

Regulatory Alert

Regulatory Insights



January 2022

Climate scenario analysis

In [testimony](#) before the Senate Banking Committee, Federal Reserve Board Chairman Powell confirmed that climate stress scenarios will be an “important priority” and a “key tool” for the agency going forward. In addition, he drew a distinction between stress testing, which examines capital adequacy, and scenario analysis, which he described as a risk management tool to help financial institutions understand the risks in their business models posed by climate change over time.

U.S. regulators have been encouraging the development and adoption of climate scenario analysis, consistent with Chair Powell’s explanation, for some time:

- **FSOC.** In a [report](#) on climate-related financial risk, the members of the Financial Stability Oversight Council (FSOC) recommended the use of scenario analysis as a tool for assessing climate-related financial risks, taking into account their supervisory and regulatory mandates and the size, complexity, and activities of regulated entities. The report defines climate scenario analysis as “a forward-looking projection of risk outcomes that provides a structured approach for considering potential future risks associated with climate change.”
- **FRB.** Federal Reserve Board Governor Brainard helped to [set expectations](#) regarding efforts to build,

iterate, and enhance climate risk modelling by outlining the FRB’s efforts to develop scenario analysis to model the possible risks associated with climate change for both individual institutions and the entire financial system. She stated, “Scenario analysis is a useful tool in assessing the links between climate-related risks and economic outcomes because it requires assessing the implications for financial stability and individual financial institutions in a systematic way.”

- **OCC.** Scenario analysis is one of the [proposed principles](#) for climate-related financial risk management recently released by the Office of the Comptroller of the Currency (OCC). The guidance states that scenario analysis exercises “differ from traditional stress testing exercises that typically assess the potential impacts of transitory shocks to near-term economic and financial conditions.” Acting Comptroller of the Currency Hsu separately [stated](#) that “Boards should push senior management hard to develop scenario analyses, both top down and bottom up, as doing scenario analysis well takes time.”

For additional information, please contact [Amy Matsuo](#) or [Adam Levy](#).

Relevant materials:

- KPMG paper: [Climate scenario analysis: It’s not capital stress testing](#)
- [KPMG Regulatory Alert | Climate Risk Modeling: Scenario analysis](#)
- [KPMG Regulatory Alert | Climate Reporting: Recent updates impacting financial services](#)
- [KPMG Regulatory Alert | OCC principles for large bank climate risk management](#)

Watch for it! KPMG Regulatory Insights will be examining climate-related financial risks, and associated regulatory expectations and challenges including climate scenario analysis, in an upcoming paper.

Contact the author:



Amy Matsuo
Principal and Leader
Regulatory and ESG Insights
amatsuo@kpmg.com

kpmg.com/socialmedia



Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

All information provided here is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the facts of the particular situation.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.