BANK POLICY INSTITUTE

July 15, 2024

Via Electronic Submission

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 – Basel, Switzerland

Re: BCBS Discussion Paper – The Role of Climate Scenario Analysis in Strengthening The Management and Supervision of Climate-Related Financial Risks

Ladies and Gentlemen:

The Bank Policy Institute[1] appreciates the opportunity to comment on the Basel Committee on Banking Supervision's discussion paper titled "The role of climate scenario analysis in strengthening the management and supervision of climate-related financial risks" (the "**Discussion Paper**").[2]

I. Executive Summary

We appreciate the BCBS's efforts to "gather feedback from stakeholders on a range of topics related to the practical application of [climate scenario analysis] and its role in strengthening the management of climate-related financial risks."[3] Our members are actively evaluating climate-related financial risks and their potential impacts and are devoting substantial resources to developing risk management capabilities to identify, measure, and mitigate these risks.

Climate Scenario Analysis ("**CSA**") is emerging as an important tool for banks to identify and understand potential impacts of climate-related financial risks. The Discussion Paper raises important considerations for the role of CSA in the management and supervision of climate-related financial risks.

We support the BCBS's view that "CSA should have clearly articulated and formally adopted objectives."[4] The Discussion Paper summarized the objectives of CSA and climate stress testing ("**CST**")

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1 The Bank Policy Institute is a nonpartisan public policy, research and advocacy group that represents universal banks, regional banks, and the major foreign banks doing business in the United States. The Institute produces academic research and analysis on regulatory and monetary policy topics, analyzes and comments on proposed regulations, and represents the financial services industry with respect to cybersecurity, fraud, and other information security issues.

2 BCBS, *The role of climate scenario analysis in strengthening the management and supervision of climate-related financial risks*, April 2024, https://www.bis.org/bcbs/publ/d572.pdf.

3 *Id.* at 1.

4 *Id.* at 5.

articulated in the *Principles for the effective management and supervision of climate-related financial risks* ("***Principles***")[5] by classifying those objectives under four main categories: (1) risk identification; (2) risk management processes; (3) internal and supervisory capital and liquidity assessments; and (4) assessment of business model resilience and business strategy building (together, the "**Objectives**"). Although we agree that these Objectives, as a general matter, should be considered in designing CSA, to the extent applicable and appropriate, and that CSA exercises are useful in helping banks understand potential climate-related financial risk exposures in a specific scenario, we believe it is important for the BCBS to acknowledge the limitations of CSA as well. Climate scenarios are neither forecasts of climate-related physical risk events nor forecasts of government, business, and consumer behavior in response to those events. There is a high degree of uncertainty around the timing and magnitude of climate-related physical risk events and the resulting political, social, and economic reactions that may ensue. Those uncertainties can generate considerable variation in estimates of expected impacts on banks' climate-related financial exposures, which makes it challenging to incorporate CSA results into risk management and strategic decisions.

We are also concerned that the Objective relating to internal and supervisory capital and liquidity assessments appears to assume that climate-related financial risks are sufficiently material to affect banks' capital adequacy that they should be incorporated in banks' capital and liquidity assessment processes. However, the results of supervisory CSA and CST conducted in multiple jurisdictions to date have consistently shown that the levels of potential exposures posed by climate change have not yet risen to the levels of risk that would affect banks' capital adequacy.

We are also concerned that some aspects of the Objectives may indicate or may be interpreted to indicate a view that climate-related financial risk should be treated as a standalone risk type. This view would not be consistent with the approach to effective management and supervision of climate-related financial risk previously adopted by the BCBS, which approaches climate-related financial risks as *risk drivers* that can translate into traditional financial risk types, rather than a standalone risk type. Climate risk drivers should be treated in the same manner as other financial risk drivers when institutions run their Internal Capital Adequacy Assessment Process ("**ICAAP**") and Internal Liquidity Adequacy Assessment Process ("**ILAAP**") processes, with only those risks assessed as material incorporated into the assessment.

The Discussion Paper also identifies key features and usage-specific considerations for CSA. Although we generally agree with the key features described in the Discussion Paper, which provide the overarching principles for designing CSA exercises, we are concerned that some of the usage-specific considerations, if implemented, would not be consistent with the overarching principles embodied by some of the key features.

To address these concerns and support the BCBS's continued efforts to provide guidance on CSA, we urge the BCBS to consider the following recommendations in connection with any future work on CSA:

- The BCBS should acknowledge that the high degree of uncertainty surrounding CSA results makes it challenging to incorporate CSA results into risk management and strategic decisions.

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[5] BCBS, *Principles for the effective management and supervision of climate-related financial risks*, June 2022, https://www.bis.org/bcbs/publ/d532.pdf.

- The Objectives appear to assume that climate-related financial risks should be incorporated into a bank's internal and supervisory capital and liquidity assessment processes, which is generally inappropriate at this time.

- The Objectives should be consistent with the *Principles*, which appropriately recognize climate-related financial risks as drivers of traditional risk types rather than a standalone risk type.

- The role of CSA in assessing business model resilience and business strategy building should be clarified to avoid suggesting that banks should use CSA to assess their climate transition plan or targets and, more generally, the BCBS should avoid framing CSA in a way that could potentially constrain banks' business models and strategic planning.

- The BCBS should acknowledge that, on balance, it would be better to limit standardization in CSA exercises at this time to allow for more tailored CSA exercises that better capture banks' idiosyncratic risks and encourage innovation in the rapidly evolving CSA practices.

- The BCBS should ensure consistency between the usage-specific considerations and the key features of CSA.

- Any future CSA guidance issued by the BCBS should be principles-based.

We welcome the opportunity to meet with BCBS's representatives to discuss our comments and to work with the BCBS to further develop the objectives and key features for CSA.

II. The BCBS should acknowledge that the high degree of uncertainty surrounding CSA results makes it challenging to incorporate CSA results into risk management and strategic decisions.

We agree that CSA exercises may be useful in a range of risk management processes. However, it is important that any future BCBS guidance on CSA clearly acknowledge the limitations of CSA. CSA exercises are useful in helping banks understand how a specific climate scenario could translate into climate-related financial risk exposure given a specific set of variables. That said, climate scenarios are not forecasts and should not be used as such. While CSA results may provide insights into potential areas of vulnerability and financial risk transmission channels, they are not an indicator of the likelihood that these specific events will materialize or that the actual resulting impacts (even if these specific events do materialize) will mirror those assumed impacts of these events used in the CSA exercises.

Further, exposures subject to physical risks do not directly equate to risk of financial loss. The financial impact will also stem from human reactions to these events, and not only from the financial impact associated with the occurrence of the events in and of themselves. How those human reactions will unfold, however, is highly uncertain.

Caution is therefore required when interpreting any CSA results, in light of the high degree of uncertainty associated with those results. Those uncertainties can generate considerable variation in estimates of expected impacts, which makes it challenging to incorporate CSA results into risk management and strategic decisions.

III. The Objectives appear to assume that climate-related financial risks should be incorporated into a bank's internal and supervisory capital and liquidity assessment processes, which is generally inappropriate at this time.

The Objective relating to "internal and supervisory capital and liquidity assessments" appears to assume that climate-related financial risks should be incorporated into a bank's internal and supervisory capital and liquidity assessment processes. However, this assumption is generally inappropriate at this time for several reasons.

First, the results of supervisory CSA and CST conducted in multiple jurisdictions to date consistently showed that the levels of potential bank exposures posed by climate change have not yet risen to the levels of risk that would affect banks' capital adequacy. For example, the Institute of International Finance evaluated the results of supervisory CSA and CST and concluded that "on a purely quantitative basis, the levels of potential exposure and stability risks posed by climate change . . . do not appear to currently indicate levels of risk over the near to medium term which would justify the use of the capital framework."[6] In addition, a recent BPI post compared the results from the pilot CSA exercise with the results from the Comprehensive Capital Analysis and Review ("**CCAR**") exercise, each conducted by the Board of Governors of the Federal Reserve System (the "**Federal Reserve**") in 2023, and concluded that "climate risks do not rise to the level of capital level risks for banks and do not pose systemic risks to the financial system."[7]

Second, there are significant differences in the time horizons analyzed within banks' capital and liquidity assessment processes as compared to those assessed in the course of CSA exercises. In assessing capital and liquidity, including through the ICAAP and the ILAAP, risk factors ordinarily materialize over a three-to-five-year period. Climate-related risks, in contrast, may materialize over multiple time frames—some risks could occur in the shorter term, while others (and especially those that may be more significant) may not occur for decades. Given that capital requirements are intended to provide a cushion against unexpected losses that may occur in the near term, it would be inappropriate to calibrate capital requirements for climate-related risks that may materialize over a much longer time horizon.

Third, although CSA/CST for climate-related risks that materialize in the near term (*e.g.*, certain severe weather events) could conceptually serve as an input to capital and liquidity adequacy assessments, we believe it would not be appropriate to use them in that manner at this time because of significant challenges associated with knowledge, data, and modeling. As recognized by the BCBS, caution is required when using CSA/CST to assess the resilience of banks' capital positions to climate risks, and several key conditions would need to be met before CSA/CST could be informative to quantitative capital planning, including maturation of data and tools, improvements in knowledge of financial risk transmission channels,

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6 Institute of International Finance, *Climate and Capital: Views from the Institute of International Finance* (July 28, 2022), at 4, https://www.iif.com/portals/0/Files/content/32370132_climate_and_capital_-_perspectives_from_the_iif_final.pdf. *See also* Institute of International Finance, *Navigating Climate Headwinds: Reference Approaches for Scenario-based Climate Risk Measurement by Banks and Supervisors* (July 2021), https://www.iif.com/portals/0/Files/content/Regulatory/07_15_2021_navigating_climate_headwinds.pdf.

7 Greg Hopper, *The Fed Pilot Climate Scenario Analysis Exercise: A Review*, https://bpi.com/wp-content/uploads/2024/05/The-Fed-Pilot-Climate-Scenario-Analysis-Exercise_A_Review.pdf (finding that the predicted losses in the Federal Reserve's 2023 pilot CSA exercise are an order of magnitude smaller than losses predicted as a result of the Federal Reserve's 2023 CCAR testing).

and inclusion of risks that could plausibly materialize in the near term.[8]

At this point in time, data, and modeling challenges continue to constitute obstacles to considering CSA/CST in an ICAAP/ILAAP or broader Pillar 2 context. For example, participants in the Federal Reserve's pilot CSA exercise noted a range of data gaps, including gaps related to real estate exposure, insurance, obligors' transition risk management, and infrastructure.[9] In particular, participants emphasized the importance of developing a more nuanced understanding of insurance markets to manage climate-related risks.[10]

In addition, regulators and financial institutions face serious challenges in developing physical risk models to accurately predict the manner in which climate risk will manifest itself. These challenges present for a number of reasons, including: first, physical risk is inherently interdisciplinary, requiring an understanding of physics, economics, hydrology, meteorology, fire science, industrial health, and biometeorology, among other disciplines; banks and their regulators are understandably not familiar with all these areas and are not well positioned to make the assessment; second, as previously recognized by the BCBS, "climate-related events and risks are uncertain" and "may be subject to non-linearities," and while some aspects of physical risks can be predicable, "there is increasing uncertainty as to the location, frequency and severity of these events";[11] and third, there are still crucial outstanding questions in the academic literature in many areas that must be resolved before physical risk management can be mature.

For the reasons noted above, although we believe that it is important for banks to develop and enhance risk management capabilities to identify, measure, and mitigate climate-related financial risks, and we acknowledge that it may, at some future point in time, be appropriate for banks to consider incorporating climate-related financial risks into their capital and liquidity assessment processes (for example, when banks can reliably assess and quantify climate-related financial risks in a manner consistent with other quantified risks presented in financial statements, and to the extent that those risks, when considered under the appropriate timeframe, are material to the bank's capital and/or liquidity positions), it would be generally inappropriate to assume that banks should incorporate them into their capital and liquidity assessment processes at this point in time.

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8 BCBS, *Climate-related financial risks – measurement methodologies* (Apr. 2021), https://www.bis.org/bcbs/publ/d518.pdf.

9 Board of Governors of the Federal Reserve System, Pilot Climate Scenario Analysis Exercise, Summary of Participants' Risk-Management Practices and Estimates (May 2024) ("**Pilot CSA Exercise**"), at 8, https://www.federalreserve.gov/publications/files/csa-exercise-summary-20240509.pdf.

10 *Id.* at 9. *See also* OCC, Semi-Annual Risk Perspective (Spring 2024) Section E. Climate-Related Financial Risk, at 34, https://www.occ.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pub-semiannual-risk-perspective-spring-2024.pdf (stating that a current observation from discussions with large banks about their climate-related financial risk management programs is that "banks are at an early stage in analyzing the effects of insurance affordability and availability challenges").

11 BCBS, *Climate-related risk drivers and their transmission channels* (Apr. 2021), at 2, https://www.bis.org/bcbs/publ/d517.pdf. *See also* Greg Hopper, A Primer on Climate Physical Risk (Feb. 28, 2024) (reviewing relevant research literature on the effects of climate change on hurricanes, observing that "there is limited consensus on the effects of climate change on hurricane tracks and genesis points," and discussing the difficulties of precisely tying to specific geographic areas any potential changes to hurricane risk that are projected to materialize over the long run).

IV. The Objectives should be consistent with the *Principles*, which appropriately recognize climate-related financial risks as drivers of traditional risk types rather than a standalone risk type.

In the Objective relating to "risk management processes," the BCBS explains that CSA exercises may be useful in a range of risk management processes, including "determining exposure or risk limits."[12] This statement could be viewed as suggesting that banks should adopt risk limits specifically tied to climate-related financial risk, effectively treating climate-related financial risk as a standalone risk type. Consistent with existing regulatory expectations that a bank's risk management frameworks address all risk considerations that are material to the bank, and given that material climate risk considerations are drivers of traditional banking risks, material climate risk considerations should be captured in existing risk limits along with all other material risk drivers. Although we agree that CSA is a useful tool for risk management processes and that banks should consider the impacts of *material* climate-related financial risks on their overall risk appetite, where appropriate, mandating any risk limits specifically tied to climate-related financial risk based on CSA exercises could lead to an outsized focus on climate-related financial risk within a bank's broader risk appetite framework.

In addition, as discussed above, in the Objective relating to "internal and supervisory capital and liquidity assessments," the BCBS appears to assume that climate-related financial risk should be incorporated into a bank's internal capital and liquidity assessments.[13] This position could also be viewed as automatically treating climate-related financial risk as a material, standalone risk type warranting special attention.

Instead, climate risk drivers should be approached in the same manner as other financial risk drivers when banks run their ICAAP and ILAAP processes, with only those assessed as *material* incorporated into the assessment. The Objectives should be clarified to appropriately recognize climate-related financial risks as drivers of traditional risk types (*e.g.*, credit risk, market risk, liquidity risk, and operational risk) rather than a standalone risk type.

This approach would ensure consistency with the approach to effective management and supervision of climate-related financial risk previously adopted by the BCBS in the *Principles*. This approach would also ensure that climate-related financial risks are not treated differently from other emerging risks (*e.g.*, cybersecurity and artificial intelligence) that manifest through traditional risks. Treating climate-related financial risk as a standalone risk type, on the other hand, could distract banks and regulators from focusing on risks based on materiality and lead to the misallocation of risk-management resources.[14]

V. The role of CSA in assessing business model resilience and business strategy building should be clarified to avoid suggesting that banks should use CSA to assess their climate transition plans or

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12 Discussion Paper, at 3.

13 *See id.* at 4.

14 *See* Federal Reserve Governor Bowman, *Speech to Texas Bankers Association 2024 Annual Meeting*, (May 10, 2024), https://www.federalreserve.gov/newsevents/speech/bowman20240510a.htm (noting that the "regulatory attention and focus on one specific, non-core risk could reasonably call into question whether regulatory priorities are focused sufficiently on key risks" and that "prioritizing climate risk in this way could lead to the misallocation of risk-management resources.").

decarbonization targets and, more generally, the BCBS should avoid framing CSA in a way that could potentially constrain banks' business models and strategic planning.

In the Objective relating to "assessment of business model resilience and business strategy building," the BCBS notes that CSA results can "inform banks' strategies . . . concerning transition."[15] Because banks may establish climate transition plans and decarbonization targets as part of their business strategies concerning transition to a low-carbon economy, this Objective could be viewed as suggesting that banks should use CSA results to assess the resilience of their business strategies relating to climate transition plans and/or decarbonization targets.

It is important to note, however, that while it may be appropriate to use CSA to assess the resilience of banks' business models and business strategies against the impacts of climate-related financial risks, it would not be appropriate to use CSA to assess the resilience of banks' business strategies relating to climate transition plans and/or decarbonization targets. The alignment pathways utilized for target-setting and transition planning should not be conflated with climate scenarios that banks utilize for CSA. Banks utilize alignment pathways (*e.g.*, the International Energy Agency's Net Zero Emissions by 2050 Scenario) to align their portfolios with a target end state, not to assess the resilience of the bank's strategy and business model, and these pathways are not predictions of banks' climate-related financial risk exposures or their impacts on banks' business models, growth prospects, or profitability. An alignment pathway expresses a bank's strategic business decisions that may be periodically revised given new information on changes in the underlying economy or in government policies. An alignment pathway is not designed to measure or manage transition risk.

We believe this clarification can be achieved by replacing the word "transition" with "climate-related financial risks" in the first sentence under the Objective relating to "assessment of business model resilience and business strategy building" so that the sentence would read as follows: "The outcomes of climate scenario analysis can be inputs to inform banks' strategies and risk management concerning climate-related financial risks, which could in turn be reflected in banks' risk management processes."[16]

More generally, we note that the Objective on "assessment of business model resilience and business strategy building" relates to business strategy and strategic risk, which differs from the risk-management focus of the other three Objectives identified in the Discussion Paper. In the context of its work and published materials, the BCBS should avoid framing CSA in a way that could potentially constrain firms' business models and strategic planning, as this could inadvertently create risk to individual banks and the broader banking system.

Banks are establishing decarbonization strategies (*e.g.*, portfolio decarbonization targets) in the context of the state of the real economy. A bank's financed emissions are the emissions of the clients that it finances. While a bank can support its clients in pursuing decarbonization strategies, a bank's ability to decarbonize its financing portfolios is fundamentally dependent on the pace of its clients' transitions. The pace of real economy transition will depend on whether the economic conditions and incentives are in place for transition to be commercially viable—*e.g.*, government policy, clean energy infrastructure, technological development, consumer demand, etc. To effectively support the real economy throughout the transition, banks must keep pace with the real economy transition. Establishing supervisory

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15 Discussion Paper, at 4.

16 *Id.*

expectations otherwise may create significant risks both for the financial system and the economy more broadly, and may also constrain banks' business strategies. With respect to banks' business strategies, what is important from a regulatory and supervisory perspective should be that banks have in place appropriate governance and risk management frameworks designed to address climate-related financial risks and maintain their safety and soundness.

VI. The BCBS should acknowledge that, on balance, it would be better to limit standardization in CSA exercises at this time to allow for more tailored CSA exercises that better capture banks' idiosyncratic risks and encourage innovation in the rapidly evolving CSA practices.

As recognized by the BCBS, designing CSA requires consideration of tradeoffs.[17] Because banks have different strategies, risk profiles, and portfolios, more customized CSA exercises would likely better capture banks' idiosyncratic risks and be better suited for the particular needs of individual banks.

As shown in the results of the Federal Reserve's pilot CSA exercise as it pertains to the physical risk module, for most participants, the idiosyncratic shock scenario (where participating banks chose their own idiosyncratic physical hazard) resulted in more severe impacts on banks than the common shock scenario (where participating banks were required to use a common hurricane scenario).[18] However, lesser degrees of standardization in CSA exercises can limit supervisors' ability to aggregate results for a banking system or compare approaches across banks.

Balancing the pros and cons of standardization in CSA exercises, we believe it would be better to limit standardization in CSA exercises at this time. As the BCBS acknowledged, "the field of scenario analysis is highly dynamic, and practices are expected to evolve rapidly, especially as climate science advances."[19] Allowing banks to explore different designs of CSA and the roles CSA plays in their risk management processes for climate-related financial risks could encourage innovation in CSA practices.

Over time, as banks and regulators gain experience in the use of CSA and as CSA practices mature and become more standardized, it may be more appropriate to adopt a more standardized approach, depending on the objectives of the CSA exercises.

VII. The BCBS should ensure consistency between the usage-specific considerations and the key features of CSA.

In the Discussion Paper, the BCBS identifies key features and usage-specific considerations for CSA. The key features—motivation, comprehensiveness, plausibility, coherence, transparency, tractability, and proportionality—provide the overarching principles for designing CSA exercises. The usage-specific considerations, including the degree of standardization, time horizon, severity of scenarios, baseline selection, granularity, balance sheet assumptions, and analytical frameworks, provide design options for specific CSA exercises, which will likely vary depending on the objectives of the exercise.

Although we generally agree with the key features, we are concerned that some of the design options described in the usage-specific considerations, if implemented, would not be consistent with the

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17 *Id.* at 7.

18 Pilot CSA Exercise, at 23.

19 Discussion Paper, at 1.

design principles embodied by some of the key features. For example, in the usage-specific considerations relating to "severity of scenarios," the BCBS discussed considerations for designing a range of scenarios with different severities, including suggesting that:

- scenarios "consider interactions and correlations across risk drivers and economic agents as well as potential feedback effects and cumulative effects" and account for frictions (financial or non-financial) in the economy;[20]

- CSA and CST exercises "consider incorporating compound climate risks to assess the impact of climate conditions;"[21] and

- scenarios consider "how climate risk drivers may interact with the macroeconomic shock events typically used in capital stress testing exercises" (*e.g.*, layering a mid-transition economy onto typical credit cycle shocks).[22]

Although there may be limited circumstances where these considerations, which provide options for increasing the severity of scenarios, are relevant and valid, we are concerned that the Discussion Paper is suggesting, or may be interpreted as suggesting, that these severe scenarios are generally appropriate or necessary for many CSA exercises. Such a view would not be consistent with the overarching principles embodied by some of the key features of CSA exercises described in the Discussion Paper.

First, in the key feature related to "proportionality," the BCBS notes that "[t]he depth and granularity of a CSA exercise should be *proportionate to the materiality* of the risk – *to the extent that the materiality has already been established* – to the institution and its capabilities" (emphasis added).[23] In light of the "proportionality" principle, it is critical to recognize the costs and benefits of implementing the scenario design options noted above. Many of these options, such as including potential feedback effects and cumulative effects and compound climate risks, will undoubtedly increase the resource intensity for conducting CSA exercises, likely to an extent that would not be proportionate to the materiality of climate-related financial risk faced by banks.

As discussed above, the results of supervisory CSA and CST conducted in multiple jurisdictions to date have not established that the levels of potential bank exposures posed by climate change rise to the levels of risk that would affect banks' capital adequacy. Considering that banks face a variety of risks—including traditional, core bank risks, such as interest rate risk, the materiality of which have already been established—and that banks do not have unlimited resources for risk management, overly focusing on incorporating the design options noted above would be inconsistent with the "proportionality" principle and could lead to the misallocation of risk management resources.

Second, in the key feature related to "plausibility," the BCBS emphasized that "CSA exercises should reflect *plausible future states of the world* and *potential real-world events*, including extreme events

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20 *Id.* at 9 (explaining that frictions are "constraints in financial markets and/or the real economy that hinder resource (eg labour, capital, etc) allocation").

21 *Id.* at 9 (explaining that compound risk refers to the interaction of two or more risks, which can result in a combined impact greater than their individual impacts).

22 *Id.* at 9.

23 *Id.* at 6.

that may currently seem unlikely but are nevertheless *plausible in the context of climate change*."[24] One of the design options noted above suggests layering a mid-transition economy onto typical credit cycle shocks (*e.g.*, a financial crisis). Although we appreciate that this design option is aimed at capturing tail risk, we believe any design option aimed at capturing tail risk would still need to be consistent with the "plausibility" principle in the context of CSA exercises. A financial crisis should not be artificially bolted on to a severe climate scenario for the purpose of further increasing the severity of the scenario in a CSA without considering the plausibility of the combined scenario.

We used the design options for the severity of scenarios as examples to show the potential inconsistencies between the usage-specific considerations and the key features identified in the Discussion Paper. In any future guidance on CSA, we urge the BCBS to ensure consistency between the usage-specific considerations and the key features of CSA.

VIII. Any future CSA guidance issued by the BCBS should be principles-based.

In its pilot CSA exercise, the Federal Reserve observed that participating banks took different approaches to construct the risk scenarios used in the pilot CSA exercise and to translate those scenarios into estimates of climate-adjusted credit risk parameters. The Federal Reserve further observed that these differences in approach were driven largely by participants' "business models, views on risk, access to data, and prior participation in climate scenario analysis exercises in foreign jurisdictions."[25]

It is important for the BCBS to recognize that banks need to have sufficient flexibility in order to determine which approaches to CSA are best fit for their purposes. This is particularly true as banks continue to navigate significant data, modeling, and knowledge challenges in CSA and explore the potential uses of CSA in managing their climate-related financial risks.

For example, instead of providing specific examples of scenarios of different severity, which, as discussed in Section VII above, may be viewed as suggesting that those specific scenarios are generally appropriate or necessary for many CSA exercises, any guidance on the severity of scenarios should be principles-based, which would provide general guidance to banks as they design new or adapt existing scenarios of different severity that are appropriate and tailored to their own circumstances without appearing to limit the scenario options of the banks or impose scenarios that are not relevant to the banks.

Accordingly, we recommend that the BCBS adhere to a principles-based approach in any future CSA guidance.

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[24] *Id.* at 5-6 (emphasis added).

[25] Pilot CSA Exercise, at 27.

The Bank Policy Institute appreciates the opportunity to comment on the Discussion Paper. We will be pleased to provide our assistance as the BCBS considers comments on the Discussion Paper and works to develop any further guidance on CSA. If you have any questions, please contact Sam Riley, by phone at (202) 589-2406 or by email at sam.riley@bpi.com.

Respectfully submitted,

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