



## **ISDA Publishes Conceptual Framework for Climate Scenario Analysis in the Trading Book**

**NEW YORK, July 12, 2023** – The International Swaps and Derivatives Association, Inc. (ISDA) has published a conceptual framework for climate scenario analysis in the trading book, marking a major step forward in efforts to understand and manage the impact of climate-related events on traded assets.

Up until now, climate risk scenario analysis has been mainly focused on the impact of climate risk on the banking book, but a [survey of ISDA members in 2022](#) highlighted that trading book scenario analysis is now seen as a priority for many banks. While some have partial capabilities to assess the market risk or counterparty credit risk impact of defined climate risk scenarios, there is a lack of consensus on the methodology, as well as a scarcity of reliable data to support robust scenario analysis.

In response to the survey’s findings, ISDA commissioned Deloitte to work with more than 30 ISDA member banks during the first half of 2023 to develop a conceptual framework and a set of key considerations to support the design and implementation of climate risk scenario analysis in the trading book. The framework, which was developed in collaboration with the participating banks, sets out a detailed approach to the design and implementation of climate scenarios. At the implementation stage, the impact of the climate scenario on macro-economic factors is translated into market risk factors and applied to trading book portfolios.

“Understanding and managing the impact of climate risk on traded assets is an extraordinary challenge and requires extensive testing and validation to develop a risk-appropriate framework. ISDA’s conceptual work provides a blueprint for climate scenario analysis in the trading book, and we will now build on this to develop scenarios and move towards practical implementation,” said Scott O’Malia, ISDA’s Chief Executive.

In designing the conceptual framework, ISDA leveraged the work of the Network of Central Banks and Supervisors for Greening the Financial System, which is developing its own short-term climate risk scenarios. Last month, ISDA and Deloitte hosted a workshop in London on climate risk scenario analysis, with participation from public sector bodies, banks and academics.

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“Given the urgency and complexity of assessing and managing climate risk, it’s clear that continued collaboration between the public and private sectors will be the only way to make meaningful progress. We’ll continue to collaborate with our members and the regulators as we work to develop a robust, harmonized approach to climate scenario analysis in the trading book,” said Mark Gheerbrant, Global Head of Risk and Capital at ISDA.

Read the full whitepaper, *A Conceptual Framework for Climate Scenario Analysis in the Trading Book*, [here](#).

### **About ISDA**

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 78 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, 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. Information about ISDA and its activities is available on the Association’s website: [www.isda.org](http://www.isda.org). Follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).

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