inspects those registrants’ audits and quality control systems. It also has the power to investigate and discipline registered accounting firms and their auditors for violations of PCAOB rules and standards. In support of its mission, it conducts economic research and risk analysis, and engages with stakeholders and other domestic and international regulators.

Each of these authorities is subject to oversight and approval by the SEC, including the Board’s rules, standards, and budget. PCAOB-regulated entities and individuals may appeal Board decisions to the SEC, which has the power to modify and overturn those rules and decisions.

The PCAOB’s stated goal of protecting investors’ interest in high quality audits warrants auditors’ review of climate-related financial risk. Investors are increasingly looking for climate-related disclosures, and it is widely understood that firms are at increasing climate-related physical and transition risk. Auditors must be aware of, understand, and review climate-related disclosures to ensure data provided by companies they audit is accurate and appropriately reflects the company’s risk. Global counterparts including the Financial Accounting Standards Board and International Auditing and Assurance Standards Board have already issued educational papers and guidance. As the standard-setter for U.S. auditors, the PCAOB must develop auditor guidance for assurance on sustainability and climate risk reporting, equipping investors with information about uncertainties and judgments on the impact of climate risk on a company’s financial statements and business strategy.

**Assessments**

1. **Publicly affirm climate as a systemic risk [Assessment: Red]**
   
   Ceres is not aware of any progress in this category.

2. **Expand internal climate-related capacities [Assessment: Yellow]**

   The PCAOB’s June Spotlight: Staff Overview for Planned 2022 Inspections notes that the agency’s target team focused in 2022 on interim financial information and audits of public companies that include risks related to climate change that would affect a company’s financial statements, initial public offerings, /de-SPACs, and the use of shared service centers. However, it is unclear how the PCAOB is supporting staff training or whether the target team, who are not solely designated to focus on this area, has continued to work on climate risk issues.

3. **Increase transparency regarding climate-related risk management activities [Assessment: Red]**

   Ceres is not aware of any progress in this category. In June 2023, the PCAOB issued proposed amendments to its auditing standards to enhance auditor understanding of noncompliance with laws and regulations, as well as auditor assessment of material misstatements. These new standards may encompass company statements such as those regarding GHG emissions reduction and compliance.

4. **Assess climate risks on financially vulnerable communities [Assessment: N/A]**

   This assessment category is not within the PCAOB’s mandate or authority.
5. Produce research and data on climate risk [Assessment: Yellow]

The PCAOB’s June Spotlight: Staff Overview for Planned 2022 Inspections notes that the agency’s target team focused in 2022 on interim financial information and audits of public companies that include risks related to climate change that would affect a company's financial statements, IPOs/de-SPACs, and the use of shared service centers. It is unclear what information and data the PCAOB obtained from this review, or whether the review is ongoing.

6. Conduct climate-related scenario analysis [Assessment: N/A]

This assessment category is not within the PCAOB’s mandate or authority.

7. Improve climate-related disclosure [Assessment: Red]

Ceres is not aware of any progress in this category.

8. Include climate risk in supervisory guidance [Assessment: Red]

Ceres is not aware of any progress in this category.

9. Include climate risk in regulation [Assessment: Red]

Ceres is not aware of any progress in this category.

Recommendations

Ceres has provided PCAOB with specific recommendations that span the nine categories evaluated in this scorecard through our comment on the PCOAB’s Draft 2022-2026 Strategic Plan, 2020 report Addressing Climate as a Systemic Risk: A Call to Action for U.S. Financial Regulators, and 2021 report Turning Up the Heat: The Need for Urgent Action by U.S. Financial Regulators.

The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on PCAOB’s score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
   - Publicly acknowledge the systemic nature of climate risk and the implications of that risk on the auditors it oversees.

2. Expand internal climate-related capacities
   - Establish permanent, internal working groups and/or committees to identify, monitor, and report on climate-related risks to the auditing profession, and made recommendations based on its assessment of those risks.
   - Assign staff and appoint senior staff to the internal working groups and/or committees.
   - Provide training, education, and resources to staff assigned to the internal working groups and/or committees to enable them to better identify, monitor, and report on climate-related risks to the auditing profession.
Invest in technological and analytical capabilities and financial resources that support staff on the internal working groups and/or committees.

3. Increase transparency regarding climate-related risk management activities
   - Establish a designated page on its website to provide updates on completed and ongoing climate risk-related activities, announce other staff assigned to work on these issues, disclose budgets and resources, and other recommendations in this section.

4. Assess climate risks on financially vulnerable communities
   - N/A

5. Produce research and data on climate risk
   - Publish findings from the PCAOB’s 2022 target team, which focused on interim financial information and audits of public companies that include risks related to climate change that would affect a company’s financial statements.
   - Conduct research to identify how ESG and climate risk impacts financial statements, how ESG and climate risk is currently disclosed, how auditors currently respond to ESG and climate disclosures, how auditors respond to ESG CAMs, the application of existing auditing standards to ESG and climate disclosures, and current assurance and attestation standards and practices in the auditing profession, including standards set by international bodies.

6. Conduct climate-related scenario analysis
   - N/A

7. Improve climate-related disclosure
   - Work with the SEC to ensure consistent assurance and attestation standards and expand auditing standards to bridge the gap between material climate disclosures and the financial statements.
   - Issue a request for information to identify how ESG and climate risk is currently disclosed, how auditors currently respond to ESG and climate disclosures, how auditors respond to ESG CAMs, and current assurance and attestation standards and practices in the auditing profession, including implementation by international standard-setters.

8. Include climate risk in supervisory guidance
   - Provide training and education for auditors on the impacts of climate-related financial risks on public companies, the implications of climate disclosure on auditing standards, and how auditors should assess the adequacy of climate disclosures.
   - Issue guidance on the application of the existing auditing standards (including CAMs), climate risk impacts on financial statements, how auditors should assess the adequacy of climate disclosures, what should be disclosed in a report, and appropriate procedures for relying on reports and confirmations from carbon offset programs.
   - Issue inspection findings on audit deficiencies and other trends relating to ESG and climate disclosure.
Issue bulletins and FAQs with detailed examples of best practices and enforcement matters to improve understanding of ESG and climate disclosure, and improve compliance.

9. Include climate risk in regulation

- Amend Auditing Standard No. 2710 to require auditors read and consider climate disclosures outside the 10-K for consistency with financial statements.
- Amend Auditing Standard No. 2601 to provide for service auditor reporting on the validity of carbon offset programs.
- Develop auditing standards for GHG emissions disclosures, climate-related scenario analysis, and company climate commitments.

“These recommendations, all within the PCAOB’s mandate and authority, are designed to address climate-related financial risks, protect investors, and further the public interest in the preparation of informative, accurate, and independent audit reports.

CFTC

Mandate

The Commodity Futures Trading Commission (CFTC) regulates commodity futures, commodity options, and swaps trading markets. The CFTC’s mission is to promote the integrity, resilience, and vibrancy of the U.S. derivatives market through sound regulation. It investigates and prosecutes commodities fraud, including foreign currency schemes, energy manipulation, and hedge fund fraud. Firms and individuals that deal with futures, swaps, and options must register with the CFTC, including commodity pool operators and advisors, futures commission merchants, introducing brokers, and swap dealers.

Commodities are economic goods that are interchangeable with other goods of the same type, regardless of who produced them. Commodity prices are generally determined by supply and demand, and can be impacted by economic shocks, natural disasters, and investor preferences. Most commodities are raw materials, basic resources, agricultural, or mining products, but also include carbon offsets and carbon credits. Investors and traders can buy and sell commodities directly in the cash market or via derivatives such as futures and options. Commodity futures contracts are legal agreements to buy or sell commodities at a predetermined price and delivery date.

Transactions relying on registries underlying the exchange-based carbon futures may be regulated by the CFTC. Carbon credits are currently traded in on voluntary markets that are not currently subject to the regulations that govern derivatives and securities markets. Because the CFTC is tasked with preventing fraud and manipulation in derivatives markets, it has the authority to review carbon markets and ensure high quality carbon offsets with a focus on integrity, infrastructure, and credibility.

The CFTC’s regulations also require swap dealers to maintain an effective risk management program that covers various risks. It requires swap dealers to “establish, document, maintain and enforce” a system of risk management policies and procedures to monitor and manage market, credit, liquidity, and “any other applicable risks,” which could include material climate-related risks.
Assessments

1. Publicly affirm climate as a systemic risk [Assessment: Green]

In addition to the public comments noted in the 2022 Scorecard, Chair Rostin Behnam, who commissioned the CFTC’s 2021 climate risk report, and Commissioner Christy Goldsmith Romero have publicly spoken about the systemic nature of climate risks:

- Chair Behnam remarks at the Commodity Markets Council regarding the CFTC’s role in voluntary carbon credit markets (January 2023)
- Commissioner Romero speech regarding CFTC’s role in promoting market resilience to climate risk (February 2023)
- Commissioner Romero remarks on steps CFTC could take to manage climate risk (March 2023)
- Chair Behnam testimony in front of the Senate Agriculture Committee Hearing regarding CFTC’s role in ensuring financial markets are resilient to climate risk (March 2023)
- Commissioner Romero remarks at Ceres Global on voluntary carbon markets (March 2023)
- Chair Behnam remarks at a Bipartisan Policy Center fireside chat regarding CFTC’s role in improving carbon credit quality (April 2023)
- Commissioner Romero statement on proposed risk management program regulations (June 2023)

2. Expand internal climate-related capacities [Assessment: Green]

The CFTC created the Climate Risk Unit (CRU) in 2021 to focus on the role of derivatives in understanding, pricing, and addressing climate-related risk and transitioning to a low-carbon economy, appointing Abigail Knauff as deputy in 2022. This group is comprised of staff from across the CFTC’s operating divisions and offices. According to the FSOC report, the main focus of the Climate Risk Unit is to “accelerate CFTC engagement in industry-led and market-driven processes in the climate and wider ESG spaces to ensure that new products and markets facilitate hedging, price discovery, and capital allocation (page 35).”

Two other CFTC advisory committees are also looking at climate as part of their mandate. The CFTC federal advisory committee, the Energy and Environmental Markets Advisory Committee (EEMAC), has hosted public meetings and met in September 2021 to discuss how the derivatives markets can facilitate the transition to a low-carbon economy, including the status of carbon reduction through cap-and-trade and other carbon trading market mechanisms.

The CFTC’s Climate-Related Market Risk Subcommittee of its Market Risk Advisory Committee (MRAC), which has a broad mandate to provide analysis and recommendations regarding the existing and emerging risks, has engaged on climate-related risks on the financial markets. Climate-related risk and voluntary carbon markets have been topics of discussion during multiple MRAC meetings, including in September 2022 and March 2023.

In April 2023, Commissioner Romero announced that Yevgeny Shrago will serve as her senior counsel and climate policy advisor. In June 2023, the CFTC announced the establishment of the Environmental Fraud Task Force to combat environmental fraud and misconduct in derivatives and relevant spot markets (such as volun-
tary carbon credit markets), relating to purported efforts to address climate change and other environmental risks. The task force – which is comprised of attorneys and investigators across different offices within the Enforcement Division – will examine fraud respect to the purported environmental benefits of purchased carbon credits, as well as registrants' material misrepresentations regarding ESG products or strategies.

3. Increase transparency regarding climate-related risk management activities [Assessment: Yellow]

As noted above, the CFTC created the Climate Risk Unit to accelerate CFTC engagement in support of industry-led and market-driven processes in the climate space to ensure that new products and markets fairly facilitate hedging, price discovery, market transparency, and capital allocation. However, we are not aware of any updates or activity related to the work of this group, and there is no designated webpage for updates on the CRU’s work. Similarly, the MRAC Climate-Related Market Risk Subcommittee does not have a designated webpage and has not published research or data since its 2020 report outside of the discussions held during MRAC meetings. The MRAC webpage lists the subcommittee’s membership as under review. Additionally, in March 2023, the chair stated that the CFTC would wait for congressional authority before pursuing climate risk initiatives directly.

4. Assess climate risks on financially vulnerable communities [Assessment: Red]

Ceres is not aware of any progress in this category.

The CFTC has the authority to address fraud and misinformation in the derivatives markets and underlying commodities markets as it relates to climate-related risk and carbon markets. The CFTC publishes an annual report on its consumer education activities, and regularly issues Customer Advisories alerting populations that may be more susceptible to scams or inexperienced investors – including seniors, Millennials, online daters, and agricultural customers – of fraud in a specific industry or instance – including market volatility related to Covid-19, virtual currency, and natural disasters.

Further, the CFTC is a member of FLEC, and has already indicated its intent to work with FLEC member agencies on other financial education materials. The agency has acknowledged the importance of combating fraud and giving people the tools to identify fraudulent activity. Its Office of Customer Education and Outreach (OCEO) works with internal and external stakeholders to monitor and identify current and developing fraud trends, develop timely and effective educational materials, messages and outreach strategies, and alert the public to products, situations, or behaviors that could make them targets for crime. The OCEO should use its authority to research, evaluate, and provide education and outreach to financially vulnerable communities that may be at risk of scams under the guise of carbon trading, and engage with FLEC to implement appropriate safeguards as it has committed to for crypto assets.

Ceres encourages the CFTC to also consider the impacts of its policies on financially vulnerable communities, who suffer disproportionate climate risk. The CFTC should keep the rights and needs of these communities, particularly Indigenous peoples, foremost in its work relating to carbon offset projects and the potential impacts of those projects on the communities in which they are based. Attention should be paid to what products might be developed that focus, whether geographically or in terms of particular vulnerabilities, on the risks to financially vulnerable communities. This may also help reduce or prevent greenwashing and other forms of carbon market fraud by ensuring that there is reliable, accurate, and consistent data regarding offset projects.
5. Produce research and data on climate risk [Assessment: Yellow]

In September 2020, a subcommittee of the Commodity Futures Trading Commission published a climate report that included recommendations for financial regulators to integrate climate risks into their oversight functions. The report argued for the need to move urgently and decisively to measure, understand, and address climate risks. While this report was released by a sub-committee of the CFTC, it was endorsed by the current Chair Behnam when he was a commissioner.

In June 2022, the CFTC held a Voluntary Carbon Markets Convening to discuss issues related to the supply and demand for high quality carbon offsets, including product standardization and the data necessary to support the integrity of carbon offsets’ greenhouse gas emissions avoidance and reduction claims. During the meeting, the CFTC unanimously voted to release a request for information to seek public comment on climate-related financial risk to better inform its understanding and oversight of climate-related financial risk as it relates to the derivatives markets and underlying commodities markets.

In July 2022, the CFTC attended the EU-US Joint Financial Regulatory Forum, where participants discussed implementation of new capital and financial reporting requirements for swap dealers. Climate-related risk and voluntary carbon markets have also been topics of discussion during multiple MRAC meetings, including in September 2022 and March 2023.

6. Conduct climate-related scenario analysis [Assessment: N/A]

Although this assessment category is not within the CFTC’s mandate as described in our methodology, the CFTC has the authority in some circumstances to conduct and require certain market participants to conduct stress tests and scenario analysis exercises. The CFTC has conducted these exercises in the past, and should consider conducting climate exercises to assess the impact of extreme but plausible scenarios on the market in order to monitor the potential effects of climate risk on the financial system as a whole.

7. Improve climate-related disclosure [Assessment: Yellow]

On June 2, 2022, the CFTC held its first Voluntary Carbon Markets Convening, which included discussion of disclosures and transparency. That same day, the CFTC released a request for information (RFI) to seek public comment on climate-related financial risk as it relates to the derivatives markets and underlying commodities markets. The RFI posed multiple questions on disclosure requirements, such as necessary data and whether GHG emissions should be included.

8. Include climate risk in supervisory guidance [Assessment: Yellow]

In 2020, the CFTC’s Climate-Related Market Risk Subcommittee published the first-ever climate report by a U.S. financial regulator, providing recommendations for the CFTC, Federal Reserve, the Securities and Exchange Commission, the Financial Stability Oversight Council, and other financial regulators to address climate-related financial risk. The subcommittee included 34 diverse representatives from industry, academia, and NGOs; the subcommittee voted unanimously 34-0 to adopt the report.

The CFTC’s request for information on climate-related financial risk indicated the information collected may be used to inform potential future actions including new guidance or policy statements. However, the CFTC has not taken any actions or summarized the comments received since the comment period closed in October 2022.

In June 2023, the CFTC issued an alert seeking whistleblower tips related to fraud and manipulation in the
voluntary carbon credits markets, noting the Whistleblower Office will work with market participants that report information related to potential misconduct.

9. Include climate risk in regulation [Assessment: Red]

Ceres is not aware of any progress in this category.

Recommendations


The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on CFTC’s score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
   - Continue to publicly acknowledge the systemic nature of climate-related financial risk in agency speeches and publications.

2. Expand internal climate-related capacities
   - Continue work with the CFRC, CFRAC, and interagency climate risk working groups, and initiate work with FLEC to assess the resiliency of financially vulnerable communities.
   - Continue internal staff education and training on climate-related financial risks, ensuring sufficient enforcement and compliance capacity and knowledge.

3. Increase transparency regarding climate-related risk management activities
   - Establish a webpage to provide information on completed and ongoing climate risk-related activities, including the status of proposed rulemakings, current relevant supervisory guidance, what staff are assigned to the CRU and Climate-Related Market Risk Subcommittee, what those groups are working on, disclose budgets and resources, and other recommendations in this section.

4. Assess climate risks on financially vulnerable communities
   - Actively and transparently engage in interagency coordination on assessing risk to financially vulnerable communities, provide updates, and publish findings, such as advances made with the FLEC Climate Resiliency Group.
   - Consider the policy implications of climate-related financial risk supervision and regulation on LMI and BIPOC communities.
   - Advocate for inclusion of provisions supporting Indigenous peoples in nature-based solutions to ensure these projects respect the rights of Indigenous peoples and do not cause harm to communities.
5. Produce research and data on climate risk
   - Emphasize the need for forward-looking analysis, as climate risk is shifting fundamental environmental parameters, rendering traditional risk-modeling techniques, which rely heavily on historical data, increasingly inadequate.
   - Conduct research into financial instruments that could be useful for and work with exchanges to ensure that they offer appropriate products and help the private sector mitigate its climate-related risks.
   - Review the extent to which financial market infrastructure is resilient against losses from physical risk.
   - Provide updates on the agency’s climate risk-related data collection and research, what additional data is needed, and its plan for collecting such data.
   - Provide easily searchable access to white papers, blogs, infographics, etc. that demonstrate data collection and research on climate-related financial risk and disclosure.

6. Conduct climate-related scenario analysis
   - Conduct stress tests to determine the potential price change or a potential change in a price input from climate impacts, with scenarios that include physical and transition risks, disorderly transition, concurrent and consecutive risks, impacts on multiple traditional risk categories, short- and long-term horizons, etc.
   - Expand its central counterparty stress testing to cover the operational continuity and organizational resilience of central counterparties, including organizational resilience of operations, contingency planning, and engineering resilience for facilities exposed to climate-related physical risks.

7. Improve climate-related disclosure
   - Encourage and accelerate the development of trustworthy data sources and classification systems which can enable better climate-related financial risk management.
   - Ensure that climate-related financial risks faced by derivatives market participants and intermediaries are appropriately disclosed, and establish appropriate oversight of these risks.
   - Examine the extent to which climate impacts are addressed in disclosures required of swap dealers and other regulated entities, and consider guidance and rulemaking if disclosure improvements are needed.

8. Include climate risk in supervisory guidance
   - Recommend that FSOC oversee and coordinate risk management standards governing the operations related to the payment, clearing, and settlement activities of financial market utilities designated as systemically important to incorporate measures to monitor and manage physical climate risks.
Create a framework, in concert with the Integrity Council for the Voluntary Carbon Markets and other voluntary carbon market participants to ensure rigorous evaluation and meaningful certification of all carbon credits by outside, neutral, and expert third parties.

Exercise its authority to oversee derivatives with offsets as underlying, including investigating cases of project fraud or manipulation, in both derivatives trading and the underlying commodities.

Encourage and promote responsible innovation in derivative instruments to aid in addressing the financial risks of climate change.

Issue guidance to describe the physical and transition risks associated with climate-related financial risk and explain how those risks relate to traditional financial risks with which institutions are familiar.

Issue guidance on standardized carbon accounting to encourage futures exchanges to quantify the carbon emissions associated with a commodity contract, such as Scope 1, 2, and 3 emissions.

9. Include climate risk in regulation

Expand risk management rules and related quarterly risk exposure reports to cover material climate-related risks.

Issue regulations for registrants and/or registered entities regarding the implementation of policies and procedures to measure, track, and account for physical and transition risk.

Issue regulations that will ensure products actually provide the benefits they claim and block products with insufficient verification, holding offset issuers accountable if promised carbon reductions do not or cannot occur, and rejecting derivatives of carbon offsets unless the agency can ensure the offsets upon which the derivatives are based are not fraudulent.

Impose capital and liquidity requirements for entities that deal in derivatives to incorporate climate risk into asset risk weights and require higher capital ratios if a firm is found to have insufficient capital or liquidity to absorb losses.

*These recommendations, all within the CFTC’s mandate and authority, are designed to address climate-related financial risks and promote the integrity and resilience of the U.S. derivatives markets through sound regulation.

**FHFA**

**Mandate**

The Federal Housing Finance Agency (FHFA) is responsible for supervising and regulating the housing mission of Fannie Mae and Freddie Mac (GSEs), as well as the Federal Home Loan Banks. The FHFA was created upon recognition that the previous regulatory structure was not adequate to address the risks posed by the GSEs, a situation exposed by the global financial crisis and subprime mortgage securities meltdown of 2008.

The Federal Home Loan Banks (FHLBanks) are 11 regional suppliers of lendable funds to financial institutions of all sizes and many types, including community banks, credit unions, commercial and savings banks, insurance
companies, and community development financial institutions. The FHFA is responsible for ensuring that the FHLBanks, which are cooperatively owned by member institutions, operate in a financially safe and sound manner.

**Fannie Mae and Freddie Mac** were established by Congress to help ensure a reliable and affordable supply of mortgage funds throughout the country. The GSEs can also help protect housing during extraordinary periods of turmoil in the broader financial system and support mortgage lending that finances affordable housing. In 2021, Fannie Mae and Freddie Mac guaranteed approximately two-thirds of new single-family mortgage originations during the first three quarters of 2021, and more than half of single-family outstanding mortgages at the end of the first quarter in 2022.

The GSEs are currently under conservatorship due to the substantial deterioration in the housing markets that severely damaged each GSE’s financial condition, leaving both unable to fulfill their missions without government intervention. As conservator, FHFA has broad authority over the GSEs, ensuring that they operate in a safe and sound manner through prudential supervision and regulation.

In general, major decisions made by the GSEs are directives from FHFA. The GSE boards and management teams must consult with FHFA on GSE decision-making to obtain approval or act as directed by FHFA. Due to this unique oversight relationship, Ceres will be evaluating GSE actions as FHFA actions. There might be actions or communications in progress from FHFA to the GSEs that have not been published or implemented yet, which due to their confidentiality nature, will not be considered in this assessment.

**Assessments**

1. **Publicly affirm climate as a systemic risk** [Assessment: Green]

The FHFA has affirmed climate as a risk to the financial system. Since last year’s scorecard, Director Sandra Thompson and Chair of the Climate Change and ESG Steering Committee Daniel Coates have made additional public remarks acknowledging the systemic nature of climate-related financial risk:

- Director Thompson testimony before the House Committee on Financial Services on ensuring that regulated entities identify and manage emerging climate-related risks (July 2022)
- Director Thompson remarks at the National Association of Federally-Insured Credit Unions’ 2022 Congressional Caucus regarding identification of communities who are most at risk from climate-related risk (September 2022)
- Chair Coates keynote at the Climate Adaptation Forum (September 2022)
- Chair Coates remarks on NAFCU segment regarding climate-related financial risks faced by the housing finance market (September 2022)
- Chair Coates remarks at the FHFA Econ Summit, which focused on climate risk in the housing industry (November 2022)
- Director Thompson statement at Financial Literacy and Education Commission public meeting regarding the Climate Resilience Group’s report and research (November 2022)
- Chair Coates remarks on agency initiatives to address climate risk at the Risk Management Association’s Climate Risk Consortia (December 2022)
Ceres Accelerator
for Sustainable Capital Markets

- Chair Coates remarks at Ceres webinar on federal financial regulator progress on climate-related financial risk (December 2022)

Additionally, the FHFA included in its 2023 Annual Performance Plan identifying options for incorporating climate change into regulated entity governance as a strategic objective. The agency's 2022 Performance and Accountability Report also included climate risk as a key management challenge and priority.

2. Expand internal climate-related capacities [Assessment: Green]

As discussed in last year's scorecard, the FHFA established the Climate Change and ESG Steering Committee, which works to ensure that the regulated entities are accounting for climate-related risk and oversees the regulated entities' work related to ESG and reporting. The steering committee consists of eight agency-wide working groups staffed with experts from across the agency, and Daniel Coates was appointed as chair and executive sponsor. The FHFA also formed an additional working group within its Climate Change and ESG Steering Committee in 2023 that will focus on measuring GHG emissions. The working groups coordinate the agency's climate-related activities and work with regulated entities, members of FSOC's Climate-Related Financial Risk Advisory Committee (CFRAC), and other stakeholders.

Staff members from these working groups were also assigned to work with CFRAC; the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), which includes workstreams related to scenario analysis, taskforce capacity building, and supervision; and the Office of Financial Research's Climate Data and Analytics Hub (Climate Hub) pilot. The staff assigned to the Climate Hub participate with the pilot's user acceptance testing, which will provide FHFA increased access to climate data and analytics. The FHFA also joined the Financial Literacy and Education Commission in July 2022 and announced its membership in FEMA's Mitigation Framework Leadership Group in May 2023.

From conversations with the FHFA, Ceres also understands that the Climate Change and ESG Steering Committee is continuing outreach to assess external vendors for climate risk data and analytics, including climate models and catastrophe models. In August 2022, the FHFA hired a geographer and acquired GIS software to support climate data analysis and research. Fannie Mae is also using the climate risk analytics firm Jupiter to assess physical risk for its residential mortgage portfolio.

In December 2022, an internal, agency-wide climate and ESG newsletter was established, and is released monthly with information on news, current events, educational training resources accessible to staff, and upcoming external climate programs. FHFA also informed Ceres that five staff members will participate in the Climate and Environmental Risk Online Course held May 11 to June 29 by the Bank for International Settlements and the Network for Greening the Financial System.

Additionally, following FHFA's guidance, both Fannie and Freddie created board-level committees overseeing development and implementation of climate risk management strategy, as well as management-level committees responsible for climate risk oversight, escalation, and decision-making.

3. Increase transparency regarding climate-related risk management activities [Assessment: Green]

A report by the FHFA's Office of Inspector General found that the FHFA had begun the process of identifying climate-related risks to its supervised entities but recommended further action to implement these plans and integrate consideration of these risks into its policies, including developing methodologies, timelines, and milestones for each Climate Change and ESG Steering Committee working group.
In its 2023 Annual Performance Plan, the FHFA listed six strategies to achieve its objective of incorporating climate risk into regulated entity governance: (1) convene meetings to share information on the Climate Change and ESG Steering Committee and working groups’ progress, (2) conduct research on climate risks to the housing finance system, (3) build on FHFA and regulated entity experiences with natural disaster responses, especially impacts on vulnerable communities, (4) assess Fannie Mae and Freddie Mac’s (GSEs) processes and structures to determine climate-related risks and opportunities, (5) assess responses to FHLBank horizontal survey on climate risks and efforts to address those risks, and (6) improve data collection, analysis, and disclosure. The Annual Performance Plan further noted that the agency will develop an internal climate research agenda and oversee GSEs’ development of a climate research agenda.

The FHFA’s 2022 Performance and Accountability Report also included climate risk as a key management priority, noting its intention to provide training to examination staff and issue climate risk examination guidance for evaluating the incorporation of climate risk into GSEs and FHLBanks decision-making. The FHFA further stated that it will seek opportunities to provide greater incentives for investments in climate resiliency and energy efficiency through its regulated entities. Similarly, the FHFA’s 2022 Annual Report to Congress includes a section on agency progress pertaining to climate risk and ESG.

The FHFA also has a designated webpage for its Climate Change and ESG Steering Committee. The webpage provides updates reflecting the committee’s work, including interagency groups joined, climate events hosted, statements and remarks by FHFA leadership, agency documents on climate risk, and steps taken by regulated entities.

4. Assess climate risks on financially vulnerable communities [Assessment: Green]

As noted in last year’s scorecard, in 2021 the FHFA updated the multifamily loan purchase caps for the GSEs, allowing loans to finance energy or water efficiency improvements with affordable units at or below 60% of area median income to be classified as mission-driven. That same year, Freddie Mac also published a white paper assessing the disparate impacts of natural disasters to low- to moderate-income (LMI) renters, and the FHFA included a summary of stakeholder recommendations in its climate RFI synopsis on priority actions to address risks to vulnerable communities.

In June 2022 Fannie Mae released a three-year Equitable Housing Finance Plan, which includes a climate analytics pilot with quarterly targets and outcomes to empower communities with data on their risk of facing climate-related events. Fannie Mae expects these analytics to inform an approach to mitigate climate risks, working with the Army Corps of Engineers, in these communities by using predictive modeling to assess the risk of climate events such as flooding, wildfires, and heat waves. The effort initially targets Memphis and Baltimore communities that are most likely to experience climate risks with communities of color and will directly engage with local officials to determine areas of geographic risk and overlay underserved communities. Fannie Mae expects to outline lessons learned from community engagement and expand the pilot to additional LMI communities and communities of color in 2023 and 2024.

Freddie Mac likewise released a three-year Equitable Housing Finance Plan in June 2022, which seeks to incentivize climate resiliency property improvements within multifamily properties in areas vulnerable to climate risk. The plan includes several initiatives to accomplish these goals, including: sustainability and climate impact financial education; capability tools; how to assess properties for resiliency; and product development. In its April 2023 plan update, Freddie Mac described additional tactics to integrate climate risk into its efforts, such as updating term sheets to include rehab loan eligibility, evaluating green financing tools’ ability to decarbonize, identifying and developing resiliency standards, and implementing those resiliency standards.
In January 2023, Freddie Mac also updated its Duty to Serve Underserved Markets Plan to incorporate climate risk and resiliency for underserved markets and vulnerable populations. This will include researching state programs and policies, developing a framework for securitizing energy-efficiency single-family mortgages to encourage lenders, automating capture of energy-efficiency data, updating lender applications and training, and purchasing GreenCHOICE Mortgages to support financing for energy-burdened LMI borrowers.

As part of its Climate Change and ESG Steering Committee, the FHFA established the Consumer Protection Working Group on which the deputy director of FHFA's Division of Housing Mission and Goals is a voting member. In July 2022, this working group developed an internal framework for evaluating climate-related policy and programmatic changes on consumers, including on historically underserved communities.

In its 2023 Annual Performance Plan, the FHFA stated that it would build on its own and its regulated entities’ experiences with natural disaster responses, especially impacts on vulnerable communities, with particular consideration of the effects of climate change on vulnerable communities. Similarly, the FHFA's 2022 Fall Econ Summit on Climate Risk included a panel focused on academic research of the climate impacts to vulnerable communities. Further, the FHFA presented four research papers in 2023 that will enhance the agency's understanding of the climate-related financial risk impacts on vulnerable communities.

The FHFA has also informed Ceres that it is an active participant in the Financial Literacy and Education Commission (FLEC), which the agency joined in July 2022. At the FLEC’s November 2022 public meeting, Director Thompson stated that the FHFA would like to participate in the FLEC’s report and research on climate vulnerable communities, noting the importance of efforts to help those most financially impacted by natural disasters.

5. Produce research and data on climate risk [Assessment: Green]

Considering the number of staff at the FHFA when compared to other federal financial regulators, the breadth of research the agency has undertaken on climate-related risk is notable. As discussed in last year’s scorecard, the FHFA issued an RFI on Climate and Natural Disaster Risk Management in 2021 to solicit public input on data availability, gaps, and linkages; physical and transition risk; FHFA's supervisory and regulatory responsibilities, financial disclosures; affordability; and fairness and equity. In March 2022, the agency provided a synopsis of responses to the climate RFI. However, no updates on actions the FHFA will take as a result of this data collection have been made public.

As noted above, the FHFA’s Climate Change and ESG Steering Committee and working groups work on various aspects of climate-related risk to the housing finance market. The Data and Research Working Group is tasked with collecting data and developing plans to resolve data and methodological gaps, and staff are currently engaged in various climate-related research projects. From conversations with the FHFA, Ceres understands the agency has procured climate-related data from several sources and is making headway to procure additional data. The FHFA also indicated that it hired a geographer and acquired GIS software to support climate data analysis and research August 2022, and is continuing outreach to assess external vendors for climate risk data and analytics, including climate models, catastrophe models, and more disaggregated and accurate data on property location and flood damage. Fannie Mae is also using the climate risk analytics firm Jupiter to assess physical risk for its residential mortgage portfolio.

Additionally, staff members on the Climate Change and ESG working group are assigned to work with FSOC’s CFRAC on workstreams related to scenario analysis, data requirements and infrastructure, and risk assessment; the Network for Greening the Financial System on workstreams related to scenario analysis, taskforce capac-
ity building, and supervision; and the Office of Financial Research’s Climate Data and Analytics Hub pilot on user acceptance testing, which will provide FHFA increased access to climate data and analytics. The FHFA also joined the Financial Literacy and Education Commission in July 2022 and FEMA’s Mitigation Framework Leadership Group in April 2023.

In November 2022, the FHFA’s Fall Econ Summit focused on climate risk in the housing industry included discussions from industry experts, GSE representatives, and academic papers. The FHFA has indicated to Ceres that the Fall Econ Summits focusing on climate risk will now be annual. In March 2023, the FHFA held a series of public roundtables that considered the mission and operational efficiencies of the FHLBanks, including a session on climate resiliency and risk management considerations. Fannie Mae is also partnering with housing industry leaders, such as the Insurance Institute for Business & Home Safety and the National Institute of Building Sciences, developing a roadmap on mitigation investment to better prepare the U.S. housing industry for climate resiliency.

The FHFA also presented multiple research papers relating to climate risk in 2023. At the American Real Estate Society’s Annual Spring Meeting and Conference, one of the biggest academic housing finance conferences in the U.S., FHFA researchers presented and received feedback on their findings following investigations of home prices after natural disasters using MLS data from areas impacted by Hurricane Ian, as well as property-level FEMA damage assessments. At the Association of Environmental and Resource Economists’ Annual Summer Conference, FHFA researchers presented a paper that investigated the relationship between household energy bills and their monthly mortgage payments, evaluating expenses relative to the cost of a mortgage and how climate may impact future costs.

FHFA researchers also attended the special issue Housing Sustainability and Affordability Conference to present two papers. The first presented a literature review on natural disasters, climate change, and current efforts to construct metrics analyzing the impact of climate risks on the economy. The FHFA expects this research to improve its abilities to take climate risk into consideration for its regulated entities. The second paper investigated the housing price impacts of New York City’s L-train subway shutdown following damage from Hurricane Sandy. The research found that sales prices for properties near the L-train fell after the service disruption was announced, suggesting that there are broad implications for climate-related effects on local infrastructure that may have spillover even years after the event.

Under FHFA’s guidance the GSEs are also involved in research and data collection on how physical and transition risk affect housing and mortgage risk. For example, both Fannie and Freddie plan to collect property-level elevation information in the Uniform Appraisal Dataset, a standardized industry dataset for appraisal information collected electronically through the Uniform Collateral Data Portal. In their 2022 10-Ks, Fannie and Freddie both describe the potential climate-related financial risks they have identified and how these risks affect housing and mortgage risk. Additional research produced by Fannie and Freddie from previous years, including on flood risk and resiliency standards, is available on their respective websites.

6. **Conduct climate-related scenario analysis** [Assessment: Yellow]

The FHFA’s Climate Change and ESG Steering Committee established the Assessing Exposure to Climate Change Working Group to develop guidance on climate-related stress tests and scenarios to be run by the regulated entities. While there is no public progress or updates from this working group, the FHFA informed Ceres that it is continuing to work with its regulated entities to improve their understanding of physical and transition risk, and that the GSEs have developed roadmaps for climate risk scenario analysis and are engaged in developing methodologies for acute physical risk measurement and analysis.
In June 2022, FHFA staff began participation with the NGFS' Scenario Design and Analysis workstream to enhance the agency’s understanding regarding best practices and available methodologies. Staff also attended the September 2022 NGFS Phase III scenario analysis launch event to hear recent updates on climate stress testing and scenario analysis. Likewise, FHFA staff continue to participate with FSOC’s CFRAC workstream on scenario analysis.

The FHLBanks also held a Climate Scenario Analysis and Stress Testing Symposium in June 2022 in which FHFA staff participated. The FHFA’s 2022 Fall Econ Summit on Climate Risk also included a session on climate stress testing, which included remarks from the GSEs climate officers as well as representatives from two data analytics firms.

Importantly, FHFA personnel have indicated to Ceres that they began reviewing scenario analyses to determine which types it will require the GSEs to run. The FHFA may also run its own scenarios to provide insights regarding the results its regulated entities obtain.

### 7. Improve climate-related disclosure [Score: Yellow]

In October 2022, Freddie Mac released its 2021 SASB report following FHFA guidance to align its metrics with Fannie Mae’s 2020 SASB report. Fannie Mae released its 2021 ESG report in December 2022 following FHFA guidance, and included information related to the GSE’s priority ESG topics, alignment with the SASB standard, and alignment with TCFD recommendations. Both Fannie and Freddie have additional ESG reporting available from previous years, including on green bonds and resiliency, available on their websites.

In November 2022, the FHFA organized a GHG accounting training for the GSEs with the Partnership for Carbon Accounting Financials. The FHFA’s Climate Change and ESG Steering Committee established the Reporting and Disclosures Working Group to provide guidance on the standards the GSEs and FHLBanks should meet and determine the frequency of ESG reporting, and works with the GSEs throughout development of the SASB and ESG reports. As the GSEs are under conservatorship, they cannot publish reports (including their SASB, ESG, and 10-K reports) without review and approval by the FHFA. Likewise, the FHLBank of Dallas published its 2022 ESG Report in April 2023 – this was the first such report in the FHLBank System.

Similarly, both Fannie and Freddie describe the potential climate-related financial risks they are exposed to in their 2022 10-Ks, although these filings do not quantify risks or disclose emissions data. However, the FHFA informed Ceres that the Reporting and Disclosures Working Group is engaging with the GSEs to ensure their preparedness for potential altered disclosure standards, such as the SEC’s proposed climate disclosure rule.

### 8. Include climate risk in supervisory guidance [Assessment: Green]

While the FHFA has not yet issued supervisory guidance, its unique conservatorship relationship with the GSEs offers the opportunity to direct change in a more timely and direct manner, setting priorities and goals without needing to issue guidance or regulation. The Climate Change and ESG Steering Committee’s eight working groups regularly meet with FHFA’s regulated entities to guide their progress toward climate-related targets and measures.

The FHFA is also working with both Fannie and Freddie to update their governance structures, assigning climate risk oversight, management, and decision-making to one or more board- or management-level, establishing board goals, building out corporate leadership structure to assign climate responsibilities, and updating corporate risk strategies to include climate. For example, Freddie Mac created the cross-divisional Climate Risk Advisory Group to focus on climate risk, prioritize climate risk activities, and identify issues for escalation to senior management and the Board Risk Committee. Fannie Mae similarly assigned primary oversight of climate-related risks to the Board’s Risk Policy and Capital Committee, while the Board’s Community Responsibility and Sus-
tainability Committee oversees development and implementation of climate risk management strategy. According to the FHFA, the FHLBanks are beginning similar governance updates.

The FHFA uses its annual Conservatorship Scorecard to communicate its priorities and expectations for the GSEs, including requirements to operate in a safe and sound manner while maintaining their goal of ensuring a reliable and affordable supply of mortgage funds, even in times of turmoil in the broader financial system. The 2023 scorecard directed the GSEs to undertake multiple initiatives on sustainability, resiliency, and integrating climate risk into risk management frameworks, which the GSEs are working on implementing in coordination with the Climate Change and ESG working groups.

Additionally, the FHFA’s 2022 Performance and Accountability Report also states that the agency “plans to issue climate risk examination guidance for evaluating the incorporation of climate risk into decision making of the Enterprises and FHLBanks.” The report also notes the agency’s intention “to seek opportunities to provide greater incentives for investments in climate resiliency and energy efficiency through its regulated entities.” The FHFA has informed Ceres that this includes arranging meetings between the GSEs and FHLBank System and other agencies and housing finance sector stakeholders, including the EPA and NAIC, to discuss energy efficiency and climate resiliency standards.

9. Include climate risk in regulation [Assessment: Red]

Ceres is not aware of any progress in this category.

Recommendations

Ceres has provided FHFA with specific recommendations that span the nine categories evaluated in this scorecard through our 2021 comment in response to FHFA’s RFI on Climate and Natural Disaster Risk Management at the Regulated Entities, 2020 report Addressing Climate as a Systemic Risk: A Call to Action for U.S. Financial Regulators, and 2021 report Turning Up the Heat: The Need for Urgent Action by U.S. Financial Regulators.

The consideration and adoption of these recommendations, particularly the recommendations below, would reflect positively on FHFA’s score across all nine categories of this scorecard:

1. Publicly affirm climate as a systemic risk
   - Continue to publicly acknowledge the systemic nature of climate-related financial risk in agency speeches and publications.

2. Expand internal climate-related capacities
   - Continue work within the Climate Change and ESG Steering Committee’s eight working groups, NGFS, CFRAC, FLEC, and other interagency climate risk working groups.
   - Continue internal education on climate-related financial risks, including through trainings, best practices, and examiner resources.
   - Continue supporting expansion of the GSEs’ internal climate risk management capacity.
   - Support expansion of the FHLBanks’ internal climate risk management capacity.
   - Establish and publicly announce an internal plan for how the FHFA will address climate-related financial risk to its regulated entities, including goals and priorities.
3. Increase transparency regarding climate-related risk management activities
   - Continue updating its Climate Change and ESG website with completed and ongoing climate risk-related activities, including those recommended in this section.
   - Explicitly describe in its Strategic Plan how climate will be integrated into standard risk-based supervision and expectations, and outline objectives and an approximate timeline.

4. Assess climate risks on financially vulnerable communities
   - Increase interagency coordination on assessing risk to financially vulnerable communities, provide updates, and publish findings, such as advances made with the FLEC Climate Resiliency Group.
   - Summarize and document the various streams of work underway related to financially vulnerable communities.
   - Consider the policy implications of climate-related financial risk supervision and regulation on LMI and BIPOC communities.
   - Provide recommendations and guidance to regulated entities to assess climate impacts on vulnerable and underserved communities, including resilience and adaptation standards, climate redlining, climate impacts on multi-family markets, etc.

5. Produce research and data on climate risk
   - Provide updates on the agency’s climate risk-related data collection and research.
   - Provide easily searchable access to white papers, blogs, infographics, etc. that demonstrate data collection and research on climate-related financial risk.
   - Invest in high-quality, asset-level data on climate-related risks, including flood, wildfire, wind, and sea-level rise.
   - Issue an RFI on available data, models, and other information that could be used, in addition to existing data, to inform the FHFA on climate-related risks to the housing financial system, particularly the adverse effects of climate on LMI communities.
   - Host a panel at the FHFA fall Econ Summit focused on climate risks to and management considerations for the FHLBank system.

6. Conduct climate-related scenario analysis
   - Issue an RFI to seek input on scenario analysis tools used by the GSEs, FHLBanks, or other industries to measure climate-related risks in the housing finance industry.
   - Design and conduct climate scenario analysis exercises with the GSEs and FHLBanks to assess safety and soundness and ability to withstand climate impacts, with scenarios that include physical and transition risks, disorderly transition, concurrent and consecutive risks, insurance gaps, impacts on multiple traditional risk categories, short- and long-term horizons, etc.
   - Increase capital requirements, capital buffers, and/or liquidity requirements where the results indicate insufficient levels to absorb losses.
7. Improve climate-related disclosure
   - Continue to invest in high-quality, asset-level data on climate-related risks, including flood, wildfire, wind, and sea-level rise.
   - Collect and publicly disclose portfolio level and asset level data on climate risk.
   - Provide an explanation of how FHFA work in considering new disclosure needs and FHFA-directed GSE reporting will be used to improve public disclosure requirements on climate risk.
   - Publish working group progress updates on work with the GSEs to ensure their preparedness for potential altered disclosure standards, such as the SEC’s climate disclosure rule.

8. Include climate risk in supervisory guidance
   - Provide clarity on FHFA’s efforts to address climate risk management expectations, such as including a specific section on the Climate and ESG website that explains the supervision and regulation work related to climate risk, how this work is supported by the various workstreams, and the nature of FHFA’s supervision the GSEs and FHLBanks.
   - Release its assessment of the climate RFI responses, and what actions FHFA will take based on its assessment.
   - Release its assessment of the FHLBank climate resiliency roundtable responses, and what actions FHFA will take based on its assessment.
   - Organize and collaborate on educational resources such as best practices, conferences, and webinars on climate risk for the GSEs and FHLBanks.
   - Issue supervisory guidance for the GSEs and the FHLBanks on best practices and expectations for climate-related financial risk management and resiliency standards.

9. Include climate risk in regulation
   - Propose and issue regulation for the GSEs and the FHLBanks regarding climate-related financial risk management requirements.

*These recommendations, all within the FHFA’s mandate and authority to implement, are designed to address climate-related financial risks and ensure FHFA-regulated entities fulfill their mission to serve as a reliable source of liquidity and funding for the housing finance market and protect our capital markets, financial system, and communities.*
ACKNOWLEDGMENTS

Ceres intends to conduct this assessment again in the future.

Visit the Ceres 2023 Scorecard website at ceres.org/scorecard for details on our methodology and updates on this process.

Lead Authors: Steven M. Rothstein, Managing Director, Ceres Accelerator for Sustainable Capital Markets

Monica Barros, Manager for Special Projects

Kelsey Condon, Senior Manager for Banking and Housing Finance

We deeply appreciate the professionalism, hard work, and diligent effort of the colleagues who contributed to this scorecard, including: Jim Coburn, Maura Conron, Heather Green, Ava Gulino, Becca Johnson, Amy Kvien, Eunyoung Lee, Holly Li, Diane May, Taylor Powell, Jake Rascoff, Tom Riesenber, Jim Scott, Alex Wilson, and Rohma Zubair.

We also thank the financial regulators for their time and feedback throughout this process and their valuable work throughout the year to address financial risk through climate change.

This report was made possible with support from the Conscious Bay Research, The Grantham Foundation for the Protection of the Environment, Heising-Simons Foundation, Inherent Foundation, Rockefeller Brothers Fund, Schable Family Foundation, and Skoll Foundation. The opinions and views of the authors do not necessarily state or reflect those of the foundations and funds.

About the Ceres Accelerator for Sustainable Capital Markets

Ceres is a nonprofit organization working with the most influential capital market leaders to solve the world’s greatest sustainability challenges. The Ceres Accelerator for Sustainable Capital Markets aims to transform the practices and policies that govern capital markets to reduce the worst financial impacts of the climate crisis. It spurs action on climate change as a systemic financial risk, driving the large-scale behavior and systems change needed to achieve a net zero emissions economy through key financial actors including investors, banks, insurers, and regulators. The Ceres Accelerator also works with corporate boards of directors on improving governance of climate change and other sustainability issues. For more information, visit ceres.org and ceres.org/accelerator, and follow @CeresNews.
Physical risk refers to financial loss as a result of the loss or devaluation of physical assets due to impacts of climate-related physical hazards and can impact a borrowers’ business model.

- **Acute risks** arise from extreme events, such as droughts, floods, wind, storms, wildfires, and heat waves.
- **Chronic risks** arise from progressive shifts in climate, such as rising temperatures, sea level rise, water stress, biodiversity loss, resource scarcity, land use change, and increased building costs to withstand these events.

These risks, which are increasing in both frequency and intensity, result in both direct and indirect impacts.

- **Direct impacts** include property damage, reduced productivity, and loss of life.
- **Indirect impacts** include decreased property value and supply chain disruption.

Financial intermediaries, such as banks, investors, and insurers, are directly exposed to physical risk through mortgages, commercial real estate, business, and agricultural loans, as well as through derivatives and securities tied to these markets.

Transition risk refers to financial loss as a result of the transition away from fossil fuels towards a low-carbon economy in order to curb climate change, disrupting the commercial practices and business conditions that borrowers rely on.

- **Policy and legal risk** stems from carbon pricing and reporting obligations, regulations of existing products and services, and exposure to litigation.
- **Technology risk** stems from substitution of existing products and services with lower emissions options, and unsuccessful investment in new technologies.
- **Market risk** stems from shifts in consumer and investor behavior, uncertainty through market signals, and increasing costs of raw materials.
- **Reputation risk** stems from changes in consumer and investor preferences, increased stakeholder concerns or negative feedback, and the infeasibility of a sector.

Declines in asset prices, revenue, and profitability, as well as stranded assets and higher costs of doing business, could impact firms that rely on carbon-intensive sectors. These impacts may affect operational, credit, liquidity, market, strategic, or migration risk.

Revaluation of assets could also cascade throughout the financial system, creating additional economic impacts and instability, as firms and investors offload assets, creditors decline business with firms particularly exposed to revaluation pressures, and stressed firms fail to pay back counterparties.
Related to both physical and transition risk, socioeconomic risk refers to financial loss as a result of climate impacts on individuals and communities.

Socioeconomic risk refers to financial loss as a result of climate impacts on:

- Physical assets
- Food systems
- Livability and workability
- Infrastructure services
- Natural capital

This includes health care costs, productivity loss, social and political unrest, and forced migration. These impacts are likely to worsen and compound as climate change progresses, substantially disrupting global markets and financial systems.

Socioeconomic risk also disproportionately impacts low-income communities and communities of color. As a result of historic and current injustices – including redlining – and lack of resources to protect against or deal with both physical and financial losses, these communities are more likely to experience the negative impacts of climate events and related risks, including health and financial consequences. Climate-related financial risks to financially vulnerable populations may generate long-term impacts on delinquent debts, bankruptcies, credit scores, employment, incomes, and wealth, exacerbating existing inequities, which can adversely affect the economic and financial strength across the country and financial system.

International Landscape

Central banks and prudential regulators around the world are increasingly taking action to address climate-related financial risk, with at least 37 implementing climate risk supervisory and regulatory policies and at least 53 beginning or having completed climate scenario analysis/stress testing exercises. Many U.S. companies and financial institutions will be – or already are – subject to these requirements. Likewise, international standard-setting organizations such as the Basel Committee on Banking Supervision (BCBS) and Financial Stability Board (FSB) play significant roles in addressing climate risk in the financial sector.

The BCBS is the primary global standard setter for the prudential regulation of financial institutions, providing a forum for cooperation on banking supervisory matters. Its members comprise central banks and bank supervisors from 28 jurisdictions, and include the Federal Reserve, OCC, and FDIC. In 2020, the BCBS established a Task Force on Climate-related Financial Risks (TCFR) to address climate risks for the purposes of enhancing financial stability and strengthening the regulation, supervision, and practices of financial institutions worldwide. The TCFR has since produced multiple reports on climate risks, their transmission channels, and supervisory principles to mitigate their impacts.

The FSB monitors and makes recommendations regarding the global financial system to promote stability and protect against systemic risks. It consists of central banks, financial regulators, and ministries of finance from over 20 countries – including the Federal Reserve, SEC, and Treasury – as well as other international financial organizations. In 2015, the FSB established the Task Force on Climate-related Financial Disclosures (TCFD)
to provide **recommendations** for voluntary climate-related financial disclosures by companies. The TCFD also regularly **analyses** the current state of company disclosure practices and prudential regulator adoption of TCFD recommendations.

Below, we briefly review some of the actions taken by six countries to address climate-related financial risks, all of which are **members** of the Central Bank and Supervision Network for Greening the Financial System (NGFS).

**Australia**

Australia has taken several actions to address climate risk and promote sustainability within its financial system. In 2017, Australia’s Council of Financial Regulators (CFR) – comprised of Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Australian Treasury, and the Reserve Bank of Australia (RBA) – **established** a climate working group to improve the ability of Australian companies and financial institutions to manage climate-related financial risks and provide comparable climate-related disclosures. The Australian legislature also **passed** a bill setting targets for the country to achieve net zero by 2050.

In 2021, the APRA **issued** supervisory guidance to assist financial institutions in complying with prudential standards. The guidance outlined best practices to manage climate-related financial risks, including identifying and measuring risks, monitoring risks, scenario analysis, mitigation plans, internal reporting, and external disclosures. In 2022, the APRA **published** aggregated results and key findings of its first climate scenario analysis exercise, conducted over two years with five Australian banks.

The APRA’s 2021 supervisory guidance also **highlights** the TCFD framework as best practice for disclosures, and the ASIC **recommends** companies consider reporting under the TCFD framework. Similarly, the Australian Treasury **published** a consultation paper for comment in 2022 on mandatory climate-related financial disclosures aligned with TCFD and ISSB standards, requirements of which are expected to go into force in 2024 or 2025.

**Brazil**

Brazil has implemented various initiatives and policies on climate-related financial risk. One notable example is the Banco Central do Brasil’s (BCB) 2021 **regulation** on risk management and social, environmental, and climate responsibility. The regulation defines both physical and transition risk, establishes a framework for financial institutions to integrate climate risk management and sustainability into their operations, and sets requirements for bank governance and decision-making policies.

The regulation also **mandates** banks incorporate climate-related risks into their stress tests, the **results** of which were released in 2022, and establishes mandatory disclosure of climate-related information in line with TCFD.

In 2022, the BCB **modified** existing rules for financial institutions’ internal capital adequacy assessment processes (ICAAP) to include climate risk considerations. That same year, the BCB **established** the Sustainable Rural Credit Bureau to **implement** incentives for sustainable rural credit operations, and **committed** to net zero by 2050.

**Canada**

As described in a 2022 letter to regulated financial institutions, Canada has **outlined** seven climate-related initiatives. Most notably, the Bank of Canada’s Office of the Superintendent of Financial Institutions (OSFI)
Issued final guidance for financial institutions in March 2023, after reviewing over 4,300 comments received in response to its May 2022 proposed guidance. It provides governance and risk management expectations, including best practices for risk identification and measurement, scenario analysis, capital and liquidity adequacy, and disclosure principles. The guidance will be effective at the end of 2024 for all domestic systemically important banks and Canadian-based internationally active insurance groups, and 2025 for all other regulated financial institutions.

In 2021, the Canadian Securities Administrators (CSA) published a request for comment regarding disclosure of climate-related information and is in the process of reviewing comments to that proposal while also considering potential impacts of international developments such as the SEC’s proposed climate disclosure rule. Under OSFI’s 2023 guidance, federally regulated financial institutions will also be expected to disclose certain climate-related information aligned with the TCFD framework, including scope 3 GHG emissions. OSFI is also separately moving forward with an ESG disclosure framework for federally regulated pension plans.

Additionally, the OSFI conducted its first climate scenario analysis exercise based on NGFS scenarios, publishing results in 2022. The OSFI intends to continue these exercises, standardizing the analysis framework, improving data collection, and incorporating systemic and physical risks.

**European Union**

The European Union has been at the forefront of addressing climate-related financial risk. In 2020, the European Central Bank (ECB) issued its Guide on Climate-Related and Environmental Risks, describing how the ECB expects institutions to consider these risks when formulating and implementing strategy, governance, and risk management frameworks. The ECB also conducted an assessment of financial institution approaches and integration of climate risks in its 2022 thematic review, the results of which helped form best practices observations, and expects financial institutions to meet all supervisory expectations by the end of 2024.

In 2021, the European Banking Authority (EBA) published a proposal for the integration of ESG risks into the supervisory framework for credit and investment firms and issued a follow-up report in 2022 evaluating potential avenues for integration into risk assessments. That same year, the EBA published implementing technical standards on Pillar 3 ESG disclosures, establishing a framework for how financial institutions should disclose how climate may exacerbate other risks within an institution and how those institutions are mitigating those risks. Likewise, the ECB, EBA, and European Parliament established guidelines for ESG-related disclosures within the financial services sector, which came into effect in 2021.

The European Commission also enacted the EU Taxonomy Regulation specifying disclosure obligations for financial institutions, which came into effect in 2020. The taxonomy was updated in 2022 and is again open for comment to incorporate additional criteria. In 2022, the European Securities and Markets Authority published guidelines for ESG-related investment fund labels, which it plans to finalize by the end of 2023.

Importantly, the ECB published the results of its climate risk stress test in 2022, which it carried out earlier that year for 104 significant banks based on NGFS scenarios. The scenarios encompassed long- and short-term transition risks and acute physical risks and were intended to assess financial institution progress and preparedness. For some financial institutions, the outcome of this exercise and on-site inspections of climate risk management impacted regulatory scoring, which impacted their Pillar 2 capital requirements. Similarly, the European Insurance and Occupational Pensions Authority published the results of its first climate stress tests in late 2022, which were based on a disorderly transition and abrupt rise in carbon prices.
Singapore

Singapore’s prudential regulators have made important strides in addressing climate and environmental risks for banks, insurers, and asset managers. In 2020, the Monetary Authority of Singapore (MAS) launched its four-pronged Green Finance Action Plan, which included strategies to strengthen financial sector resilience, harness technology and sustainable finance flows, develop sustainable market solutions, and knowledge and capabilities in sustainable finance.

That same year, the MAS released its final Guidelines on Environmental Risk Management to enhance the resilience of financial institutions and strengthen the role of Singapore’s financial sector in supporting the transition to a sustainable economy. The guidelines focus on climate change, loss of biodiversity, pollution, and land use changes through physical, transition, and reputational risk channels, and generally align with TCFD principles. The MAS set expectations on identifying, assessing, and managing environmental risks, including from climate change, delineating between expectations for different financial industries and participants. The guidelines went into effect in June 2022. In 2021, the MAS produced a handbook with practical implementation guidance and best practices on environmental risk management. The following year, the MAS issued information papers, which provided an overview of progress in the implementation of the guidelines, addressed best practices, and identified potential improvements.

In 2022, the Singapore government launched the Singapore Green Plan 2030, with additional climate-related disclosure requirements and promotion of green solutions. These advancements included the launch of the MAS ESG Registry platform; publication Ministry of Finance’s the Singapore Green Bond Framework; a consultation on introducing mandatory disclosure requirements for financial institutions; launch of the Singapore Exchange’s climate disclosure platform; and publication of the MAS 2021/2022 Sustainability Report.

In 2018, the MAS conducted a scenario analysis exercise with insurers featuring extreme flooding and consideration of the impact of higher claims on balance sheets arising from damage to insured properties. In 2021, an MAS study of bank and insurer exposure to climate-related transition risks found that nearly one third of the country’s financial assets are vulnerable, and that climate risk could be a threat to global financial stability within the three to five years. In 2022, the MAS conducted a scenario analysis exercise with selected key banks that examined the macroeconomic implications of acute physical risk by simulating the effect of a severe flood using damages associated with past flooding events in the region. The exercise identified climate change as an emerging vulnerability to Singapore’s financial system that “warrant[ed] close monitoring and an active assessment of options due to [its] potential to rapidly develop and materialise into significant financial stability risks.”

Additionally, climate reporting is mandatory on a “comply or explain” basis for all issuers; retail ESG funds are required to provide clear disclosures on their ESG investment objective and approach, relevant ESG criteria and metrics, and regular updates on how those objectives have been met; and MAS is consulting on mandatory disclosure requirements for financial institutions. The MAS also published its third public consultation on thresholds and criteria for its Green and Transition Taxonomy in 2023.

South Africa

South Africa’s prudential regulators have a long history of addressing climate- and environmental-related risks. In 2011, the National Treasury updated its regulations to require pension funds to consider environmental, social, and governance issues when assessing factors that materially affect the sustainable long-term performance of pension fund assets. The National Treasury, FSB, and South African retirement fund nonprofit Batseta issued practical guidance in 2013, which was updated in 2020 following additional stakeholder input.
In 2017, the National Treasury convened a working group comprised of regulators and industry to develop a green finance taxonomy and governance framework. The working group published a technical paper in 2020 defining the taxonomy for the financial sector, which was updated in 2021 after comments were reviewed. Similarly, South Africa’s Climate Risk Forum, of which the National Treasury is a co-chair, established the Sustainable Finance Working Group in 2020 to develop sustainable finance instruments.

The South African Reserve Bank’s (SARB) Prudential Authority (PA) distributed a survey to insurers and banks to determine awareness of climate risk and to assess the reporting landscape, including TCFD recommendations, and the results were released in 2019. The PA also established the Prudential Authority Climate Think Tank (PACTT) to promote, develop, and coordinate the PA’s regulatory and supervisory response to climate risks and in coordination with the SARB and with other relevant stakeholders.

In 2022, the PA issued guidance for financial institutions regarding potential climate-related financial risks and management expectations, noting that all “[s]upervised institutions should consider climate-related risks as part of their governance, risk management and internal and external reporting frameworks and identify any consequential impacts on their strategies and business plans.” The guidance also indicated that the PA is developing additional supervisory guidance to assist regulated entities, to be issued in 2023. The PA also included climate-related risks as one of the “flavour-of-the-year” 2023 topics for additional supervisory focus considering the significance of climate change to financial institutions.

Additionally, the SARB included a climate risk add-on to its 2021 stress test, focusing on the physical risks stemming from a drought scenario. The SARB intends to improve its methodology for assessing climate-related financial risks in future stress tests, conducting biennial, multi-year scenarios based on the NGFS examples that take into account lessons learned from other jurisdictions.
2023 Climate Risk Scorecard
Assessing U.S. Financial Regulator Action on Climate Risk

2023 METHODOLOGY


To better document progress and to reflect ongoing agency commitments and areas in need of attention, we have again updated the scorecard and expanded the assessment categories from six to nine, drawing from the FSOC report’s 35 recommendations. These new categories include increasing transparency of climate risk management activities (3), conducting climate-related scenario analysis (6), and bifurcating inclusion of climate risk in supervisory guidance (8) and regulation (9) into two distinct categories. Categories (2), (4), (5), and (7) were also updated to more closely align with the FSOC report recommendations.

The 2023 scorecard assesses 10 agencies: the Department of the Treasury, the Federal Reserve System (Fed), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), the Securities and Exchange Commission (SEC), the Municipal Securities Rulemaking Board (MSRB), the Public Company Accounting Oversight Board (PCAOB), the Commodity Futures Trading Commission (CFTC), and the Federal Housing Finance Agency (FHFA). Although the PCAOB was assessed in the 2021 inaugural scorecard, it was not assessed in 2022 due to recent changes in its board’s leadership. It has been reintroduced this year.

We assessed agency progress from July 2022 through June 2023 in each category described in the table below based on public reports and official statements, and progress updates shared directly with us verbally or in writing. Because some relevant agency activities are ongoing and may not yet be publicly reported, we made an effort to reflect significant advances not available in the public domain but shared with us by agency personnel. The assessments describe when non-public information was shared with Ceres. However, certain actions are only impactful when publicly and transparently shared with stakeholders.

We employed a color-coded system to indicate the level of progress: Red (no progress), Yellow (some progress), and Green (significant progress). Where an agency has no relevant authority in a specific category, we marked this category as “not applicable” (N/A).

We shared our assessments with the respective agencies to provide them with the opportunity to share additional details, updates, and comments. We appreciate the thoughtful feedback from the agency leadership. In tallying the tracked actions, an action may be cited in more than one assessment category, but is only counted once towards each regulator’s individual total and the overall regulator actions total.

We subsequently updated our assessments to reflect any relevant new information, as appropriate. In some cases, information shared did not change a grade, but offered important insight into agency activities. We highlight this information where possible in each regulator’s assessment analysis. This year’s assessments build on last year’s scores, incorporating new actions the regulators have taken since July 2022. If a regulator received a Green or a Yellow in an assessment category last year, they will receive at least a Yellow this year. However, a regulator may be downgraded from a Green or remain at a Yellow if no further action or no significant actions were taken under a given assessment category. For ease of reading, most of the actions taken prior to July 2022 are not included in this year’s narrative assessments. For more information on prior agency actions, please refer to the 2022 Climate Risk Scorecard.
We connected with all 10 financial regulators assessed through meetings and email exchanges to discuss their results. We thank the regulators for their time and feedback throughout this process, and for their efforts throughout the year.

More importantly, we value the public service from the thousands of dedicated individuals at those agencies. Their individual and collective effort is vitally important and truly appreciated.

<table>
<thead>
<tr>
<th>Assessment Key</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td>Affirm publicly climate as a <strong>systemic risk</strong></td>
</tr>
</tbody>
</table>
| Expand internal climate-related capacities | We will assess the extent to which the agency has expanded and established sustainable, well-resourced capacity “to define, identify, measure, monitor, assess, and report on climate-related financial risks and their effects on financial stability.” (FSOC 1.3).
This includes investments in staffing, appointing senior staff, forming internal working groups and/or committees, staff training, investments in technological and analytical capabilities, and financial resources provided to staff working on these issues. |
| Increase **transparency** regarding climate-related risk management activities | We will assess the extent to which the agencies have made information and data available to the public.
- “[I]nclude descriptions of their activities related to climate-related financial risks in their annual reports and consider incorporating climate-related financial risks in relevant risk reports that they publish, as appropriate ... [and] within the context of each member’s mandate and authority.” (FSOC 1.4).
- “[M]ake climate-related data for which they are the custodians freely available to the public, as appropriate and subject to any applicable data confidentiality requirements.” (FSOC 1.5). |
| Assess climate risks on financially vulnerable communities | We will assess the extent to which the agency - consistent with its mandate and authorities and its membership in the Financial Literacy and Education Commission (FLEC) - has assessed and made progress on addressing climate risks to financially vulnerable communities.
- “[C]oordinate the analyses of climate-related financial risks ... with their efforts to understand impacts on communities and households. FSOC members should, as applicable, integrate these analyses into their annual public reports.” (FSOC 1.6).
- “[E]valuate climate-related impacts and the impacts of proposed policy solutions on financially vulnerable populations when assessing the impact of climate change on the economy and the financial system.” (FSOC 1.8).
- “[FLEC members should] analyze and understand the impact of climate change on the financial well-being of financially vulnerable populations. FLEC members that are also FLEC members should actively participate in this analysis.” (FSOC 1.9). |

Notable progress | No progress | Some progress | Not applicable
### Produce research and data on climate risk

We will assess the extent to which the agencies have advanced research and data collection on climate risk.

- “Identify the data needed to evaluate the climate-related financial risk exposures of regulated entities and financial markets.” (FSOC 2.1).
- “Perform an internal inventory of currently collected and procured data and its relevance for climate risk assessments.” (FSOC 2.1).
- “Develop a plan for procuring necessary data through data collection, data sharing arrangements and information purchased from data providers or other sources.” (FSOC 2.1).
- “[F]acilitate the sharing of climate-related data across FSOC members and non-FSOC member agencies to assess climate-related financial risk, consistent with data confidentiality requirements.” (FSOC 2.2)
- “[D]evelop consistent data standards, definitions, and relevant metrics … to facilitate common definitions of climate-related data terms, sharing of data, and analysis and aggregation of data.” (FSOC 2.5)

### Conduct climate-related scenario analysis

We will assess the extent to which the agencies have begun to assess, develop, and conduct climate scenario analyses at their supervised entities.

- “[C]ollaborate with external experts to identify climate forecasts, scenarios, and other tools necessary to better understand the exposure of regulated entities to climate-related risks and how those risks translate into economic and financial impacts.” (FSOC 4.1).
- “[U]se scenario analysis, where appropriate, as a tool for assessing climate-related financial risks, taking into account their supervisory and regulatory mandates and the size, complexity, and activities of regulated entities.” (FSOC 4.3).
- “[C]onsider using common scenarios that build on existing work, including scenarios developed by NGFS and work at the FSB, as appropriate for the institutions and markets under consideration.” (FSOC 4.4).

### Improve climate-related disclosure

We will assess the extent to which the agency has enhanced public reporting requirements for their regulated entities. The market is currently mispricing climate risk. The lack of consistent disclosure by entities supervised by U.S. financial regulators is an obstacle to market efficiency and to the accurate pricing of climate risk.

- “[R]eview their existing public disclosure requirements and consider, as appropriate, updating them to promote the consistency, comparability, and decision-usefulness of information on climate-related risks and opportunities.” (FSOC 3.1).
- “[C]onsider enhancing public reporting requirements for climate related risks in a manner that builds on the four core elements of the TCFD.” (FSOC 3.2).
- “[C]onsider whether such disclosures should include disclosure of GHG emissions.” (FSOC 3.4).
- “[R]eview banks' public regulatory reporting requirements to assess whether enhancements are needed to provide market participants with information on institutions’ climate-related financial risks, taking into account a bank’s size, complexity, and activities.” (FSOC 3.7).

### Include climate risk in supervisory guidance

We will assess the extent to which the agencies have enhanced supervisory scrutiny of climate risk management at their supervised entities to ensure their resilience and the resilience of our financial system.

- “[C]larify or enhanced risk management expectations ... [and] guidance.” (FSOC 4.8).
- “[R]eview[] regulated entities' efforts to address climate-related risks.” (FSOC 4.6).
- “[R]eview[] existing ... guidance ... to identify where clarifications and enhancements are needed.” (FSOC 4.7).

### Include climate risk in regulation

We will assess the extent to which the agencies have incorporated climate risk management expectations into their regulatory requirements for supervised entities to ensure their resilience and the resilience of our financial system.

- “[C]larify[] or enhanced risk management ... requirements.” (FSOC 4.8).
- “[R]eview[] existing regulations ... and regulatory reporting to identify where clarifications and enhancements are needed.” (FSOC 4.7).