

Date: [Insert Date]

To: Chief Executive Officers and Boards of Directors of All Supervised Financial Institutions

Subject: Interagency Supervisory Guidance on Climate-Related Financial Risk Management

1. Purpose

This letter provides guidance on the management of exposures to climate-related financial risks. The purpose is to ensure that supervised institutions incorporate climate-related physical and transition risks into their strategic planning and risk management frameworks.

2. Governance and Strategic Planning

The Board of Directors should demonstrate an understanding of climate-related financial risks and provide oversight of management's efforts to assess these risks. Management should ensure that the institution's business strategy is resilient to various climate scenarios over multiple time horizons.

3. Risk Management Framework

Institutions are expected to integrate climate-related risks into their existing risk management processes, including:

- **Credit Risk:** Assessing the impact of extreme weather events and carbon-transition policies on borrower creditworthiness.
- **Liquidity Risk:** Evaluating the potential for sudden outflows or restricted access to funding due to climate-related events.
- **Operational Risk:** Monitoring the resilience of physical infrastructure and third-party services to climate disruptions.
- **Market Risk:** Analyzing potential volatility in asset prices driven by climate-related sentiment or policy shifts.

4. Data and Scenario Analysis

Financial institutions should work toward developing robust data collection processes and utilize scenario analysis to bridge gaps in historical data. Scenario analysis should be used to evaluate the potential impact of climate change on the institution's long-term viability.

5. Disclosure and Reporting

Institutions should maintain transparent communication with stakeholders regarding their climate risk exposure and the actions taken to mitigate such risks, consistent with existing regulatory reporting requirements.

6. Conclusion

Supervisors will review the adequacy of climate-related financial risk management as part of the regular examination process. Institutions are encouraged to scale their approach based on their size, complexity, and risk profile.

Sincerely,

[Authorized Signature]

[Agency Name]

[Department Name]