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Climate-Related Financial Risk: Bank Regulatory and Supervisory Developments

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Introduction

- This presentation summarizes bank regulatory and supervisory developments related to climate-related financial risks.
- We will update these materials periodically as warranted by further developments.
- There also are developments from a broad range of other bodies impacting financial markets and other sectors. These include consolidation among certain significant environmental, social and governance ("ESG") standard-setters and a shifting focus among various investment fund managers, proxy advisors, activists and other stakeholders. We have additional summaries and materials regarding these broader developments and would be happy to provide those if of interest.

Table of Contents

Recent Developments

Recent Developments

- On March 21, 2022, the U.S. Securities and Exchange Commission ("SEC") proposed long-awaited rules (the "Proposed Rules") to enhance and standardize climate-related disclosures for public companies under the Securities Act of 1933, as amended (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act").[1]
  - The Proposed Rules were approved by a 3-1 vote, with Commissioner Hester M. Peirce (the sole Republican Commissioner) dissenting.
- The comment window for the Proposed Rules closed on June 17, 2022, reopened on October 7, 2022 following a technical glitch and closed again on November 1, 2022, with the SEC receiving over 14,000 comments. The Proposed Rules would require both domestic and foreign private issuers ("FPIs"), regardless of industry sector, to include substantial climate-related disclosures in registration statements and periodic reports and are likely to significantly increase related data collection and monitoring obligations and costs, including:
  - Significant and detailed line-item disclosures in a number of climate-related areas, such as climate risk identification, management and governance;
  - Disclosure of Scope 1 and Scope 2 emissions and, if material or if included in an emissions target, Scope 3 emissions disclosures;
  - Mandatory third-party attestation over Scope 1 and Scope 2 emissions;
  - Disclosure of greenhouse gas ("GHG") emission reduction targets (if any) and related information; and
  - Climate-specific disclosures in a new note to registrants' audited financial statements (required under Regulation S-X).

1 See our memo "New Insights into the SEC's Climate Change Disclosure Rulemaking" for additional information

Recent Developments

- The Proposed Rules include a phase-in period for certain requirements for all registrants, with the compliance date dependent on the registrant's filer status, and an additional phase-in period for Scope 3 emissions disclosure and certain attestation requirements.[1] The SEC has provided the following illustrative compliance dates based on a hypothetical effective date in December 2022:

<table>
<tr><th>Registrant Type</th><th>All proposed disclosures (excluding Scope 3), including Scope 1 and Scope 2 GHG emissions metrics and associated intensity metrics</th><th>Scope 3 GHG emission metrics and associated intensity metrics</th><th>Financial Statement Metrics Audit Compliance Date</th></tr>
<tr><td>Large Accelerated Filer</td><td>FY 2023 (filed in 2024)</td><td>FY 2024 (filed in 2025)</td><td rowspan="3">Same as disclosure compliance date</td></tr>
<tr><td>Accelerated and Non-Accelerated Filer</td><td>FY 2024 (filed in 2025)</td><td>FY 2025 (filed in 2026)</td></tr>
<tr><td>Smaller Reporting Company ("SRC")</td><td>FY 2025 (filed in 2026)</td><td>Exempted</td></tr>
</table>

- It is currently expected that the Proposed Rules will become effective in either Q1 or Q2 of 2023.[2]
- Although the Proposed Rules have been largely based on the disclosure recommendations by the Task Force on Climate-related Financial Disclosures ("TCFD") and the Greenhouse Gas Protocol ("GHG Protocol"), the Proposed Rules do not require registrants to comply, or permit registrants to avoid specific obligations under the Proposed Rules by separately complying, with TCFD or another third-party framework provider.

1 The compliance date table is based on a hypothetical effective date in December 2022 as originally contemplated by the SEC and assumes that a registrant's fiscal year ends December 31, although the rules are now expected to become effective in Q1 or Q2 of 2023 instead of December 2022.
2 See https://news.bloomberglaw.com/securities-law/sec-climate-rules-pushed-back-amid-bureaucratic-legal-woes.

Recent Developments (cont'd)

- We have identified from the Proposed Rules (previous slide) 10 key sets of climate-related disclosures that registrants would be required to make, which are generally grouped across five categories.

A. Governance, Strategy and Risk Management Disclosures

1. Board oversight of climate-related risks
2. Management's role in assessing and managing climate-related risks
3. Climate-related risks that are reasonably likely to have a material impact on a registrant's business, results of operations or financial condition, which may manifest over the short, medium and long term
4. Information about and rationale for a registrant's internal carbon price (if one has been adopted)
5. Risk management processes for identifying, assessing and managing climate-related risks, including information as to the registrant's climate "transition plan" (if one has been adopted)

B. Disclosure of GHG Emissions Data

6. Scope 1 and Scope 2 GHG emissions
7. Scope 3 GHG emissions, but only if (i) material or (ii) the registrant has set a GHG emissions target or goal that includes Scope 3 emissions. Such disclosures would have a delayed compliance date, a safe harbor for liability and an exemption for SRCs from Scope 3 emissions reporting

C. Attestation Report

8. Attestation report for accelerated and large accelerated filers from an independent attestation service provider covering Scope 1 and Scope 2 emissions (subject to a phase-in over time, including a transition from a limited assurance standard to a reasonable assurance standard)

D. Climate-Related Targets and Goals

9. Disclosures regarding GHG emissions reduction targets or goals (if any)

E. S-X Article 14 Climate-Related Financial Statement Metrics

10. Climate-related financial statement metrics in a note to the audited financial statements

Recent Developments (cont'd)

- On December 16, 2021, the Office of the Comptroller of the Currency (the "OCC") released for public comment principles for climate-related financial risk management for large banks. The comment period ended February 14, 2022, and the comments are available here.
- On March 30, 2022, the Federal Deposit Insurance Corporation ("FDIC") similarly released for public comment its statement of principles. The comment period ended on May 29, 2022.
- On December 2, 2022, Federal Reserve Board ("FRB") also released for public comment related proposed principles. The comment period ends on February 6, 2023. FRB intends to work with the OCC and FDIC to promote consistency in the supervision of large banks through final interagency guidance.
- The agencies' proposed principles are substantively very similar:
  - The proposed principles would apply to OCC/FRB/FDIC-regulated institutions with over $100 billion in consolidated assets.
  - The principles cover the following topics: governance; policies, procedures and limits; strategic planning; risk management; data, risk measurement and reporting; and scenario analysis.
  - The proposals noted that adverse effects of a changing climate could include potentially disproportionate impact on the financially vulnerable, including low- to moderate-income ("LMI") and other disadvantaged households and communities.
  - Each agency's proposed principles address how climate-related financial risks should be incorporated into mitigating various risks, including: credit risk; liquidity risk; other financial risk; operational risk; legal/compliance risk; and other nonfinancial risk.
  - Among notable points, the proposals envision:
    - the board of directors having an active role in having understanding and knowledge to assess the potential impact of climate-related risks;
    - having climate-related risks incorporated into policies, procedures and limits;
    - having climate-related risks incorporated into internal control frameworks, including internal audit;
    - robust data measurement and reporting that would be used to inform decision-making across a firm; and
    - the use of scenario analysis to identify, measure and manage climate-related financial risk.
  - The proposals also note that, where banks engage in public communication of their climate-related strategies, boards and management should ensure that any public statements about their banks' climate-related strategies and commitments are consistent with their internal strategies and risk appetite statements.
- The agencies plan to elaborate on the principles in subsequent guidance that would distinguish roles and responsibilities of boards and management, incorporate the feedback received on the principles, and consider lessons learned from the industry and other jurisdictions.
- On December 21, 2022, the New York State Department of Financial Services ("DFS") issued new proposed guidance for New York State-regulated banking and mortgage institutions to help them manage safety and soundness risks related to climate change. The press release states that the DFS seeks to align their guidance with that of federal and international banking regulators.

Recent Developments (cont'd)

- On October 13, 2022, the Financial Stability Board (the "FSB") published two reports as part of its work on addressing climate-related financial risks, originally outlined in its roadmap for addressing climate-related financial risks on July 7, 2022:
  - A final report on supervisory and regulatory approaches to climate-related risks. The report aims to assist supervisory and regulatory authorities in developing their approaches to monitor, manage and mitigate cross-sectoral and system-wide risks arising from climate change and to promote consistent approaches across sectors and jurisdictions.
  - A progress report on climate-related disclosures, which takes stock of progress made over the past year by the new global standard-setter, by national and regional authorities and by firms.
- The reports have been delivered to G20 Finance Ministers and Central Bank Governors for their October 12-13, 2022 meeting.
- The report provides high-level recommendations to promote consistency as authorities continue to develop their approaches to monitor, manage and mitigate risks arising from climate change. The recommendations cover:
  - Supervisory and regulatory reporting and collection of climate-related data from financial institutions;
  - System-wide supervisory and regulatory approaches and the extent to which supervisory and regulatory tools and policies address climate-related risk; and
  - Early consideration of other potential macroprudential policies and tools.
- The progress report on climate-related disclosures examines:
  - Progress made by the International Sustainability Standards Board (ISSB) in developing its global baseline standard;
  - Actions undertaken by FSB member jurisdictions to require or promote climate-related disclosures; and
  - Firms' progress in making climate-related disclosures, as reported in the 2022 Task Force on Climate-related Financial Disclosures Status Report.

Recent Developments (cont'd)

- On June 15, 2022, the Basel Committee on Banking Supervision (the "BCBS") formally issued principles for the effective management and supervision of climate-related financial risks.
- Through the publication, BCBS aims to promote a principles-based approach to improving both (1) banks' risk management and (2) supervisors' practices related to climate-related financial risks.
- The paper sets out 18 principles, covering key areas such as corporate governance, internal controls, risk assessment, management and reporting.
  - The principles seek to achieve a balance in improving practices and providing a common baseline for supervisors and internationally active banks, while retaining sufficient flexibility given the degree of heterogeneity and evolving practices in this area.
  - The BCBS stated that the principles benefited from a wide range of comments from diverse stakeholders following a consultation in November 2021. The principles were designed to be adapted to a diverse range of banking systems in a proportional manner, depending on the size, complexity and risk profile of the bank or banking sector.
  - The BCBS expects implementation of the principles as soon as possible and will monitor progress across member jurisdictions to promote a common understanding of supervisory expectations and support the development and harmonization of strong practices across jurisdictions.
- The BCBS will continue to cooperate with other international financial standard setters and public sector bodies to address climate-related financial risks in an effective and coordinated manner.
- On December 8, 2022, the BCBS issued responses to frequently asked questions to clarify how climate-related financial risks may be captured in the existing Basel Framework.
  - The FAQs are intended to facilitate a globally consistent interpretation of existing Pillar 1 standards given the unique features of climate-related financial risks and should not be interpreted as changes to the standards.
  - Banks should consider how to incorporate climate-related financial risks in their interpretation and application of the existing Basel Framework, and continuously develop their capabilities and expertise in relation to climate-related financial risks.
- On December 8, 2022, Neil Esho, Secretary General of the BCBS, delivered a speech providing a review of the work of the Basel Committee at the FSI High Level Meeting in Abu Dhabi.

Recent Developments (cont'd)

- On July 28, 2022, the Office of Financial Research announced the launch of its Climate Data and Analytics Hub pilot, a new tool to help financial regulators assess risks to financial stability stemming from climate change.
- The tool aims to improve users' access to public climate and public financial data, high-performance computing tools, and analytical and visualization software.
- Access to the pilot initially will be limited to the Federal Reserve Board of Governors and the Federal Reserve Bank of New York, with the goal of expanding access to all of the Financial Stability Oversight Council ("FSOC") member agencies.
- The hub will allow pilot participants to integrate data from across the federal government, including wildfire, crop condition, precipitation and other climate-related data with their public supervisory data for a more precise view of the relationship between climate change and financial stability risk.

Financial Stability Oversight Council's Report

Financial Stability Oversight Council's Report

- On May 20, 2021, President Biden issued an executive order titled "Climate-Related Financial Risk", directing his administration to develop a sweeping strategy to measure, mitigate and disclose climate-related risks for public and private financial assets.
  - Development of the President's strategy is under the purview of Brian Deese, director of the National Economic Council, and Gina McCarthy, the National Climate Advisor, in coordination with Treasury Secretary Yellen and the Office of Management and Budget.

- In response to the directive in the executive order, the FSOC issued a report on October 21, 2021 assessing climate-related risks to the financial system and the United States. The FSOC's report identified climate-related financial risks as an emerging threat to U.S. financial stability of the United States. Doing so does not have any immediate regulatory or legal effect, but indicates that the FSOC will focus on climate-related financial risks as a part of its ongoing work.

- In the report, the FSOC made four main recommendations, listed below, and a number of sub-recommendations. See slides 14 through 17 for additional detail on the FSOC's recommendations.
  1. Build capacity and expand efforts to address climate-related financial risks;
  2. Fill climate-related data and methodological gaps;
  3. Enhance public climate-related disclosures; and
  4. Assess and mitigate climate-related risks that could threaten the stability of the financial system.

- The FSOC report notes that climate-related financial risks may manifest through traditional prudential risk categories that are supervised under safety and soundness mandates and that some depository institution regulators are incorporating climate-related financial risks into their areas of focus for monitoring and assessment.

- On July 28, 2022, the FSOC released a factsheet detailing the progress made to date by the FSOC's members in implementing the report's recommendations, noting progress in the areas such as capacity building, disclosure, data and risk assessment.

Financial Stability Oversight Council's Report (cont'd)

- The FSOC's recommendations for its member agencies:

1. Building capacity and expanding efforts to address climate-related financial risks.
   - The FSOC established the CFRC on December 17, 2021. The CFRC will identify priority areas for assessing and mitigating climate-related risks to the financial system and serve as a coordinating body, where appropriate, to share information, facilitate the development of common approaches and standards, and facilitate communication across the FSOC members and interested parties.
   - The FSOC will form a Climate-related Financial Risk Advisory Committee ("CFRAC"). The advisory committee, reporting to the CFRC, will help the FSOC gather information on and analysis of climate-related financial risks from a broad array of stakeholders.
   - Prioritize internal investments to expand their respective capacities to define, identify, measure, monitor, assess and report on climate-related financial risks and their effects on financial stability, including investments in staffing, training, expertise, data, analytic and modeling methodologies and monitoring.
   - Include 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.
   - Make climate-related data freely available to the public, as appropriate and subject to any applicable data confidentiality requirements.
   - Coordinate the analyses of climate-related financial risks conducted in the supervisory and regulatory functions of their agencies and organizations with efforts to understand impacts on communities and households. The FSOC members should integrate these analyses into the public reports discussed above and use the CFRC to share information regarding these efforts.
   - Federal Insurance Office ("FIO") should act expeditiously to analyze the potential for climate change to affect insurance and reinsurance coverage, in a manner consistent with Executive Order 14030.
   - Consistent with applicable mandates and authorities, evaluate 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.
   - The Treasury Department should engage other members of the Financial Literacy and Education Commission ("FLEC") to analyze and understand the impact of climate change on the financial well-being of financially vulnerable populations. The FSOC members that are also FLEC members should actively participate in this analysis.

Financial Stability Oversight Council's Report (cont'd)

2. Filling climate-related data and methodological gaps.
   - Promptly identify and take the appropriate next steps towards ensuring consistent and reliable data to assist in assessing climate-related risks through:
     - identifying the data needed to evaluate the climate-related financial risk exposures of regulated entities and financial markets;
     - performing an internal inventory of currently collected and procured data and its relevance for climate risk assessments; and
     - developing a plan for procuring necessary data through data collection, data sharing arrangements and information purchased from data providers or other sources.
   - Use existing authorities to implement appropriate data- and information-sharing arrangements to facilitate the sharing of climate-related data across the FSOC members and the non-FSOC member agencies to assess climate-related financial risk.
   - The FSOC should work with its members through the CFRC to coordinate efforts, as appropriate, to address data gaps, including prioritizing data sets and coordinating data acquisition, in order to avoid duplication of effort and facilitate the improvement and coordinated use of data and models across the FSOC members.
   - The Office of Financial Research, in coordination with the CFRC, should provide data services—including identifying, hosting, and procuring data—and analytical tools to facilitate members' assessment of climate-related financial risks, including scenario analysis.
   - Move expeditiously to develop consistent data standards, definitions and relevant metrics, where possible and appropriate, to facilitate common definitions of climate-related data terms, sharing of data, and analysis and aggregation of data.
   - Continue to coordinate with their international regulatory counterparts, bilaterally and through international bodies, as they identify and fill data gaps, address data issues and develop definitions, data standards, metrics and tools.

Financial Stability Oversight Council's Report (cont'd)

3. Enhancing public climate-related disclosures.
    - Review 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, consistent with mandates and authorities.
    - Consider enhancing public reporting requirements for climate-related risks in a manner that builds on the four core elements of the Task Force on Climate-Related Financial Disclosure, to the extent consistent with the U.S. regulatory framework and the needs of U.S. regulators and market participants.
    - Evaluate standardizing data formats for public climate disclosures to promote comparability, such as the use of structured data using the same or complementary protocols, where appropriate and practicable.
    - The FSOC understands that information on GHG emissions promotes a better understanding of the exposures of companies and financial institutions to climate-related financial risks. The FSOC recommends that its members issuing requirements for climate-related disclosures consider whether such disclosures should include disclosure of GHG emissions, as appropriate and practicable, to help determine exposure to material climate-related financial risks.
    - Continue to coordinate with their international regulatory counterparts, bilaterally and through international bodies, as they assess requirements for climate-related disclosures.
    - The SEC staff has proposed disclosure requirements for public issuers related to climate-related risks for the SEC's consideration. The FSOC is encouraged by the SEC's work on this critical issue and supports its efforts to consider enhanced climate-related disclosures to provide investors with information that is consistent, comparable and decision-useful.
    - Federal banking regulators, consistent with their mandates and authorities, should continue to review 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.
    - The FSOC supports continued efforts by FIO and insurance regulators to work together to enhance the existing climate-related disclosures for the insurance sector.
    - The SEC staff are evaluating requirements for registered funds and investment advisers related to ESG factors, including ESG claims and related disclosures, for the SEC's consideration. The FSOC is encouraged by the SEC's work on this issue and supports its efforts in this area.
    - The FSOC encourages its members to review their authorities to consider how disclosure of climate-related risks related to municipal securities can be enhanced.
    - The FSOC welcomes the work of the International Financial Reporting Standards Foundation Trustees in laying the foundation for the formation of an international sustainability standards board to promote the development of sustainability reporting standards focused on enterprise value creation that could lead to consistent and comparable disclosures that can be used as building blocks across jurisdictions.

Financial Stability Oversight Council's Report (cont'd)

4. Assessing and mitigating climate-related risks that could threaten the stability of the financial system.
    - Collaborate 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.
    - Continue to coordinate with international regulatory counterparts, bilaterally and through international bodies, as they assess climate-related financial stability risks.
    - Use scenario analysis, where appropriate, as a tool for assessing climate-related financial risks, taking into account supervisory and regulatory mandates and the size, complexity and activities of regulated entities.
    - Consider using common scenarios that build on existing work, including scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System and work at the Financial Stability Board.
    - To help inform interagency assessments of the systemwide effects of climate change, the CFRC should serve as a forum for the FSOC members to share data and methodologies and leverage the expertise needed to perform scenario analysis and share results.
    - Continue efforts to consider the incorporation of climate-related risks into regulatory and supervisory programs and update those programs as necessary, consistent with mandates and authorities. As part of this work, members should review regulated entities' efforts to address climate-related risks and clarify or enhance risk management requirements for regulated entities where necessary to promote appropriate consideration of climate-related financial risks.
    - Review existing regulations, guidance and regulatory reporting relevant to climate-related risks, including credit risks, market risks, counterparty risks and other financial and operational risks, to assess whether updates are necessary to appropriately address climate-related financial risks.
    - Evaluate whether additional regulations or guidance specific to climate-related risks are necessary to clarify expectations for regulated or supervised institutions regarding management of climate risks, taking into account an institution's size, complexity, risk profile and existing enterprise risk management processes.
    - Continue to coordinate with international regulatory and supervisory counterparts, bilaterally and through international bodies, as they review their regulatory and supervisory tools to mitigate climate-related financial risks.

Current Regulatory Landscape

The Current Regulatory Landscape

- There are currently no final and binding U.S. federal legislative or regulatory mandates on banks specific to climate change.
- Climate has been a priority of the SEC.
  - For example, climate disclosure rule-making have been in process and proposed rules were issued in March 2022, and in September 2021 the SEC issued climate-related comment letters to a number of issuers to more vigorously enforce existing climate disclosure guidance.
  - Moreover, to the extent climate-related risks are material to a publicly traded bank's business, the SEC would generally require disclosure of such risks, even under existing rules and staff guidance.
- The federal banking agencies' proposed principles (slide 8) are the first step in the development of federal standards in the banking industry.
- On November 8, 2021, Acting Comptroller of the Currency, Michael Hsu, said that bank boards have a critical role to play in turning words into action. He then outlined the following five climate change-related questions that large bank boards of directors should ask their senior management:

> "**Time is running out**...We are racing against increasing numbers of costly extreme weather events."
>
> "We are at an important moment. Climate change poses significant risks to the financial system. Detailed reports have been published. Eloquent words have been spoken. **It is time to convert those words into action**."
>
> *Michael Hsu*
> *Acting Comptroller of the OCC*
> *November 8, 2021*

1. What is our overall exposure to climate change?
2. Which counterparties, sectors or locales warrant our heightened attention and focus?
3. How exposed are we to a carbon tax?
4. How vulnerable are our data centers and other critical services to extreme weather?
5. What can we do to position ourselves to seize opportunities from climate change?

The Current Regulatory Landscape (cont'd)

- On January 10, 2023, FRB Chair Powell delivered a speech at a panel on "Central Bank Independence and the Mandate—Evolving Views" at the Symposium on Central Bank Independence in Stockholm, Sweden.
- On September 30, 2021, FRB Chair Powell stated in his testimony to the House Financial Services Committee that the FRB's role is to ensure that the firms it regulates are able to manage climate change risks. The central bank is developing a program requiring larger banks to produce a plan on how they would manage such risks.
  - Scenario analysis will be a principal tool for managing climate change risks. Currently, the focus is on better understanding what such risks are, how they will develop over time and where they come from, in contrast to the FRB's annual stress tests. FRB Chair Powell did not specify whether the scenarios would be developed by individual firms or by the central bank.
  - Earlier, at the June 2021 Green Swan Conference, FRB Chair Powell noted that financial institutions and policymakers would benefit from consistent disclosure standards.

"At the same time, in my view, the Fed does have narrow, but important, responsibilities regarding climate-related financial risks. These responsibilities are **tightly linked to our responsibilities for bank supervision**. The public reasonably expects supervisors to require that banks understand, and appropriately manage, their material risks, including the financial risks of climate change.

But without explicit congressional legislation, it would be **inappropriate for us to use our monetary policy or supervisory tools to promote a greener economy or to achieve other climate-based goals**. We are not, and will not be, a "climate policymaker. ""

Jerome H. Powell
Federal Reserve Chair
January 10, 2023

- Among the legislation that has been proposed to address climate-related risks in the financial sector, Representatives Ayana Pressley (D-MA), Mondaire Jones (D-NY) and Rashida Tlaib (D-MI) introduced a bill on September 15, 2021 that would require bank holding companies with $50 billion or more in assets to prepare emissions reduction plans, which would require a plan for such a firm to reduce financed greenhouse gas emissions significantly over time, including by reaching zero financed greenhouse gas emissions by 2050.
  - Somewhat similar to capital restoration plans under the prompt correction action regime, the FRB would be primarily responsible for reviewing, approving and enforcing the plans.
  - The bill also would add non-trivial contributions to financed greenhouse gases to the factors considered by the FSOC when considering designations of nonbank financial companies.

The Current Regulatory Landscape (cont'd)

- However, there have been recent state-level developments, such as in New York and Texas.
- On November 3, 2021, Acting Superintendent of Financial Services Adrienne A. Harris announced the creation of a new Climate Risk Division at the NY DFS. Dr. Yue Chen, NY DFS' inaugural Director of Sustainability and Climate Initiatives, will lead the new division as Executive Deputy Superintendent.
  - The new Climate Risk Division will integrate climate risks into its supervision of regulated entities, support the industry's growth in managing climate risks, coordinate with international, national and state regulators, develop internal capacity on climate-related financial risks, support the capacity-building of peer regulators on climate-related supervision and ensure fair access to financial services for all communities.

> "As one of the most critical issues of our generation, climate change poses wide-ranging and material risks to the financial system.…This new division and Nina's appointment position [NY] DFS at the forefront of climate-related financial supervision, fulfilling [NY] DFS' mandate to ensure the safety and soundness of our regulated companies as they manage the financial risks from climate change, and support the roles of our institutions in advancing the low-carbon transition and enhancing communities' resilience."
>
> *Adrienne A. Harris*
> *Acting Superintendent of Financial Services*
> *NY DFS*
> *November 3, 2021*

- In October 2020, the NY DFS issued guidance that banks and other firms under its supervision are expected to:
  - Designate board and senior management-level representatives to be accountable for the assessment and management of financial risks from climate change;
  - Conduct enterprise-wide risk assessments to evaluate climate change and its impacts on risk factors, such as credit risk, market risk, liquidity risk, operational risk, reputational risk and strategy risk;
  - Integrate the financial risks from climate change into their governance frameworks, risk management processes and business strategies; and
  - Begin to develop climate-related financial risk disclosures and consider engaging with the Task Force for Climate-Related Financial Disclosures.
- On the other hand, the Texas Comptroller's Office may now require certain publicly traded financial companies to confirm that they do not discriminate against fossil fuel-related businesses.

Source: Press Release, New York Department of Financial Services (Oct. 29, 2020).

International Activity

International Activity

- Basel Committee on Banking Supervision ("BCBS")
  - The BCBS is the primary global standard-setter for the regulation of banks and provides a forum for regular cooperation on banking supervisory matters among its 45 members across 28 jurisdictions. U.S. membership includes the FRB, the Federal Reserve Bank of New York, the OCC and Federal Deposit Insurance Corporation.
  - In February 2020, the BCBS established its Task Force on Climate-related Financial Risks, which is charged with contributing to the BCBS' mandate of enhancing global financial stability by identifying effective supervisory practices to mitigate climate-related financial risks.
  - On November 9, 2021, the BCBS reiterated that it is exploring the use of the Pillar 3 framework to promote a common disclosure baseline for climate-related financial risks.
  - On November 16, 2021, the BCBS issued a consultation on "Principles for the effective management and supervision of climate-related financial risks". The comment period closed February 16, 2022.
  - Topics covered by the consultation include: corporate governance; internal control framework; capital and liquidity adequacy; risk management process; management monitoring and reporting; comprehensive management of credit risk; comprehensive management of market, liquidity, operational and other risks; and scenario analysis.
  - The consultation also discusses principles for the supervision of climate-related financial risks.
  - On June 15, 2022, the BCBS issued finalized "Principles for the effective management and supervision of climate-related financial risks", which is discussed in further detail on slide 10.

- International Financial Reporting Standards ("IFRS")
  - In November 2021, the IFRS announced the establishment of its International Sustainability Standards Board ("ISSB") to develop global standards to improve the consistency, comparability and reliability of sustainability reporting.
  - In March 2022, the ISSB launched a consultation on exposure drafts of its first two proposed standards, the first covering general sustainability disclosures and the second covering specifically climate-related disclosures. Comment periods will close on July 29, 2022, with the standards expected to be issued by the end of 2022.
  - The BCBS supports the ISSB and, in parallel with the ISSB's work, will explore using Pillar 3 of the Basel Framework (regulatory disclosure requirements) to promote such common disclosure baseline for climate-related financial risk across internationally active banks.

International Activity (cont'd)

- International Organization of Securities Commissions ("IOSCO")
  - The IOSCO serves as the international standard-setting body for securities and futures market regulators and includes the SEC and the Commodity Futures Trading Commission as U.S. members.
  - The IOSCO established a Sustainable Finance Task Force ("STF") in 2020 with a mandate to address transparency and promote investor protection in relation to sustainability issues. In particular, the STF has been focused on improving sustainability-related disclosures by issuers and asset managers and providing decision-useful information for investors.
- International Monetary Fund ("IMF")
  - The IMF is working to include climate change in its macroeconomic and financial sector surveillance and to help members address the challenges of climate change. The IMF also publishes research on the economic and financial implications of climate change and provides policy guidance to members on mitigation, adaptation and the transition to a low-carbon economy.
- Network of Central Banks and Supervisors for Greening the Financial System ("NGFS")
  - The NGFS is a group of 95 member authorities from approximately 75 jurisdictions that, on a voluntary basis, exchange experiences, share best practices, contribute to the development of environment and climate risk management practices in the financial sector, and help mobilize mainstream finance to support the transition toward a sustainable economy. U.S. members are the FRB, OCC and NY DFS. The NGFS currently comprises five workstreams: Microprudential/Supervision, Macrofinancial, Scaling Up Green Finance, Bridging the Data Gaps and Research.

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