CP10/25, Central Climate Team
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Sent via electronic mail

July 30, 2025

Re: IIF/ISDA Response to CP10/25 – Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19

Dear Ms. Kyriakopoulou and Mr. Rawlings,

The Institute of International Finance (IIF) and International Swaps and Derivatives Association (ISDA), on behalf of our respective global financial services industry members, are pleased to provide comments on Consultation Paper 10/25, "*Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19*,"[1] (hereafter the "Consultation Paper"). The IIF is the global association of the financial industry, with around 400 members from more than 60 countries, including commercial and investment banks, asset managers, insurance companies, rating agencies, market infrastructure providers, and professional services firms. Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, ISDA members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers.

Overarching comments

IIF and ISDA members welcome the Bank of England's thoughtful and iterative approach to climate-related financial risk management over the past several years. This has helped to foster a greater awareness of climate-related financial risks within the financial industry – both in the UK and internationally – and to drive investment in the capabilities and infrastructure to better understand and respond to these risk drivers.

We agree that industry practices and global standards have evolved since the release of SS3/19. Across IIF and ISDA financial institution members, which are typically large or medium-sized firms, significant progress has been made in developing the necessary data architecture, undertaking climate risk assessment (including using tools such as climate scenario analysis and stress testing), integrating climate-related risk considerations into the risk management framework, and developing

[1] Bank of England. *Enhancing Banks' and Insurers' Approaches to Managing Climate -Related Risks: Consultation Paper*. April 2025.

informative disclosures. To demonstrate, recent IIF/EY survey data from a large global sample of banks and insurers has shown that:

- 75% of surveyed banks – including 100% of the G-SIBs and other large banks – have embedded climate-change risks in their risk identification and assessment processes. 76% of surveyed insurers have embedded climate change risks in their risk identification and assessment processes (the survey did not break down between larger and smaller insurers).[2]
- 58% of surveyed banks – including 92% of G-SIBs and 89% of other large banks – conduct climate scenario analysis and/or stress testing. 64% of surveyed insurers conduct climate scenario analysis and/ or stress testing.[3]

Furthermore, a recent ISDA survey on climate scenario analysis for the trading book, involving 24 large banks, found that the majority of surveyed banks (63%) now consider their approach in that area to be 'evolving'.[4]

However, climate risk assessment and management are extremely complex and evolving fields, so it is understandable that many firms across the industry are still working to further develop their understanding and approach.

We support the PRA's stated approach of considering climate-related factors as drivers of potential financial risks; however, there are certain proposals set out in the consultation that appear to deviate from this view and may require revision. IIF and ISDA members agree with and support the conclusions of the Basel Committee on Banking Supervision (BCBS) and International Association of Insurance Supervisors (IAIS) that "climate-related financial risk drivers can translate into traditional financial risk categories."[5] This foundational observation should underlie how supervisors approach expectations for climate-related risk management by banks and insurers. Climate should be treated as one (of many) potential financial risk drivers, which should be assessed, monitored and managed in the context of the institution's wider risk management framework. While the PRA appears to adopt this approach in general, and refers to "climate-related risk drivers" throughout the Consultation Paper (CP) and revised draft Supervisory Statement (SS), some of the proposed new supervisory expectations would appear to be at odds with this general approach – for example, the proposals to require climate-specific risk appetite statements (draft SS paragraphs 4.1.8-4.1.12). While we welcome the PRA's recognition that risk appetite statements should apply only for material climate-related risks, we recommend flexibility to integrate climate-related risks, to the extent they are material, into existing frameworks, rather than developing climate-specific approaches. As proposed, the PRA's expectations related to climate-related risk appetite statements and risk categorizations (i.e., accept, manage, avoid) could be interpreted as requiring firms to either set up a bespoke risk appetite setting process for climate-related risks or to

[2] 115 banks were surveyed across 45 countries. See: IIF and EY. *IIF/EY Global Risk Management Survey – Agility in Volatility*. February 2025.
[3] 86 insurers were surveyed globally. See: IIF and EY. *Second Annual Global Insurance Risk Management Survey*. May 2025.
[4] ISDA. *Climate Risk Scenario Analysis for the Trading Book - Phase III*. February 2025.
[5] See paragraph 7: Basel Committee on Banking Supervision. *Principles for the Effective Management and Supervision of Climate-Related Financial Risks*. June 2022. Also see IAIS. *Application Paper on the Supervision of Climate-Related Risks in the Insurance Sector*. April 2025. The IAIS stated that: "Climate risk drivers relate to existing risk categories and affect the valuation of an insurer's assets and liabilities as well as its business plan and strategic objectives."

re-design their existing risk appetite process. The PRA should clarify that examples of approaches that firms might take in this regard are illustrative, not mandatory.

More generally, the PRA could better demonstrate that it sees climate-related risk drivers as one component of wider risk management and governance. One way to do so would be to include more cross-references to the PRA's existing supervisory expectations alongside which the climate risk expectations should be considered holistically (for example, existing PRA rules or expectations on risk management, corporate governance, risk reporting, operational resilience and third-party risk management, et al.).

Where there are common areas of supervisory focus across jurisdictions, we would encourage supervisory authorities to adopt consistent expectations towards these. In this case, it would be helpful for the PRA to align as closely as possible to the BCBS's and IAIS's underlying principles to support international consistency and international competitiveness, as per the PRA's secondary objective.

We welcome the PRA's intention to take a proportionate and risk-based approach, which is based on the materiality of climate-related financial risks to a firm. The proposed two-step approach to making this materiality determination for the purpose of taking a proportionate approach to implementing the supervisory expectations (as set out in draft SS paragraphs 3.9–3.15) appears to be reasonable. However, we note that while the proposals are explicit that a firm's climate-related response should be proportionate to the assessed materiality of climate-related risks (draft SS paragraph 3.13), proportionality is not explicitly mentioned for the materiality assessment process itself (draft SS paragraph 3.11). It only becomes clear by reading draft SS paragraphs 4.2.1 – 4.2.5, which are cross-referenced in draft SS paragraphs 3.10 – 3.11, that climate risk identification and assessment (i.e., Step 1) can also be done in a proportionate manner. We would request that the draft text be streamlined on this point to make it explicit that proportionality applies in both steps of the process.

In addition, it may be helpful to consider that firms need to take a holistic view of the risk landscape and prioritize their resources and target their responses appropriately to consider the most material risk drivers over different time horizons. These considerations should be accounted for in the proposed proportionality approach. Reflective of the PRA's stated approach of considering climate-related factors as drivers of potential financial risks, the PRA should be mindful of not disproportionately elevating climate risk factors above other risk drivers. In addition, draft SS paragraph 3.11 includes extensive climate-related assessments, such as those relating to the balance sheet, business model, and reverse stress testing, as part of Step 1. However, it would be more proportionate for these assessments to be conducted as part of Step 2, once risk exposures are assessed to be material.

We observe that the PRA's draft Supervisory Statement is significantly more detailed than the current SS3/19. Additional detail and specificity of the PRA's expectations is welcomed and helps to ensure a level playing field and common understanding of the supervisory expectations across firms. Expectations for climate-related risk management should be based on robust, data-driven methodologies and aligned with the same standards applied to other risk drivers. In general, our members believe that the PRA's approach has not become excessively prescriptive, which is welcomed. In some specific areas, we do have feedback on some of the new and expanded expectations (see below). We would request the PRA to be clearer in the final Supervisory Statement regarding the use of examples versus minimum expectations. More examples could be included to demonstrate the PRA's view of good practices in the industry. Alternatively, to achieve the same goal,

the PRA could increase the number of cross-references to the body of work being developed by the UK Climate Financial Risk Forum (CFRF).

Regarding the **climate scenario analysis expectations,** IIF and ISDA members stress the need to distinguish scenarios for risk management from alignment pathways that may inform strategic decision making. Scenario horizons should reflect the objective — e.g., shorter for risk management especially market risk management, medium-term for strategy, and aligned with ICAAP/ORSA timelines for capital. Other concerns include excessive expectations for board involvement, and the limited value of standalone reverse climate stress tests. Overall, our members recommend embedding climate risk drivers into broader stress testing frameworks for more meaningful insights.

The PRA's proposed approach to addressing the interactions between any climate targets and a transition plan, if a firm has those, and risk management and governance appear to be generally reasonable. Financial institution transition planning and climate-related financial risk management have fundamentally different objectives, and we believe the PRA has avoided conflating the two.

We would like to request the PRA to clarify its expectations regarding Section 3 of the draft Supervisory Statement on Implementation, including: (1) the anticipated timeline for the publication of the final Supervisory Statement; (2) more information about the expectations to share remediation plans six months after the publication of the final revised Supervisory Statement; and (3) potential implications if firms do not meet the PRA's supervisory expectations.

Comments by chapter of the Consultation Paper

a) Governance

Members do not agree with the proposed requirement for a climate-specific risk appetite statement. Many banks and insurers define one firmwide risk appetite statement, and some firms may also define their risk appetite for the main categories of financial risk (e.g., credit, market, operational risk). The expectation for a climate-specific risk appetite statement would imply that climate-related risks are akin to a category of financial risks, rather than treating them as one of the many potential drivers of financial risks. IIF and ISDA members would recommend that the PRA reframe the expectation in this area to instead require firms to consider and describe to their supervisor how they would respond to material climate-related risk drivers in the context of their existing risk appetite statement. Relatedly, it should not be required that firms develop new climate-related metrics and limits for all cases, but rather only for material risks where existing metrics are not sufficient to monitor and manage climate-related drivers.

Regarding the **PRA's expectations for the role of the board,** IIF and ISDA members believe that the board's role in overseeing climate-related risk drivers should be in line with how it oversees all other risk drivers, i.e. by outlining an overall strategy, delegating the operationalization of that strategy to the firm's management and executives, overseeing and challenging the management. Expecting the board to be consistently involved in setting limits and approving climate scenarios would appear to be more granular than what the board does in 'business as usual' for other risk drivers, without an explanation as to why climate risk should be treated more stringently than other risk drivers, including risk drivers which may be significantly more material for firms. Introducing a differentiated governance process for climate risk may create inconsistencies with existing firm-wide risk management frameworks.

Additionally, further to the aforementioned need for clarity on the PRA's expectation that firms share remediation plans six months after the publication of the final revised Supervisory Statement, the PRA should note that conducting a gap analysis, designing a remediation plan and securing board approval of that plan may present practical challenges, particularly where board meeting cycles and the time needed to build board awareness and engagement may not align with this timeline. We recommend that the PRA provides flexibility to firms in meeting this timeline where it can be demonstrated that plans are being developed as quickly as practicably possible.

Regarding senior management responsibilities, it would be helpful if the PRA could clarify that the reference to "individual" (draft SS paragraph 4.1.14) does not preclude the option for firms to include managing climate-related risks in the statements of responsibilities of multiple Senior Management Functions (SMFs) in line with an earlier reference to allocating responsibilities to the "management body" (draft SS paragraph 4.1.13).

Furthermore, throughout the Governance section, and indeed the proposals more broadly, the PRA refer to the role of "the board" in climate risk management. It may be helpful for the PRA to clarify that, for international firms operating through one or more legal entities in the UK, this responsibility may be approached in various ways. Different firms may follow a range of different governance frameworks for allocating responsibilities between UK entities, and between local entities and the group-level boards. As such, the allocation of responsibilities of entity boards vs. group boards may vary between firms.

In addition, draft SS paragraph 4.1.5 sets out the expectation that the board be presented with a range of scenarios identifying future revenue and profit at risk, expected changes in operating costs, and potential trigger points for change. However, this may be disproportionate in some cases. For example, where a firm is able to demonstrate to the board that climate risks are immaterial with a single scenario, or other analysis, they should not be required to provide multiple scenarios or this level of granularity.

Members generally agree with the PRA's expectations in relation to climate-related targets, which effectively refers to firms' transition planning and recognizes that it is a strategic decision if a firm voluntarily decides to set a climate target. If a firm is required to set a climate target by broader jurisdictional requirements, it is an external factor affecting their strategic planning. Importantly, financial institution transition planning and climate-related financial risk management have fundamentally different objectives. While they have different objectives, the process of setting targets and developing plans to meet those targets, including the use of transition plans and other information from clients, counterparties and investees, may be relevant to the risk management process, and may contribute to the overall degree of business model risk to a financial institution over the medium to long-term. A financial institution's transition plan should still be aware of and aim to minimize the climate-related risks to the institution. In addition, implementation of a financial institution's transition plan needs to operate within the risk appetite and governance framework of the financial institution, and not be in conflict with its climate risk policies and approaches.[6] The

[6] For example, the aforementioned IIF/EY survey of 115 banks found that, at 51% of surveyed banks, the second line of defense reviews and challenges financed emissions methodologies and calculations. At 35% of firms, the second line of defense develops quantitative governance measures to drive alignment with decarbonization targets, and assesses risks associated with failure to achieve decarbonization targets. See Figure 15: IIF and EY. *IIF/EY Global Risk Management Survey – Agility in Volatility*. February 2025.

PRA's proposed approach to addressing the interactions between a climate targets and transition plans, if a firm has one, and risk management and governance appear to be generally reasonable.

However, it is important to note that firms that choose to set targets often do so at the group level and may not have entity-level goals. As such, particularly for international firms, the PRA should not mandate that local entities demonstrate how they will achieve group-level climate targets to which they may have limited or no contribution.

It is important to recognize that jurisdictional targets are not perfect predictions of future policies. In their own transition planning, financial institutions need to plan and account for potential changes to jurisdictional climate and transition policy approaches. In addition, cross-border financial institutions need to consider and balance several jurisdictional approaches, which can vary significantly.

Draft SS paragraph 4.1.11 sets out an example of how firms could classify their level of risk appetite. However, the text could be interpreted by some readers as requiring this specific approach, which would be disproportionate and potentially require firms to change existing group-wide methodologies. We would request that this is more clearly presented as an illustrative example to aid understanding, preferably in a separate supporting document to the Supervisory Statement.[7]

b) Risk management

The PRA's baseline expectations for climate-related risk identification and assessment should not require firms to conduct scenario analysis of business model viability or reverse stress testing (draft SS paragraph 3.11). The PRA should explicitly recognize that the level of detail and sophistication required in identifying and assessing the materiality of climate-related risks should be proportionate to the inherent susceptibility of the firm's business model to climate-related risks. For example, broker-dealers with mostly traded risk exposures are less likely to be impacted by climate transition and physical risks than mortgage lenders. In particular, firms should not be expected to conduct climate scenario analysis to assess all climate-related risks, but rather only for those assessed to be the most material. While the draft SS recognizes that the risk management response should be proportionate to the vulnerabilities identified, it does not explicitly allow proportionality to guide the depth of the risk identification process itself.

Further, a requirement to undertake extensive materiality assessments to demonstrate that *prima facie* immaterial risks are indeed immaterial would not be proportionate. Instead, the PRA should provide flexibility for firms to conduct high-level (e.g., narrative-based) "first-pass" materiality assessments to filter out these *prima facie* immaterial risks before conducting more detailed materiality assessments of the remaining risks. Additionally, introducing new requirements such as the assessment of "material relationships" (see below) and prescriptive use of scenario analysis to inform capital and provisioning (e.g., Expected Credit Losses) should be applied only where exposures to climate-related risks are assessed as material.

Draft SS paragraph 4.2.2 sets out how firms should approach risk identification and assessment and requires that each entry in the firm risk register should be linked to an existing risk type and that the transmission channel should be clearly articulated. We believe that this would be an extensive and disproportionate requirement which does not account for firms' existing risk management practices

[7] This approach has been used successfully by the European Central Bank to support the implementation of their Climate and Environmental Risk expectations, without risking a conflation of rules with examples.

and processes. Instead, we recommend that firms are allowed to establish the identification of climate risks in line with their existing risk identification approaches.

We would ask for clarity around the expectations in draft SS 4.2.6 – 4.2.12 in relation to client, counterparty, investee and policyholder risk identification and risk assessment. We would like to clarify that the PRA's intention is to define "material relationships" with respect to the materiality of climate-related risks on credit, market, reputational risk, etc. We would support this approach; it is important not to inadvertently scope in relationships that are material to the firm for other reasons, but which are immaterial from a climate perspective. Moreover, we would like to highlight that insurers may need to exclude reinsurers from their counterparty risk assessments when those reinsurers possess risk information relating to other insurers (i.e., competitors), as this could give rise to substantial concerns from a competition perspective.

To that end, when setting expectations in relation to the identification of material relationships, the PRA should ensure that expectations are neither duplicative of risk management requirements for traditional risk types, nor overly prescriptive. Firms may have existing ways of managing such relationships and a new process of identification may be counterproductive and burdensome (e.g., requiring new documentation for the same clients). Wherever possible, firms should be able to leverage their existing knowledge of their clients, adding an additional layer of climate-related assessment only where necessary, rather than duplicating established processes. Where new expectations are introduced, the PRA should reconsider and clarify what outcomes are expected over-and-above what firms might deliver by identifying and managing a material climate-related risk in aggregate through their existing risk management practices. In practice, identifying and setting criteria to identify material relationships (draft SS paragraph 4.2.8) and aggregating and documenting climate-related risk assessments for those (draft SS paragraph 4.2.9) are likely to add significant burden to firms' management of climate-related risks with limited additional benefits from a risk management perspective.

Given that climate-related risks are drivers of existing risk types, the proposed identification and classification of relationships as "material relationship" will in effect be just one more way to apportion aggregate risk type exposure (e.g., a material relationship from a climate-driven credit risk perspective, a material relationship from a climate-driven operational risk perspective, etc.). Material relationships from a risk type perspective should continue to be identified and managed within that risk type. To that end, many firms are already undertaking the kinds of assessments listed in draft SS paragraph 4.2.9 as part of their existing climate-related risk management practices across the business (First Line of Defense) and risk management (Second Line of Defense). **The PRA should additionally treat the list of considerations in draft SS paragraph 4.2.9 (e.g., emissions targets and transition plans) as illustrative rather than mandatory**, allowing firms to apply risk-based judgment as to which considerations and metrics are relevant for them to include in their processes (to the extent that they are not already included) that provide meaningful and decision-useful information.

Overall, we support the PRA's approach of not specifying a strict set of climate-related risk metrics, considering that the industry is still exploring a range of metrics for different applications - and that the appropriate choice of metric is often informed by several firm-specific or other context-specific factors. However, the wording around the "development of metrics and limits" could be interpreted as implying that new metrics and limits are required in all cases. For firms that already have sufficient metrics and limits in place, this would be disproportionate and unnecessary. We would request that the PRA reframe this expectation around ensuring that appropriate metrics

and limits are in place to avoid this implication. **The PRA could provide some non-binding examples based on metrics it has observed as being commonly used by banks and/or insurers, preferably in a separate supporting guidance document to clearly delineate it from supervisory expectations.**

We agree with the factors the PRA has indicated that a firm can consider if they set quantitative metrics and limits – relevant time horizons, range and granularity needed, role of model and data uncertainty.

In line with our comments on draft SS paragraph 4.1.11, draft SS paragraph 4.2.13 sets out expectations based on an example approach to setting risk appetite statements. However, this example may not align with the existing approach many firms have in place. To avoid any implication that the PRA is mandating a specific framework for setting risk appetites, we would request that the PRA sets out its expectations more generally. The example approach should be clearly segregated from the regulatory expectations, for instance, by presenting it in a separate supporting guidance document.

In Draft SS paragraph 4.2.21, the PRA proposes that: "Firms should implement an appropriate internal climate-related risk reporting infrastructure, if not already in place for the internal reporting of other risks, …". We find this proposal unclear as firms already have internal reporting infrastructure for other risk drivers. We would recommend that this paragraph could be redrafted to reflect the current status quo and clarify that firms can leverage their existing risk reporting infrastructure for internal reporting of climate-related risk impacts as risk drivers. This is particularly important given that climate-related risk is a cross-cutting risk, which can manifest through existing risk types, such as strategic, reputational, and credit. As such, it would be most appropriate for firms to leverage their existing risk reporting infrastructure, processes and reporting frequencies for the impact of climate-related risk drivers.

Draft SS paragraph 4.2.23 states that "Regular management information and reporting of exposures to climate-related risks should include, as appropriate: … interaction of climate and non-climate events …". **Additional detail on the PRA's expectations with respect to the interactions between climate and non-climate events would be helpful**, for example, whether it would be sufficient for firms to explore this in the context of climate scenario analysis or stress testing. Furthermore, it would be helpful for the PRA to provide clear definitions of both a climate event and a "non-climate" event.

Under draft SS paragraph 4.2.25, it would be helpful for the PRA to explicitly define or reference (from other PRA policy documents or supervisory statements) terms used, in particular "critical operations," and to clarify whether outsourcing and third-party arrangements include intragroup service arrangements. The requirement for a specific "appetite and tolerance levels for outsourcing and third-party arrangements that may be exposed to climate-related risks or introduce climate-related risks to the firm through their activities" (paragraph draft SS paragraph 4.1.16) may not be proportionate in all cases. This should only be required where these risks are identified to be material, and in relation to only the most material third parties and outsourcing providers.

c) Climate Scenario Analysis (CSA)

The expectations for climate scenario analysis should be applied proportionately. The expectation to apply multiple climate scenarios, time-horizons, and severity levels may not be proportionate across all firms and business models. For example, for broker-dealers or firms with

predominantly short-dated exposures, longer-term climate scenarios are unlikely to be informative in the context of their current business environment.

The consultation paper and draft Supervisory Statement do not sufficiently recognize that scenario narratives, assumptions and methodologies typically also differ across use cases.[8] It is important to be clear that climate scenarios are not forecasts; therefore, banks and insurers should not be expected to rely on CSA to set business strategy. Further, it is important not to conflate the alignment pathways used for target-setting and transition planning with the scenarios that banks are using for CSA. Some firms are using alignment pathways (e.g., IEA Net Zero Emissions by 2050) to align their portfolios with a target end-state, not to assess the resilience of the firm's strategy, business model or activities against a forecast of how the energy transition will occur. In addition, the application of climate scenarios could vary depending on the diverse nature of firms, including differences in size and complexity of business models (e.g., broker-dealer businesses are less likely to face significant climate-related risks, as they typically do not hold longer-dated, held-to-maturity assets).

Members broadly agree with the examples of CSA use cases and considerations as summarized in Table 1 in the Supervisory Statement. However, we would make some further observations:

- For the business strategy use case, the suggested scenario time horizon is "medium to long-term, to capture impacts on the firm's business from longer term developments that may require action now." Firms certainly need to look ahead to inform their business strategy, which is typically set for 3-5 years. However, given that the uncertainty of forward-looking analysis increases over the time horizon, it may not be realistic for very long-term CSA (e.g., of longer than 10 years) to robustly inform business strategy.
- For the risk management use case, we agree that the scenario time horizon is "typically short-term, but longer-term if relevant for firm's exposures." Firms typically target the time horizon of their risk assessment to the duration of the exposure.
- For capital setting, we agree that the time horizon and frequency should be "in line with the firm's ICAAP/ORSA," which is typically conducted annually with a 3-to-5-year horizon.
- Paragraph 4.3.5 states that: "Firms should recognise that they will likely need to conduct multiple CSA exercises for different objectives." We interpret this to mean that a separate CSA exercise may be required for each objective, but not that multiple exercises would necessarily be required for a single objective which would not be practical and would be highly resource intensive. It would be helpful if the final SS could confirm this understanding. In parallel, firms should be able to conduct one CSA exercise that can address multiple objectives via different scenarios and time horizons.
- It would be beneficial if the PRA could provide some examples of scenario narratives that would align with the different objectives outlined. For example, for some insurance firms, guidance on developing scenario narratives and methodologies to support climate risk appetite beyond existing natural catastrophe approaches would be valuable.

Draft SS paragraph 4.3.1 expects the board to define and agree on the rationale for the range of selected scenarios used for CSA. Currently, the standard practice in most firms involves presenting CSA results and analysis to the board on an *ex-post* basis. However, the draft SS appears to expect *ex-ante* engagement on the details of CSA. We would appreciate further clarification from the PRA

[8] For previous industry analysis on this point, see comments on the BCBS Discussion Paper on Climate Scenario Analysis: IIF and ISDA. *Response to BCBS Consultation on Climate Scenario Analysis*. July 2024.

on this expectation, particularly in the context of proportionality. IIF and ISDA members recommend that the PRA allows boards flexibility to delegate this responsibility to the appropriate management level and introduce a materiality consideration, where appropriate. Furthermore, the process for obtaining board approvals within international groups remains unclear. Members would welcome clarification that group-level approvals are required only for group-level scenario analysis, while entity-specific scenarios may be subject to entity-level approval.

Several IIF and ISDA members have concerns with the proposal in paragraph 4.3.11 of the draft SS for firms to conduct standalone reverse climate stress testing. To render any financial institution failing or likely to fail due to climate-related factors alone would require an extremely severe and implausible scenario. Members consider that such extreme and low-probability scenarios would have very limited relevance and usefulness in decision making, while being disproportionately resource intensive to develop and test. Some firms noted potential value in conducting reverse stress testing to identify scenarios that could render *specific business lines* unviable – particularly those exposed to physical or transition climate risk (e.g., private credit to mining companies). However, for most market or credit risk managers, analyzing highly implausible climate-driven scenarios that could impact the entire firm would be challenging or infeasible. **It should be sufficient for firms to demonstrate that they have considered a climate-driven stress scenario and concluded it to be a low-probability event, without the need for further in-depth analysis.**

Instead, it would be preferable for the PRA to provide firms with the flexibility to choose between running climate-driven reverse stress tests or integrating climate-related risks into their broader reverse stress testing frameworks, as appropriate to their business model. In making this decision, firms should consider whether climate-driven scenario(s) leading to business model failure may yield implausible scenarios that provide limited management value, particularly when designed to take the bank to the point of failure rather than just to the point at which it experiences material losses. The flexibility to consider climate-related risk factors alongside other risk drivers could provide insights into whether climate-related vulnerabilities could exacerbate a wider stress event, in what ways and to what extent.

More broadly, in order for the results of CSA or climate stress tests to better inform decision making, it could be useful to focus on greater embedding of climate-related risk factors within business-as-usual macroeconomic stress testing exercises.

We would request the PRA to clarify its expectation regarding scenario selection and calibration (draft SS paragraph 4.3.13 – 4.3.16). These paragraphs suggest that firms should develop and calibrate their own *firm-specific* climate scenarios, rather than analyzing and selecting options from the wide range of externally-produced scenarios that now exist. It would be helpful for the PRA to confirm whether this interpretation is correct or not. Some members have questioned (i) whether it is necessary for effective risk management that firms use firm-specific scenarios instead of relying on appropriately selected external scenarios developed by the Intergovernmental Panel on Climate Change (IPCC), Network for Greening the Financial System (NGFS), and others, and (ii) whether the benefits of building the internal capabilities to develop firm-specific climate scenarios would outweigh the costs in many cases. Instead, we believe that firms should be able to start from external scenarios and adapt them as required to align to their specific business model and risk profile.

d) Data

The proposal in draft SS paragraph 4.4.1. for firms to "quantify" the extent of uncertainty due to data gaps would be disproportionately complex and costly. Members would suggest instead that firms be required to "assess data gaps and understand the potential impacts," allowing for qualitative assessments where appropriate.

The draft supervisory expectation for "contingency solutions that use appropriately conservative assumptions and proxies" in the absence of end-state data is somewhat at odds with the BCBS Climate Principles, which refer to "using reasonable proxies and assumptions."[9]

It is not clear why firms should be required to "plan their strategic development of in-house capabilities over both the short and long-term" if they have appropriate governance and controls over data from external sources. Most banks and insurers rely on data and tools from third parties, and regulatory expectations should support the development and maturity of these resources. In general, a firm should understand and manage its dependencies on third-party providers as part of its third-party risk management framework. However, firms should not be required to set up large data operations for collecting and validating specific climate-related data when reliable external providers are available. Mandating in-house development in such cases could also discourage investment by third parties in developing their climate data quality and availability. To assist firms, the PRA is encouraged to provide clear guidance on good practices and what constitutes effective risk management in this context.

Some reasonable reliance on external data and models – for example, for assessing flooding or subsidence risks – is to be expected. In some cases, in-house capabilities development will not be possible, valuable (e.g., for peril-specific data), or commercially efficient compared to third-party options.

Furthermore, in draft SS paragraph 4.4.4. the PRA sets out an expectation that firms should be "doing more to scrutinize data and projections supplied by external data suppliers." Members would request further clarity on this expectation. While it is acknowledged that firms should understand the assumptions and limitations of the data they use, there are practical limits to the extent of due diligence which is beneficial or feasible for such external data.

While the proposals on risk data aggregation in paragraph 4.4.6 of the draft SS are broadly reasonable, it should also be acknowledged that developing such infrastructure is both time-intensive and costly. It would be helpful if the PRA could clarify that these expectations are aspirational and that firms are not expected to meet them fully upon implementation of the revised Supervisory Statement.

e) Disclosures

We welcome the PRA's approach of not making substantive changes to the supervisory disclosure expectations.

Members agree that information about material climate-related financial risks can be disclosed in the context of existing required risk-related and strategic disclosures.

[9] Paragraph 32: Basel Committee on Banking Supervision. *Principles for the Effective Management and Supervision of Climate-Related Financial Risks*. June 2022.

It would also be helpful for the PRA to indicate whether it plans to reflect the recently finalized BCBS framework for the voluntary disclosure of climate-related financial risks.

Members have some concerns with the implications of paragraph 4.5.5 of the draft SS, which states that: "In addition, firms would benefit from greater disclosure in respect of climate-related risks across the wider economy and are in a strong position to encourage it through their ownership of financial assets." While it is true that financial institutions rely on and benefit from climate-related disclosures by their clients and counterparties in the real economy in order to meet their own risk management and disclosure needs, financial institutions should not be relied upon to prompt such disclosures. Instead, that is the role of government policy decisions, such as the work of the UK Sustainability Reporting Standards.

f) Banking-specific issues

Market Risk

Banks generally support the use of scenario analysis to assess and manage market risk related to climate drivers, and recognize the importance of integrating climate considerations into market risk frameworks. However, supervisors should acknowledge that **climate-related market risk management is still an evolving area** and treat it as such in their supervisory engagement. Banks will approach these exercises on a best-efforts basis, with the understanding that methodologies are nascent and likely to evolve steadily.

With respect to climate scenario analysis, from a trading book perspective, the climate risk scenario horizon should be sufficiently short to capture the impact of an instantaneous climate risk event on financial markets. In the absence of specific CSA-aligned scenarios for the trading book, many banks are adapting existing frameworks – such as those from the NGFS, European Central Bank, and Bank of England – to better align with trading book dynamics. Recent regulatory, bank, and industry efforts have increasingly focused on the shorter-term effects of climate risk drivers, making some progress on developing short-term scenarios. However, these efforts have generally not addressed the specific applicability to trading book assets or timescales. Existing scenarios, with time horizons of 3 to 5 years, remain too long to be suitable for the trading book. As such, the lack of appropriately calibrated short-term scenarios remains a critical gap in fulfilling CSA objectives for the trading book.[10, 11]

In light of this, the PRA should reconsider and clarify how it expects firms to incorporate long-term scenarios in their assessment of climate risk as a driver of market risk. It will be important to understand the PRA's expectations when it says banks should use "long-term" scenarios to assess the climate-driven market risk in draft SS paragraph 4.6.31. Ideally, short-term scenarios for the trading book should be able to capture instantaneous climate shocks, while maintaining coherence with and comparability to longer-term scenario narratives.[12] Similarly, the scenario horizon should also align with the requirements of the liquidity risk framework.

[10] ISDA. *Climate Scenario Analysis in the Trading Book – Phase II*. February 2024.
[11] ISDA. *Climate Risk Scenario Analysis for the Trading Book - Phase III*. February 2025.
[12] ISDA. *A Conceptual Framework for Climate Scenario Analysis in the Trading Book*. July 2023.

Impacts on balance sheets and financial performance

Draft SS paragraph 4.6.10 includes an expectation for "banks to have sound practices and policies for assessing and measuring the impact of climate-related risk for their financial statements in accordance with accounting standards." **We would highlight the significant challenges firms are likely to encounter when incorporating climate-related risk factors into balance sheet changes reported in external disclosures, given the reliance on forward-looking scenarios with limited data and high modelling uncertainty.** We would like to clarify whether the PRA's expectations would be realistic in this area.

Internal Capital Adequacy Assessment Process & Internal Liquidity Adequacy Assessment Process

The BCBS has acknowledged the challenges of including climate-related risk drivers in capital and liquidity adequacy assessments and noted that these will likely be incorporated "iteratively and progressively, as the methodologies and data used to analyse these risks continue to mature over time and analytical gaps are addressed."[13]

Regarding the expectation to embed climate-related risk drivers into liquidity risk assessments, IIF and ISDA banking members observe that the understanding of liquidity risk transmission channels is less advanced compared to those for solvency risks. As such, the PRA's expectations may currently exceed the capabilities of many firms given the present state of knowledge and practice. Footnote 69 in draft SS paragraph 4.6.21 states that the "time horizons for liquidity may be limited to 30 days." It would be helpful for the PRA to provide examples of climate-related risk drivers that could materialize within this time horizon. To the extent that a bank assesses climate-related risk drivers as immaterial to their liquidity risk, firms should not be required to account for these within the Internal Liquidity Adequacy Assessment Process (ILAAP).

Proportionality

There are several paragraphs in this section that do not sufficiently incorporate considerations of materiality or proportionality:

- Draft SS paragraph 4.6.3. – If firms have determined that they are not exposed to material climate-related risks, they should not be expected to incorporate such risks into projections of their business model and financial statements in the future. Doing so would be disproportionate and exceed supervisory expectations for other potentially more material risks.
- Draft SS paragraph 4.6.6 – The PRA's expectation should explicitly include consideration of appropriateness. We suggest the following edit (proposed revisions to the draft SS shown in **bold font**): "… Banks should ensure identified climate-related risks, including those within the bank's sustainability reporting, are integrated, **where appropriate**, within the judgements and estimates which support financial reporting."
- Draft SS paragraph 4.6.8 – The current drafting presumes that the current data are insufficient. We would suggest the following edits (proposed revisions to the draft SS shown in **bold font**): "The PRA expects banks to have appropriate processes and controls in place to source~~,~~ **and** manage ~~**and enhance**~~ the data needed to factor climate-related risk into balance sheet valuations"

[13] Paragraph 26: Basel Committee on Banking Supervision. *Principles for the Effective Management and Supervision of Climate-Related Financial Risks*. June 2022.

- Draft SS paragraph 4.6.11 – This paragraph does not take materiality into account, as even minor climate-related risks could have a negligible effect on balance sheet valuations. We suggest the following edit (proposed revisions to the draft SS shown in **bold font**): "Banks' risk assessments should ensure that climate-related risk drivers that have the potential to **materially** affect balance sheet valuations are properly identified on a regular basis and assessed using robust quantitative analysis."
- Draft SS paragraph 4.6.12 – Similar to the previous recommendation, we suggest that materiality be added as an explicit consideration (proposed revisions to the draft SS shown in **bold font**): "… These should ensure complete, consistent and accurate capture of **material** climate-related risk in accordance with accounting standards."

g) Insurance-specific issues

The insurance industry has a wealth of experience in managing and pricing climate-related risks, which it draws upon and continues to develop in response to changing conditions. The IAIS has recognized that climate risk is one of many drivers of financial risk.[14] Climate-related risk drivers of financial risks should not be elevated above other risk drivers that impact an insurer unless a materiality determination provides evidence that climate-related drivers pose a greater risk to the organization than others. Climate risks are already integrated into insurers' existing risk frameworks and business models, particularly in natural catastrophe risk appetites. Unlike banks that manage long-term exposures, insurers typically underwrite short-term contracts. This allows for regular repricing of physical risk, based on current risk conditions while incorporating climate uncertainties. As a result, treating climate risk as a separate category may add unnecessary complexity, and may undermine the risk appetite frameworks that firms already have in place.

Overall, we would ask the PRA to streamline Chapter 7, as parts of it appear to reiterate points already set out in previous chapters or in other frameworks, such as Own Risk and Solvency Assessment (ORSA) requirements.

Draft SS paragraph 4.7.11 includes an expectation that "insurers should specify in their Own Risk and Solvency Assessment (ORSA) the management actions they would take in different circumstances, describing what would trigger those actions," including changes to underwriting. We would highlight the challenge firms are likely to encounter with this as many scenarios typically used for CSA are designed around longer-term timeframes that do not align with the shorter decision cycles of underwriting.

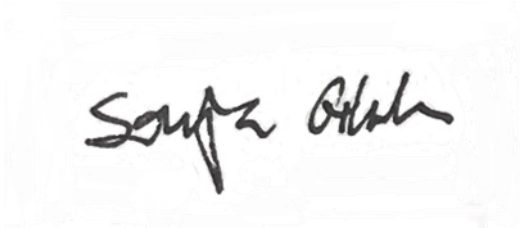
Draft SS paragraph 4.7.13 includes an expectation that "insurers using an Internal Model (IM) to calculate their Solvency Capital Requirement (SCR) should consider the impact of climate change on the underwriting risk, reserving risk, market risk, credit risk and operational risk components of their IM." We would like to clarify whether the PRA's expectations would be realistic in this area, as there is still a major challenge in quantifying the impact of climate-related risk drivers, even in cases where the transmission channels are generally understood. Additionally, clarification from the PRA would be helpful regarding whether climate risk should be reported as a separate capital measure or integrated within existing risk measures, such as the SCR.

[14] The IAIS does not treat climate-related risks as a standalone risk category, stating that: "Insurers should ensure that the impact of climate change is well-represented in existing risk categories." IAIS. *Application Paper on the Supervision of Climate -Related Risks in the Insurance Sector*. April 2025.

Draft SS paragraph 4.7.22 includes an expectation for insurers to use market consistent valuation and to include assumptions about climate-related risks. However, this raises questions about whether the PRA believes the market is adequately pricing climate risk and if insurers should reconsider relying solely on market-based pricing methods.

Thank you for your consideration of these comments. On behalf of the IIF and ISDA memberships, we hope that these global industry perspectives will contribute constructively to your efforts. We would be very happy to discuss any of our comments further or to assist in any way. We invite you to contact Andrés Portilla (aportilla@iif.com), Sonja Gibbs (sgibbs@iif.com), Gregg Jones (gjones@isda.org) and Marc Tourangeau (MTourangeau@isda.org) should you have questions or comments.

Yours sincerely,



Andrés Portilla
Managing Director and
Head of Regulatory Affairs
Institute of International Finance (IIF)

Sonja Gibbs
Managing Director and
Head of Sustainable Finance
Institute of International Finance (IIF)

Panayiotis Dionysopoulos
Head of Capital
International Swaps and Derivatives
Association (ISDA)