



Regulatory Alert for Financial Services

Regulatory Insights

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Climate Risk: FRB pilot scenario analysis

The Federal Reserve Board (FRB) Climate Scenario Analysis Pilot is a significant step in quantifying climate risk including physical and transition risks. While many institutions already have strong econometric models and operating models for credit loss modeling (CECL and CCAR), the additional element of climate scenarios and climate risks will require institutions to rethink their operating model to facilitate the successful assessment, measurement, and response to risks and opportunities. The pilot program should also be seen as a bellwether for future regulatory expectations for financial service providers regardless of asset size.

The Federal Reserve Board (FRB) announced a pilot [climate scenario analysis exercise](#) for the largest banks that is designed to enhance both supervisors' and firms' capabilities for measuring and managing climate-related financial risks. Six financial institutions will participate in the exercise.

Climate Scenario Analysis Pilot

The FRB will:

- Begin pilot exercise in early 2023 and is expected to conclude by year-end
- Publish detailed climate, economic, and financial variables that make up the climate scenario narratives at the beginning of the exercise
- Analyze the impact of the scenarios on specific bank portfolios and business strategies
- Review firms' analyses and engage with them to build capacity to manage climate-related financial risks
- Publish insights gained from the pilot at an aggregate level, including how insights from scenario analysis will help identify potential risks and promote risk management practices

NOTE: FRB defines climate scenario analysis as a tool to assess climate-related financial risks, in which the resilience

of financial institutions is assessed under different hypothetical climate scenarios.

In announcing the pilot, FRB clarified that there will be no capital or supervisory implications from the pilot, and that climate scenario analysis is distinct and separate from bank stress tests.

Interagency Efforts

In addition to the pilot exercise, FRB has [indicated](#) its intention to work with the OCC and FDIC in the near-term to provide guidance to large banks on expectations around identification, measurement, monitoring, and management of the financial risks of climate change.

Similarly, FDIC recently [spoke](#) about the financial risks of climate change, outlining FDIC's efforts on a cross-disciplinary, interagency approach with international and banking industry engagement, as well as its proposed Principles for Climate-Related Financial Risk Management, including climate scenario analysis. Consistent with the FRB announcement, FDIC stated, "Climate-related scenario analyses should be designed and used by institutions for building knowledge and capabilities associated with climate-related financial risk management, as well as for better understanding gaps in methodologies and data."



Relevant KPMG Thought Leadership:

Please refer to:

- [FRB Press Release: Pilot climate scenario analysis exercise](#)
- [FRB Speech \(Barr\): Making the Financial System Safer and Fairer](#)
- [FRB Speech \(Brainard\): Building Climate Scenario Analysis on the Foundations of Economic Research](#)
- [FDIC Speech \(Gruenberg\): The Financial Risks of Climate Change](#)
- [Regulatory Alert | Climate scenario analysis](#)

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