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Mr. Neil Esho, Secretary General
Mr. Pablo Hernández de Cos, Chair
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: Citi Comment on BCBS Consultative Document on Principles for the effective management and supervision of climate-related financial risks

Dear Mr. Esho and Mr. Hernández de Cos:

Citi welcomes the publication of the Basel Committee on Banking Supervision (BCBS)'s Consultative Document *"Principles for the effective management and supervision of climate-related financial risks"*[1] and appreciates the opportunity to provide comment on the document. In addition to the specific points raised in this letter, Citi has extensively contributed to and supports the comment letters of our leading international industry associations, the Institute of International Finance ("IIF"), the International Swaps and Derivatives Association ("ISDA") and the Global Financial Markets Association ("GFMA") and a host of regional industry associations. Citi recognises the urgency of the climate crisis as among society's top critical challenges, with an urgent need for collective action. Citi supports the efforts of the BCBS to develop principles-based guidance for financial institutions and supervisors on climate-related financial risk management. A principles-based approach reflects the nascent stage of risk management practices and data availability in this area and facilitates efforts of supervisors and the industry to continue to develop risk management tools and supervisory practices for climate-related risk management. As detailed below, we encourage the BCBS to continue to work collaboratively with other standard setters and national authorities to ensure that supervisory expectations for the climate-related financial risk management are internationally consistent, mitigating the potential for conflicting or duplicative standards.

Citi's Climate Risk Management Practices

Citi has invested heavily in climate risk management, recently launching a holistic global climate risk program and framework, including a global/centralized team in Risk Management

[1] https://www.bis.org/bcbs/publ/d530.pdf.

working exclusively on climate risk. Through this program, Citi is enhancing its climate risk capabilities, including portfolio risk identification and assessment functions, and integrating climate risk into existing governance, risk processes and controls. In addition, Citi appointed a Global Head of Climate Risk, who is a member of Citi's Risk Management Executive Council and reports to Citi's Chief Risk Officer, charged with oversight of Citi's globally-integrated climate risk management program, including addressing climate risk regulatory expectations, internationally and in the U.S. Citi has also established a senior-executive level Climate Risk Steering Group to provide guidance, feedback and support with regards to the integration of climate risk management into Citi's broader risk management program.

Greater Global Consistency in Supervisory approach to Climate Risk

As the world's most global bank, with 200 million customers doing business in 160 countries and territories around the world and a physical presence in 96 countries, Citi welcomes the BCBS's initiative to improve global standards in the area of climate risk. The BCBS is well placed to develop principles that **enable greater co-ordination and harmonization among authorities** in the major jurisdictions around the world, in their supervision of climate-related financial risk.

Greater policy and supervisory alignment are particularly important to cross-border institutions such as Citi, as we already face an increasing variety of different supervisory expectations and requirements in relation to climate risk. Citibank, N.A. will be subject to the Office of the Comptroller of the Currency's Principles for Climate-Related Financial Risk Management for Large Banks, once finalised. As a Single Supervisory Mechanism ("SSM") directly supervised institution, Citi's European banking subsidiary is already subject to the ECB's Guide on climate-related and environmental risks and Citi's UK based investment firm is subject to the PRA's supervisory statement managing climate-related financial risks. In addition, Citi's entity in Singapore is subject to Monetary Authority of Singapore's Guidelines on Environmental Risk Management for Banks, and the Hong Kong Monetary Authority have also issued guidance on climate relate risk management.

In addition, an increasing number of jurisdictions where Citi operates are consulting on their own supervisory approaches to climate related financial risk, climate risk scenario analysis or stress tests. Citi, therefore, experiences the challenges and inefficiencies of meeting multiple supervisory expectations and a variety of different frameworks in this field and welcomes BCBS' efforts to facilitate greater international co-ordination in the establishment of supervisory expectations for the management of climate-related financial risks.

Phased Implementation

While Citi is making considerable investments and integrating climate risk into our risk management framework and governance, like much of the industry, we are at the early stages of incorporating climate risks into internal processes, systems and data collection, compared to the decades of experience of managing other financial risks reflected in existing supervisory standards.

Citi, therefore, urges the BCBS to adopt an approach that recognizes the urgency of climate change but takes a measured, phased and incremental approach that enables institutions to learn and adapt as they implement principles for the supervision of climate-related financial risks. Climate risk management is a relatively new discipline, which will mature as banks build capabilities. Citi emphasizes:

- the nascent stage of risk management in this field,
- the challenges of data collection, especially in the absence of globally consistent and fully mature and tested taxonomies, and
- the more gradual development of the other dependent pieces of the disclosure regulatory framework.

These all call for a gradual implementation of climate risk management and measurement approaches, and associated supervisory standards, that are commensurate with an area which will grow in maturity. The BCBS principles should reflect this developmental stage and encourage supervisors to take a phased approach towards introducing climate risk-related expectations and not prematurely adopt quantitative approaches to the assessment, monitoring, and reporting of climate-related financial risks (Principle 7, para 31). This will allow for risk management methodologies to mature and for greater standardisation to be developed, for data availability to increase, and for consistency across jurisdictions to grow.

Capital and liquidity adequacy

In relation to the BCBS's Principle 5 on identifying climate risks and incorporating them into banks' internal c*apital and liquidity adequacy,* Citi stresses that the paucity of accurate, reliable, and consistent data makes any incorporation of climate risk into a determination of capital adequacy – for both Pillar 1 and Pillar 2 purposes – premature. To that end, we support the BCBS's recognition that:

> *"that climate-related financial risks will probably be incorporated into ICAAPs and ILAAPs iteratively and progressively, as the methodologies and data used to analyse these risks continue to mature over time and analytical gaps are addressed." (Para 23)*

While we support and acknowledge the BCBS's high-level approach, we encourage the BCBS to take additional steps to facilitate further research into the nature of the linkages between climate events and financial risks and how best to mitigate the impact of that link, before issuing guidance as to how these may be incorporated into the regulatory capital framework.

Scenario analysis

In relation to Principles 12 and 18 on the use of scenario analysis, Citi urges the BCBS to be more precise in its use of the terms 'scenario analysis' and 'stress testing' and more clearly delineate between the usage of these tools for risk management and supervisory purposes.

Climate scenario analysis as an essential tool to enable effective modelling of climate risks and Citi has joined and helped pilot several scenario analysis frameworks and methodologies to assess climate-related impacts. We support the usage of climate scenario analysis as an integral tool to facilitate a better understanding of the key drivers, underlying vulnerabilities, and potential outcomes of climate-related events. We view scenario analysis as exploratory exercises that enable firms to identify key areas of the business model that could be impacted by climate risk (both transition and physical) events. Learnings from these exercises should also inform the firm's modelling strategies as the industry gradually develops more sophisticated capabilities.

These scenario analysis exercises are inherently different from traditional macroprudential stress tests. Fundamental differences in relevant time horizons, balance sheet assumptions, and sector- and counterparty-level granularity – among other issues – demonstrate the key points of distinction between scenario analysis and stress testing and the current ability of these tools to assess the impacts of climate-related financial risks. Given the paucity of reliable data, limited standardized client disclosure, and highly emergent modelling approaches, we believe it is premature to use scenario analysis results from a supervisory standpoint to assess capital requirements and adequacy.

Indeed, supervisors conducting nascent climate stress tests have been careful to state that they will not have implications for banks' capital requirements. We, therefore, urge the BCBS to be cautious in its wording and highlight that supervisory climate stress testing exercises need to be sufficiently robust before having capital implications.

Thank you for your consideration of these comments, which we would be happy to discuss further if that would help contribute to your work on these important principles.

Sincerely,

P. Agarwal

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Head of Climate Risk
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