May 12, 2022

Mr. James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

Re: Principles for Climate-Related Financial Risk Management for Large Financial Institutions (RIN 3064-ZA32)

Dear Mr. Sheesley,

Intercontinental Exchange, Inc. ("ICE"), on behalf of itself and its subsidiaries, appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's ("FDIC") draft principles for a high-level framework for management of climate-related financial risks.[1] We address our comments to several specific questions asked by the FDIC with regards to these draft principles. As discussed below, ICE is supportive of sustainable and impact investing and regulatory initiatives designed to improve transparency and comparability.

We believe that our five decades of experience providing evaluated pricing and related reference data and metrics covering millions of fixed income securities, which are largely held by financial institutions, can provide useful insights into ESG-related practices.

Background on ICE

ICE, through its ICE Data Services business unit, is a leading provider of evaluated end-of-day and continuous pricing services on approximately three million fixed income securities spanning approximately 150 countries and 80 currencies including sovereign, corporate and municipal bonds, mortgage- and asset-backed securities as well as leveraged loans. ICE's reference data complements this evaluated pricing by providing our clients a broad range of descriptive information, covering millions of financial instruments. ICE's ESG data covers a wide range of financial instruments including equities, municipal bonds, corporate bonds, mortgage-backed securities (MBS) and loans. Our municipal ESG data covers over 40 different demographic and workplace metrics which indicate the potential social impact of investment in a given municipality. In addition, these metrics are mapped to the UN Sustainable Development Goals to provide users a means to look at their impact within a commonly understood framework. Our company ESG data[2] includes widely reported and comparable ESG attributes and

[1] https://www.fdic.gov/news/financial-institution-letters/2022/fil22013.html
[2] https://www.theice.com/data-services/esg-data/esg-reference-data

indicators (over 500), which can help users better understand ESG risks and opportunities of global corporations.

In addition, for most securitized products and municipal securities, ICE offers climate risk data[3] on the exposure of these securities to climate risks. This service can help users quantify climate risk exposure and make strategic decisions across portfolios by maturity, obligor or geographical boundary. Finally, ICE's terms and conditions data service[4] includes classification of green, social and sustainable bonds, as well as details of any second party opinion that confirms the status of the bond.

Climate-Related Financial Risk Time Horizons

The FDIC requests comment on what time horizons are appropriate for financial institutions to consider when assessing the materiality of their climate-related financial risks. In our experience, it is important to consider multiple time horizons when evaluating the impact of climate-related financial risks. Moreover, we observe our clients commonly analyzing climate exposures over different time horizons for different asset types. For example, for short-duration instruments, our clients may refer to current exposure and the exposure at 1 or 2 years out. For mortgage-related assets, the 7- and 10-year time horizons are very common focal points, whereas real estate and municipal bond owners tend to look at 10- to 30-year time horizons. Climate risk should not be viewed purely through a future lens, however, there are also material risks to real estate and infrastructure *now* that should be considered. In addition, policy changes like FEMA's Risk Rating 2.0 that was initialized in October 2021 are expected to create inflationary pressure on housing costs through changes in flood insurance premiums. Such changes may impact liquidity in the residential real estate market that could in turn exert downward pressure on value of certain real estate markets.[5] In addition, acceleration in wildfire risk over the past several years is also leading to changes in the willingness of insurers to underwrite wildfire policies for vulnerable real estate,[6] potentially adding risk to banks holding loans. Financial institutions should be aware of how these kinds of policy changes and market dynamics could dovetail with actual measurements of physical climate risk.

We suggest that the FDIC recommend financial institutions consider a wide array of climate exposure time horizons when quantifying the materiality to their institution.

Scenario Analysis of Climate-Related Financial Risks

The FDIC requests comment on several aspects of scenario analysis with regards to climate risk management, including what challenges exist today and what factors should be considered when designing and executing a scenario analysis. ICE notes that there are well-understood climate scenario analysis tools available to the

[3] https://www.theice.com/data-services/esg-data/climate-risk
[4] https://www.theice.com/market-data/pricing-and-analytics/reference-data/terms-and-conditions
[5] https://www.propertycasualty360.com/2021/10/08/flood-insurance-is-changing-for-property-owners-heres-what-real-estate-clients-should-know-414-210980/?slreturn=20220318112500
[6] https://www.wsj.com/articles/wildfire-risk-in-california-drives-insurers-to-pull-policies-for-pricey-homes-11642593601

industry. For example, the United Nation's Intergovernmental Panel on Climate Change (IPCC)[7] has established Representative Concentration Pathways (RCP),[8] which are pathway scenarios commonly utilized for climate modeling and research. These well-defined scenarios range from RCP 2.6 (representing the aspirational goals of the Paris Agreement to limit global warming to 1.5°C by 2100) through RCP 8.5 (considered by some to be the worst-case scenario for climate change with expectations of projected warming exceeding 4°C by 2100).

These types of standardized, readily available scenarios can be incorporated into financial institutions' scenario analyses workflows and assist these entities in better understanding the potential of their climate-related financial risks.

Additional Tools and Approaches for Risk Management of Climate-Related Risks

The FDIC discusses various risk management tools that are available today to financial institutions including exposure analysis, heat maps, climate risk dashboards, and scenario analysis. The FDIC goes on to inquire about specific tools or strategies that financial institutions use to successfully manage climate-related risks.

ICE believes that all of these tools mentioned above add value to an institution's analysis and management of climate-related risks. For example, dashboards and heat maps may be more appropriate for senior managers, whereas exposure and scenario analysis are generally more appropriate for the managers more actively focused on mitigating climate risks.

From our experience as a climate risk data provider, we strongly believe that the underlying thread that ties these tools together is the validation of underlying assumptions utilized. We regularly have clients asking us to validate and compare our projections to actual outcomes once realized. Therefore, we believe that the FDIC should explicitly require financial institutions to research, outline, and detail the correlation between climate risks and the financial risks to which they are exposed, and provide transparency into the data utilized to validate any assumptions that underlie their models.

Application of Climate-Related Risks to Credit and Liquidity Risk Management

The FDIC highlights in these draft principles that a sound risk governance framework allows a financial institution to identify and mitigate climate-related risks in various risk categories (e.g. credit risk, liquidity risk, operational risk, etc.). The FDIC further suggests that additional risk assessment principles will be provided in subsequent guidance.

We caution the FDIC about being overly prescriptive in the application of climate-related financial risks to other risk categories. As a service provider in both the climate and liquidity space, ICE is still looking for ways to appropriately incorporate climate events into its liquidity models, and correlations are quite difficult to apply on a macro level. With liquidity models that are broadly driven by underlying risk factors such as bid-ask spreads, price volatility, depth of asset holders, and observed trading volumes (each of which are highly positively

[7] The IPCC was established in 1988 and is comprised of 195 member states.
[8] The RCP measure greenhouse gas concentration trajectories through the year 2100 and each of these RCP describe different potential climate future scenarios.

correlated to liquidity), it is complicated to apply climate risk to these factors in a quantitatively, data-driven way.

Conversely, on the credit risk side, there is ample data proving a strong correlation to climate risks and property values, these data can be utilized to quantitatively model both an increase in the probability of default, as well as the loss-given default assumptions used in credit modelling.

Conclusion

ICE appreciates the opportunity to share our thoughts on this important topic, and hope that our recommendations are helpful as the FDIC develops a framework for the safe and sound management by financial institutions of exposures to climate-related financial risks. We would be happy to discuss these suggestions in greater detail with FDIC representatives if that would be useful.

Respectfully submitted,

Anthony Belcher, Vice President, Sustainable Finance
Intercontinental Exchange, Inc.