# Template for comments

Guide on the management and disclosure of climate-related and environmental risks

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<th>Institution/Company</th>
<th>MSCI ESG RESEARCH LLC</th>
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<tbody>
<tr>
<td><strong>Contact person</strong></td>
<td><strong>Mr/Ms</strong></td>
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<tr>
<td>DAVID LUNSFORD</td>
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<td><strong>First name</strong></td>
<td>DAVID</td>
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<tr>
<td><strong>Surname</strong></td>
<td>LUNSFORD</td>
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<td><strong>Email address</strong></td>
<td><a href="mailto:david.lunsford@msci.com">david.lunsford@msci.com</a></td>
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<td><strong>Telephone number</strong></td>
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Please tick here if you do not wish your personal data to be published.

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<th><strong>General comments</strong></th>
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**Template for comments**

Guide on the management and disclosure of climate-related and environmental risks

Please enter all your feedback in this list.
When entering feedback, please make sure that:
- each comment deals with a single issue only;
- you indicate the relevant article/chapter/paragraph, where appropriate;
- you indicate whether your comment is a proposed amendment, clarification or deletion.

**Deadline:** 25 September 2020

<table>
<thead>
<tr>
<th>ID</th>
<th>Chapter</th>
<th>Paragraph</th>
<th>Expectation or box number</th>
<th>Page</th>
<th>Type of comment</th>
<th>Detailed comment</th>
<th>Concise statement as to why your comment should be taken on board</th>
<th>Name of commenter</th>
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<tbody>
<tr>
<td>1</td>
<td>Chapter 6</td>
<td>6.2</td>
<td>8.1 + box 8</td>
<td>32</td>
<td>Clarification</td>
<td>We believe that expectation 8.1 is key to institutions quantifying the credit risk impacts of climate risks and realocating capital efficiently. However, the question does arise whether the observed practice in box 8 is as close to a best practice for the industry as it may be. For instance, although qualitative inputs into scorecards can be a complement to an exercise of quantification of impacts on probabilities of default (PD), we believe that this practice is not sufficient on its own to form a comprehensive analysis of the impacts of climate risk on borrowers' credit risk. Highlighting this as an example of observed practice may unintentionally give the signal that this is adequate, whereas in our view it would fall short of this expectation. Climate scenario models are now at a stage of development where they allow to compute ranges of quantiative impacts on probabilities of default - and we believe this should be encouraged.</td>
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<td>Raising the level of expectation 8.1. LUNSFORD, DAVID Publish</td>
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<td>2</td>
<td>Chapter 6</td>
<td>6.2</td>
<td>8.2</td>
<td>32-33</td>
<td>Amendment</td>
<td>Expectation 8.2 states that critical exposures should be considered under various scenarios, where applicable. Our view is that potentially this expectation may be more ambitious. We have found, through our own work and our clients' work, that performing scenario analysis can be useful to determine which exposures are critical in the first place. Encouraging institutions to focus only on what are deemed to be &quot;critical exposures&quot; may therefore be limiting. Our view is to consider encouraging institutions to consider all exposures under various scenarios.</td>
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<td>Amendment</td>
<td>Our interpretation is that Expectation 8.4 appears to be focused on geographical and sectoral concentrations (for instance, the second sentence reads: &quot;Institutions are expected to monitor how geographic and sectoral concentration is prone to climate-related and environmental risks&quot;). While we agree that geographical and sectoral concentrations are a necessary component of climate risk management, we also believe that single-name analysis is important because different companies are likely to fair better or worse in any country / sector combinations. We would therefore suggest to consider encouraging institutions to manage climate risk in their portfolios at the single-name level too.</td>
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<td>Clarification</td>
<td>The guide requests to monitor climate risks over &quot;a sufficiently long-term horizon&quot;. We suggest to clarify the meaning of &quot;sufficient&quot;. As an example, the Bank of England's BES on climate change recommended a 30-year time horizon, i.e. 2020, 2050 and 2080 assessments. We think that clarity would benefit any stress test regulation at the point of implementation and reporting. We however suggest to look at various modeling time horizons, assessing potential scenario impacts in the years 2020, 2030, 2050, 2080 and 2100.</td>
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<td>6.5</td>
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<td>Deletion</td>
<td>The text states that physical risk scenarios should be in line with &quot;with scientific climate change pathways, such as IPCC or IEA scenarios.&quot; We suggest deleting &quot;or IEA&quot; because the IEA does not operate physical risk scenarios. The IEA operates models for assessing transition risks. We would alternatively suggest to reference climate research institutes such as the Potsdam Institute for Climate Impact Research or the Woodwell Climate Research Center.</td>
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<td>Clarification</td>
<td>In bullet point three, &quot;short, medium and long term&quot; are referenced. In accordance with our comments on time horizon, we suggest to change this to &quot;years 2020, 2030, 2050, 2080 and 2100&quot;.</td>
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Raising the level of expectation 8.4.  
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<td>The current text mentions “quantification methodologies” are subject to further developments. We would like to note that the NGFS scenario recommendations concretely mention several Integrated Assessment Models (IAMs) in their report: GCAM 5.2, REMIND-MagPIE 1.7-3.0 and MESSAGEix-GLOBIOM 1.0. We think that it would be helpful to add that “Integrated Assessment Models (IAMs) currently provide a substantial set of tools, methods and data sets to adequately quantify climate-related and environmental risks.” Add details of acceptable IAMs to be used for stress testing.</td>
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<td>Box 4, Chart A</td>
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<td>Box 4 outlines “Observed practice” for setting carbon intensity targets within a Bank’s portfolio. We suggest to also give an example (as Chart B) of how physical climate impacts may be mapped to a bank’s portfolio. A recent report by the UNEPFI, titled “Charting a New Climate” (September 2020), contains several cases where banks have applied physical risk data to bank portfolios. Add an example of how physical climate risks could be quantified and mapped to a bank’s portfolio.</td>
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