Submitted electronically via https://comments.cftc.gov

October 7, 2022

Christopher Kirkpatrick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street NW
Washington, DC 20581

Re: *Climate-Related Financial Risk RFI*

Dear Mr. Kirkpatrick:

The Securities Industry and Financial Markets Association ("SIFMA"), the Asset Management Group of SIFMA ("SIFMA AMG"), and the Institute of International Bankers (the "IIB")[1] appreciate the opportunity to comment on the Commodity Futures Trading Commission's (the "Commission") request for information[2] regarding climate-related financial risk (the "RFI"). We support the Commission's efforts to better inform its understanding and oversight of climate-related financial risk where pertinent to the derivatives markets and appreciate the opportunity to submit our comments in response to the RFI.

Our members are at the forefront of (1) working to develop risk management frameworks to manage climate-related financial risks and (2) developing products and services to hedge risk related to climate risk factors and contribute to market efficiency and resiliency with respect to climate-related financial risks. We look forward to working with the Commission and other regulators to address the recommendations set forth in the Financial Stability Oversight Council's ("FSOC") Climate-Related Financial Risk Report ("FSOC Report") that relate to the derivatives markets.

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[1] Please see the Appendix for more information on SIFMA, SIFMA AMG, and IIB.

[2] *See* Request for Information on Climate-Related Financial Risk, 87 Fed. Reg. 34856 (proposed June 8, 2022), *available at* https://www.cftc.gov/sites/default/files/2022/06/2022-12302a.pdf.

Management of Climate-related Financial Risks Requires a Coordinated and Properly Calibrated Approach That Takes Into Account Existing and Varying Regulatory Frameworks

As the Commission is aware, climate change and its associated financial risks are a key focus of the global regulatory agenda. The global economy relies on derivatives markets to manage risk. As such, derivatives market regulation relating to climate risks are best addressed through coordination and, where appropriate, harmonization among regulatory and supervisory bodies, both within the United States and internationally. Siloed approaches and initiatives by regulators to address climate-related financial risks are inefficient for both regulators and market participants. They also are more likely to result in inconsistent and even conflicting requirements that may ultimately impede important underlying policy objectives. This is especially problematic for market participants that operate in global derivatives markets. This is true not only for banks, swap dealers, and asset managers, but also for their commercial counterparties and clients – many of whom are subject to multiple regulatory regimes as well.

To that end, we applaud the Commission's coordination with other regulators on climate-related financial risks, including as a member of the FSOC. We note that, in response to Executive Order 14030, the FSOC issued the above-mentioned FSOC Report in October 2021, which highlights, among other things, the international organizations and standard setting bodies that are working to address climate-related financial risks.[3] We urge the Commission to continue its cooperative efforts with domestic and international regulators, as well as with market participants. This kind of coordination is critical to achieving a consistent and, where appropriate, harmonized regulatory regime for climate-related financial risk management that does not impose unnecessarily burdensome requirements on market participants or impede the resiliency of derivatives markets and their ability to provide risk management tools that are needed to support the coming challenges that will confront market participants. Furthermore, with respect to defining, measuring, monitoring, and assessing climate-related financial risks and their effects on financial stability, extensive work already has been performed and is ongoing by numerous other U.S. and foreign regulators. In addition, voluntary frameworks and standards intended to meet these goals have been developed and continue to evolve.

We also note that our members are working at the highest levels within their organizations to address climate-related financial risk at an enterprise level across business lines and geographies. Imposing additional requirements to specific areas of business (*e.g.*, a registered swap dealer unit) may run the risk of duplicating existing efforts or adding unnecessary regulatory complexity without adding any meaningful benefit to regulatory oversight.

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[3] *See* Financial Stability Oversight Council, Report on Climate-Related Financial Risk, Box B – Overview of International Work on Climate-related Financial Risk, at 15-17 (Oct. 21, 2021), *available at* https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf.

Foster Consistent and Efficient Risk Management & Disclosure Obligations by Utilizing Existing Regulatory Risk Framework

We also encourage the Commission to remain mindful of the extent to which its existing rules, as well as those of other regulators with jurisdiction over firms that are operating in the derivatives markets, already provide an adequate framework for understanding and incorporating climate-related risks into the existing risk management programs of firms and addressing other topics raised in the RFI.

For example, swap dealers already are required under the Commission's Title VII regulations to establish, document, maintain, and enforce a system of risk management policies and procedures designed to monitor and manage the risks associated with the swaps activities of the swap dealer, to identify applicable risks and set appropriate risk tolerance limits related thereto, and to conduct periodic risk exposure reporting.[4] Swap dealers also are required to provide reports regarding the risk management program to the Commission.[5] In addition to these regulations, prudential regulators recently have proposed principles designed to support the identification and management of climate-related financial risks by large financial institutions.[6]

Should the Commission ultimately pursue rulemaking relating to climate-related financial risks, we encourage the Commission to consider the extent to which the aforementioned and existing risk management and other rules of the Commission and other applicable regulators, provide a framework for firms to manage and disclose their climate-related financial risks to the Commission and to counterparties. Incorporating climate-related financial risks into existing risk management policies, procedures, and programs would best support consistent and efficient monitoring, management, identification, and reporting of such risks.

The Commission Should Encourage Industry-driven Approaches that Foster Public and Private Partnership

We believe that it is important for all financial industry regulators to be climate conversant. These efforts will enable the Commission to understand how emerging and evolving climate-related financial risks are impacting (and may in the future impact) the derivatives markets, on one hand, and how innovations in derivatives markets will help market participants to hedge and efficiently manage those risks, on the other hand. Furthermore, we acknowledge that the FSOC Report included a recommendation that FSOC member agencies, consistent with their legal authority, "expand their respective capacities to define,

[4] 17 CFR §23.600.

[5] *Id*.

[6] *See* Federal Deposit Insurance Corporation, Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 19507 (Apr. 4, 2022), available at https://www.fdic.gov/news/board-matters/2022/2022-03-29-notational-fr.pdf; Office of the Comptroller of the Currency, Principles for Climate-Related Financial Risk Management for Large Banks (Dec. 16, 2021), available at https://www.occ.gov/news-issuances/bulletins/2021/bulletin-2021-62.html.

identify, measure, monitor, assess, and report on climate-related financial risks and their effects on financial stability."[7]

As the Commission considers what actions it may undertake in the future relating to climate-related financial risks, we respectfully urge it to remain mindful of the parameters of its statutory mandate and the interconnectedness of the global financial system and the regulations that apply to its participants.

We urge the Commission to maintain focus on addressing climate-related financial risks that specifically relate to the Commission's areas of expertise, *i.e.*, commodity derivatives markets, products, and market participants. Further, we respectfully remind the Commission that any action ultimately taken will also affect how climate-related financial risk categories interact with each other, and that it is prudent to consider any potential unintended consequence that could be created by inconsistent and/or overlapping actions.

Over the last few years, the financial markets have made great strides in understanding and managing climate-related financial risks. In that time, climate-related disclosures by financial market participants also have increased significantly. Furthermore, all of the foregoing trends are accelerating, as we believe will be underscored in responses to the RFI.

In addition, new technologies continue to be developed to identify, quantify, and manage climate-related financial risks. For example, digital asset and distributed ledger technology usage in climate-related finance markets has the potential to support climate (and other ESG) related efforts for Commission registrants and other market participants.

We encourage the Commission to be attentive to these trends and developments in its fact-finding, as well as more generally in connection with its initiatives relating to climate risk.

On behalf of our members, we stand ready to assist the Commission and its staff in staying abreast of trends and developments in this area. We welcome the opportunity to engage with you as part of the RFI process and as you continue to evaluate potential regulatory approaches in the future.

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[7] *See* FSOC Report, Box A – Building Capacity and Expanding Efforts to Address Climate-related Financial Risks, at 5.

We are grateful for the opportunity to share our views. Please feel free to contact the undersigned with any questions. Alternatively, you may contact Michael Littenberg (michael.littenberg@ropesgray.com; 212-596-9160), Molly Moore (molly.moore@ropesgray.com; 202-508-4732) or Egan Cammack (egan.cammack@ropesgray.com; 617-951-7736), our counsel at Ropes & Gray.

Sincerely,

Stephanie Webster
General Counsel
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Kyle L Brandon
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cc: The Honorable Rostin Behnam, Chair, Commodity Futures Trading Commission
The Honorable Kristin N. Johnson, Commissioner
The Honorable Christy Goldsmith Romero, Commissioner
The Honorable Summer K. Mersinger, Commissioner
The Honorable Caroline D. Pham, Commissioner
Ms. Abigail S. Knauff, Deputy, Climate Risk Unit
Ms. Brigitte C. Weyls, Assistant Chief Counsel, Division of Market Oversight
Mr. Andrew Ruggiero, Attorney Advisor, Market Participants Division
Mr. Richard Haynes, Deputy Director, Division of Clearing and Risk
Ms. Diana Dietrich, Senior Assistant General Counsel
Mr. Mark Fajfar, Senior Assistant General Counsel

Appendix

SIFMA is the leading trade association for broker-dealers, investment banks, and asset managers operating in the U.S. and global capital markets. On behalf of our industry's one million employees, we advocate on legislation, regulation, and business policy, affecting retail and institutional investors, equity and fixed income markets, and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit http://www.sifma.org.

SIFMA AMG brings the asset management community together to provide views on U.S. and global policy and to create industry best practices. SIFMA AMG's members represent U.S. and global asset management firms whose combined assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds. For more information, visit http://www.sifma.org/amg.

The **IIB** represents internationally headquartered financial institutions from over thirty-five countries around the world doing business in the United States. Its members consist principally of international banks that conduct U.S. operations through branches and agencies, bank subsidiaries, and broker-dealer subsidiaries. The IIB's mission is to help resolve the many special legislative, regulatory, and tax issues confronting internationally headquartered financial institutions that engage in banking, securities, and/or insurance activities in the United States. For more information, visit http://www.iib.org.