Ceres

Ceres Accelerator
for Sustainable Capital Markets

2023 Climate Risk Scorecard

Assessing U.S. Financial Regulator Action on Climate Risk

2023 METHODOLOGY

Since publication of Ceres' first scorecard in 2021 and the Financial Stability Oversight Council's (FSOC) Report on Climate-Related Financial Risk, federal financial regulators have made substantial progress in addressing climate-related financial risk.

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 PCOAB 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.

Assessment Key

Notable progress	No progress
Some progress	Not applicable

Category	Description
Affirm publicly climate as a **systemic risk**	We will assess the extent to which the agency has publicly affirmed the systemic nature of the climate crisis individually in official agency communications (outside of the FSOC report).
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 the[ir 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 f inancial system." (FSOC 1.8). • "[FLEC members should] analyze and understand the impact of climate change on the financial well-being of financially vulnerable populations. FSOC members that are also FLEC members should actively participate in this analysis." FLEC members include the OCC, FDIC, Fed, NCUA, SEC, and CFTC. (FSOC 1.9).

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]larif[y] 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]larif[y] 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).