

May 14, 2020

Market Risk Advisory Committee Climate-Related Market Risk Subcommittee
C/O David M. Gillers, Subcommittee Alternate Designated Federal Officer
Commodity Futures Trading Commission
Washington, DC

Re: Public Comment Response to Consultative Request on Topics and Issues Being Addressed by the Climate-Related Market Risk Subcommittee

Dear Mr. Gillers:

1. An introduction to GARP and an overview of our climate risk work

GARP is a non-partisan, not-for-profit membership organization focused on elevating risk management practices through education, research, and the promotion of best practices globally. Below we provide a brief overview of our climate-related activities.

Risk Education:

Climate issues are addressed in the syllabuses of both of our globally recognized risk certifications: The Financial Risk Manager (FRM®) and Energy Risk Professional (ERP®) and through our continuous professional development.

In 2019, we developed the first global certificate in [Sustainability and Climate Risk™ \(SCR\)](#), for which registrations opened May 1, 2020. The SCR Program, developed with the assistance of an [Advisory Committee](#) of leading global practitioners and regulators – and informed by a comprehensive, [global study](#) of organizations and risk professionals – equips candidates with the skills needed to understand and act on climate risk.

Research and Thought Leadership:

In 2019, the GARP Risk Institute (GRI) published a [white paper](#) on the risk management challenges and opportunities posed by climate change our second annual global [Climate Risk Management Survey](#) has been published. we have a series of climate-focused webcasts and podcasts. All resources are available on our climate risk [website](#).

Regulatory Support and Partnerships:

GARP has actively supported the UK Authorities' [Climate Financial Risk Forum \(CFRF\)](#), acting as the secretariat to two working groups on Climate Risk Management and Climate Scenario Analysis. We are a stakeholder member of the Network for Greening the Financial System (NGFS), and have provided support by reviewing content. In addition, we are partnering with and supporting two other networks:

1. [Chapter Zero](#), which helps non-executive directors engage with potential climate-related risks and opportunities for businesses; and
2. [A4S \(Accounting for Sustainability\)](#), established by HRH The Prince of Wales, which engages with finance leaders to drive a shift towards resilient business models and a sustainable economy.

2. Climate risk findings that relate to the Subcommittee's work program

Our second global, cross-sectoral survey on climate risk management provides a comprehensive overview of the range of climate risk management practices across financial firms, with 71 participants, spanning banks, asset managers, insurance companies, and other financial organizations. We believe that many of the findings of our study can help the Subcommittee further develop its proposed workplan.

Surveyed firms noted several [barriers and challenges](#) to addressing climate risks. Firms are consistently most concerned about the availability of reliable models and regulatory uncertainty, especially in the short term. Traditional risk management tools have not been designed for the longer-term nature of climate risk. Given concerns over regulatory uncertainty, regulators need to set out their expectations clearly.

Most firms reported that getting [internal alignment](#) on climate risk strategy is a challenge in the short term. Board-level governance exists at 90% of firms in our survey, but some of these boards have not yet seen papers or discussed climate risk, suggesting a lack of engagement in some institutions.

Interestingly, only a handful of firms use [scenario analysis](#) regularly, and just under half use it on an ad hoc basis. But even when firms conduct scenario analysis, it doesn't feed into their day-to-day processes, and only about half the firms have taken any action as a result of the analysis. That said, most of the firms not currently using scenario analysis indicated they plan to do so within the next two years.

Our work on scenario analysis suggests that a lack of comparability across scenarios can be a challenge. The reference scenarios that the NGFS plans to publish might help, but there will be a trade-off between the benefits of greater comparability across firms and the need for scenarios that are relevant to the specific risks that individual firms may face.

Almost all banks in our survey see [physical and transition](#) risks as having an equal impact on their organization, while asset managers, insurers, and others are more evenly split between whether both transition and physical risks are equally impactful or transition risks (on their own) are more important.

Only 4% of respondents thought that climate risk has been [priced](#) correctly, with the vast majority thinking it was either partially or not included at all in the market's pricing of products. Participants also noted the challenges of pricing climate risk – namely, the complexity of climate change and forecasting its impacts; the lack of robust and reliable data; and the difficulty of combining the short-term focus of pricing models with the long-term nature of climate risk.

These are very real, yet common, challenges to all new risk types. As we noted in our recent [article](#), establishing a general consensus about how to define, measure, and manage risks can take decades. In contrast, firms today need rapid convergence on a workable measurement and management approach to climate financial risks. The more collaboration there is between different actors — including the real economy, financial institutions, regulators, and NGOs — the quicker this convergence will occur.

The Subcommittee's list of areas to review is comprehensive but needs to be set within an already-rich ecosystem of climate-related work. Since firms will tend to prioritize resourcing-mandated requirements, regulatory scrutiny can help accelerate progress.

There is, however, a balance to strike between imposing regulatory requirements and making climate risk management a compliance exercise. We have seen that regulatory fragmentation can be costly and counterproductive in other areas, such as capital stress testing, a subject on which we have written and urged greater [regulatory harmonization and coordination](#).

3. Suggested areas of support

GARP is willing to meet with and support the work of the Subcommittee. This may be through leveraging the experience we have gained by conducting more than 70 regulatory-related studies over the past 10 years through the [GARP Benchmarking Initiative](#) (GBI), an analytical data platform that is ideally suited for conducting global, cross-border studies in an efficient, secure, and accurate way.

Yours sincerely,

/s/ Jo Paisley

Jo Paisley

Co-President GARP Risk Institute