Ceres Accelerator
for Sustainable Capital Markets

2022 Climate Risk Scorecard

Assessing U.S. Financial Regulator Action on Climate Financial Risk

In April 2021, Ceres featured the first iteration of its U.S. financial regulators' climate risk scorecard in its report, **Turning up the Heat: The Need for Urgent Action by U.S. Financial Regulators in Addressing Climate Risk**. The scorecard, which rated the actions federal agencies were taking within their existing authority to address the systemic impacts of climate-related financial risk, found that regulators were behind in acting on these threats.

In the fourteen months since, U.S. financial regulators have made significant progress.

Our 2022 scorecard update finds that nine agencies collectively have taken more than 230 public actions that will help address climate-related financial risk. Notably, all nine agencies have publicly acknowledged climate as a risk to the financial system and begun efforts to obtain the data necessary to assess this risk. In another significant step, the Securities and Exchange Commission (SEC) issued a proposed rule that would require mandatory climate disclosure from public companies. Critically, for the first time in over 15 years, the OCC, FDIC, and Federal Reserve (Fed) proposed an update to their Community Reinvestment Act regulations, including climate resiliency and disaster preparedness within the definition of community development activities.

Despite these improvements, U.S. financial regulators must do more, more quickly to address the threats that climate-related financial risks present to the market, the safety and soundness of our financial institutions, and the entire economy.

It is widely understood that financial institutions and markets are exposed to climate risks, notably physical risks associated with asset damage and transition risks as market and regulatory conditions change. Yet, the current view of these risks is incomplete, and U.S. agencies still lag far behind their foreign counterparts in accounting for and addressing these risks.

Because the interconnectedness of the U.S. financial system means that failures by individual institutions to prepare for climate-related financial risks could implicate the integrity of the entire U.S. economy, far more concerted action is needed to deal with these compounding, accelerating threats. This is a clear opportunity for leadership from these agencies, which are uniquely positioned to take meaningful, coordinated steps to protect capital markets and the economy from climate-related financial risks, while bolstering the nation's competitiveness.

Regulators should therefore build on their progress to assess climate-related financial risk and its impact on their supervised entities. The time is now for regulators to move quickly to comprehensively deploy their ample authority to regulate, supervise, and guide an effective and efficient market response to these clear and present threats.

The 2022 Climate Risk Scorecard provides an in-depth and expanded assessment of the overall performance of nine federal financial agencies in addressing climate-related financial risk. It highlights over 230 unique public actions from 2020 through the publication of this scorecard. 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 six categories. These recommendations and the details of each agency's progress are described in the interactive **2022 Climate Risk Scorecard website.**

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2022 Climate Risk Scorecard

This table assesses more than 230 public actions that federal financial regulators have already implemented to address climated-related financial risk.

	FED	FDIC	OCC	NCUA	SEC	MSRB	CFTC	FHFA	Treasury
1 Publicly **affirm** climate as a systemic risk	✓	✓	✓	✓	✓	✓	✓	✓	✓
2 **Produce** research and data on climate change	–	–	–	–	✓	–	✓	–	✓
3 **Assess** climate risks on "financially vulnerable communities"	–	–	–	X	X	n/a	X	✓	–
4 **Appoint** senior staff to focus on climate change	✓	–	✓	–	✓	–	✓	✓	✓
5 **Improve** climate-related disclosure	X	X	X	X	✓	–	–	–	–
6 **Include** climate risk in supervision and regulation	X	–	–	–	✓	X	X	–	–

Notable progress or action completed (✓) · Some Progress (–) · No Progress (X) · Not Applicable (n/a)

Agencies assessed by the 2022 Scorecard

FED The Federal Reserve System
FDIC Federal Deposit Insurance Commission
OCC Office of the Comptroller of the Currency
NCUA National Credit Union Administration
SEC Securities and Exchange Commission
MSRB Municipal Securities Rulemaking Board
CFTC Commodity Futures Trading Commission
FHFA Federal Housing Finance Agency
Treasury U.S. Department of the Treasury

For the latest version of this scorecard, visit our website. Information as of June 23, 2022.

Elements of the Scorecard

The 2022 Scorecard assesses federal agencies based on their actions in six categories, including three new categories that were added to better document and reflect more recent agency commitments and public expectations. These new categories include key recommendations from the Financial Stability Oversight Council's (FSOC) October 2021 report on Climate-Related Financial Risk, which identified climate-related financial risk as an emerging threat to U.S. financial stability. The FSOC's report lays out 35 recommendations for its member agencies regarding actions each should take to address these risks, including enhancing regulatory and supervisory tools.

Key Findings of the Ceres 2022 Scorecard

All nine agencies have publicly affirmed climate as a systemic risk to the financial system.
This public affirmation sends a strong signal to the market that U.S. regulators have analyzed the current market dynamics and are taking climate-related financial risk seriously. All market participants—including investors, financial institutions, companies, states, and municipalities—should heed their expert findings, and prepare to deal with those risks.

All nine agencies have made progress in identifying the data needed to evaluate these risks and develop a plan to procure additional necessary data.
Having consistent and reliable data will allow agencies, investors, companies, and other market participants to measure and analyze climate-related financial risks, assisting each of these actors to appropriately respond to identified risks.

For those agencies with authority that encompasses the needs of financially vulnerable communities, there is greater variation in progress.
Only one agency, the Federal Housing Finance Agency (FHFA), has made notable progress on addressing the impacts of climate change on financially vulnerable communities, while three—the Commodity Futures Trading Commission (CFTC), SEC, and the National Credit Union Administration (NCUA)—have not made the public aware if any progress has been made.

In an important step to addressing this gap, the three banking agencies released a proposed rule to update the Community Reinvestment Act (CRA) regulations. Financially vulnerable communities, which include lower income communities and communities of color, are disproportionately burdened by climate-related physical risks as well as the financial risks that accompany both increasingly devastating climate impacts and the efforts to address climate-related financial risks. The Fed, OCC, and FDIC have, for the first time, included climate resiliency and disaster preparedness within the definition of community development activities. If these provisions remain in the final rule, financial institutions covered under the CRA will be encouraged to help meet the credit needs of financially vulnerable communities through loans, investments, and other services that allow these communities to prepare for natural disasters or build resilience to future climate-related events. Although this proposed rule may have significant impact, we hope all agencies evaluated in this year's scorecard increase their efforts to address climate risks to financially vulnerable communities.

Each agency has designated staff to focus on climate-related risks, with all but one appointing senior staff to lead those teams.
It is essential that regulators expand internal capacity through increased staffing, training, expertise, and budget in order to meet the size and scope of the challenges that climate financial risk poses. Most agencies have announced these staff publicly, and we encourage every agency to share this critical advance with the public.

There is substantially less progress on improving climate-related disclosures, with only one agency affirmatively incorporating disclosures into its policies, and four taking no action.
The SEC has improved its review and comment letter process for current filings and has improved its proxy voting policies, allowing investors to request more climate-related risk data through shareholder proposals. It has also reminded issuers of their obligations to comply with the SEC's 2010 interpretive guidance on climate disclosure and proposed a rule that would require U.S. publicly traded companies to disclose certain climate-related risk information, including GHG emissions.

However, none of the federal banking and credit union regulators have made public disclosure of any progress towards reviewing and improving climate-related disclosure requirements. The Fed, OCC, FDIC, and NCUA have taken no affirmative steps to incorporate such reporting into their regulations or guidance, although the OCC and FDIC inquired publicly whether existing requirements could be modified to capture exposure to climate-related financial risks. Public disclosure of climate-related financial risk is critical to effectively managing those risks. High-quality, consistent, and comparable information on an institution's exposure to climate-related risk allows regulators, investors, and other market participants to make informed investment and business decisions. This will facilitate more accurate pricing of these risks and help reduce market shocks to an unprepared market. Such disclosures serve to protect investors as well as the safety and soundness of institutions, while maintaining a fair, efficient, and resilient market.

Several agencies have begun to incorporate climate risk into their supervisory activities.
The SEC recently proposed a climate disclosure rule that would require U.S. publicly traded companies to disclose how their businesses are assessing, measuring, and managing climate change financial risks. Notably, the OCC and FDIC released draft guidance on climate-related financial risk for the largest financial institutions. These banking regulators, along with the Fed, are particularly important.

Banks play a crucial role in the U.S. and global economy and their response to climate financial risk impacts the entire financial system. The U.S. economy, and the U.S. banking sector in particular, is far more exposed to climate risks than most regulators and institutions have yet to account for. Institutions that fail to prepare for climate-related financial risks face far higher risks than what are currently being measured, let alone disclosed. Due to the interrelated nature of the U.S. financial system, any such failures could implicate the integrity of the entire U.S. economy.

The regulatory proposals by the SEC, OCC, and FDIC are major steps towards reducing the impacts of climate-related financial risks on our economy. However, the principles issued by the OCC and FDIC are non-binding and do not require affirmative action by the regulated entities. Moreover, the third banking regulator, the Fed, has yet to propose any such guidance. Issuance of uniform, binding guidance by the three banking agencies could avoid regulatory inconsistency and ease compliance costs for regulated entities.

While several other agencies have issued requests for information on these topics, the remaining agencies assessed in the scorecard have not made appreciable, publicly announced progress towards improving regulated entities' climate-related risk disclosures or including climate risk in their supervision of regulated entities.

Conclusion

In the past year, U.S. regulators have made great strides in tackling climate-related financial market participants, especially financial institutions, responding quickly to the serious risks highlighted by these regulators.

Despite these significant advances of the past 14 months, U.S. federal regulators still lag far behind some of their global counterparts and what science demands. While it is encouraging to witness federal financial regulators acknowledging and acting on the climate threat, the U.S. needs to move faster. U.S. regulators have the opportunity to seize the urgency of this moment by taking quick and decisive action to accelerate their progress. In doing so, they can ensure the competitiveness, stability, safety, and soundness of our capital markets and financial institutions, and protect our citizens and our economy from the most well-documented financial risk of our time.

Visit the Ceres 2022 Scorecard website at ceres.org/scorecard for details on our methodology and updates on this process. Ceres intends to conduct this assessment again in the future.

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The Ceres Accelerator for Sustainable Capital Markets is a center of excellence within Ceres that 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, and insurers. The Ceres Accelerator also works with corporate boards of directors on improving governance of climate change and other sustainability issues.
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