



May 20, 2022

*Submitted Via Email to Comments@FDIC.gov*

James P. Sheesley  
Assistant Executive Secretary  
Attention: Comments—RIN 3064–ZA32  
Federal Deposit Insurance Corporation  
550 17th Street NW  
Washington, DC 20429

Re: Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions

Ladies and Gentlemen:

The Bank Policy Institute<sup>1</sup> appreciates the opportunity to comment on the Federal Deposit Insurance Corporation’s draft Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions (“FDIC Proposal”),<sup>2</sup> which aims to support the identification and management of climate-related financial risks at FDIC-regulated financial institutions with more than \$100 billion in total consolidated assets.

BPI supports the FDIC’s efforts to develop and articulate principles-based guidance for climate-related financial risk management, which we believe can be helpful to both financial institutions and supervisors as they work to ensure that financial institutions identify and manage the possible manifestations of physical- and transition-related risks of climate change on their businesses and operations. Our members are actively evaluating climate-related financial risks and their potential

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<sup>1</sup> The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation’s leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation’s small business loans, and are an engine for financial innovation and economic growth.

<sup>2</sup> FDIC, *Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions*, 87 Fed. Reg. 19507 (April 4, 2022).

impacts and are devoting substantial resources to developing risk management capabilities to identify, measure, and mitigate these risks.

BPI also appreciates that the FDIC Proposal aligns closely with the Office of the Comptroller of the Currency's draft Principles for Climate-Related Financial Risk Management for Large Banks ("OCC Proposal").<sup>3</sup> As we described in our comment letter on the OCC Proposal, such consistency and coordination will be crucial to avoid the potential for duplicative or conflicting requirements imposed on financial institutions, which would not only be burdensome, but would also likely undermine rather than support financial institutions' abilities to manage climate-related financial risk. To that end, we encourage the FDIC, OCC, and other bank regulatory agencies to continue coordinating on any efforts to finalize or expand upon guidance on the management of climate-related financial risk, and to do so jointly via interagency guidance.

As concerns the substance of the FDIC Proposal, because the OCC and FDIC proposals are so similar, we generally believe that our letter responding to the OCC Proposal applies equally to the FDIC's Proposal. We therefore attach as Appendix A and incorporate by reference our February 14, 2022 comment letter to the OCC, which we submit as part of our response to the FDIC Proposal.

With that said, we note that the FDIC Proposal would deviate from the OCC Proposal in one significant respect: the FDIC Proposal would not merely create expectations for how financial institutions manage climate-related financial risk, but also states that "the manner in which financial institutions manage climate-related financial risks to address safety and soundness concerns should also seek to reduce or mitigate the impact that management of these risks may have on broader aspects of the economy." Although the FDIC Proposal does not further elaborate on this statement, we are deeply concerned by any suggestion that financial institutions are subject to an affirmative obligation to tailor their risk management activities in a way that mitigates the impact of those activities "on broader aspects of the economy." Such an expectation is novel, has no basis in law,<sup>4</sup> and therefore would be inappropriate to impose on financial institutions as a matter of policy without further clarification. Given the vague and ambiguous nature of the statement, it is unclear as to its application more generally. We strongly suggest the FDIC clarify its intent and consult more broadly with the other federal banking agencies and the Financial Stability Oversight Council on any concerns over wider economic impacts of climate-related financial risk management.

While of course all banks make risk management and other business decisions with a fundamental emphasis on the impact of those decisions on their ability to meet the needs and convenience of their customers and community, the introduction of a sweeping regulatory expectation that a bank circumscribe and limit its risk management practices on the basis of those practices' impacts on the broader economy could undermine safety and soundness. In practice, it could require that banks sacrifice the effectiveness of their own risk management for the sake of avoiding any impact that such risk management practices may have on the broader economy. We also note that it is entirely unclear from the FDIC's statement (i) what "broader aspects of the economy" encompasses and (ii) what level and types of "impact" would preclude a bank from pursuing a particular risk management measure. For

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<sup>3</sup> OCC, *Principles for Climate-Related Financial Risk Management for Large Banks* (Dec. 16, 2021), <https://www.occ.treas.gov/news-issuances/news-releases/2021/nr-occ-2021-138a.pdf>.

<sup>4</sup> Specifically, the FDIC lacks statutory authority to establish risk management expectations that do not further the goal of safety and soundness. See, e.g., 12 U.S.C. § 1831p-1.

all of these reasons, we urge the FDIC to strike this phrase from any final guidance, and further to pursue any possible wider economic concerns through the Financial Stability Oversight Council.

The FDIC Proposal also requests comment on whether the federal banking agencies should modify existing regulations and guidance, such as those associated with the Community Reinvestment Act ("CRA"), to address the impact that climate-related financial risks may have on low- and moderate-income and other disadvantaged communities. As noted in our response to the OCC Proposal (see section V.B), we believe that the federal banking agencies should consider how activities designed to improve the climate resilience of disadvantaged communities may receive CRA credit. We believe that financial institutions have an important role to play in supporting disadvantaged communities in response to increased climate risks, and we welcome partnership with the banking agencies to further this goal.

\* \* \* \* \*

Bank Policy Institute appreciates the opportunity to comment on the FDIC Proposal. If you have any questions, please contact the undersigned by phone at +1 202.737.3536 or by email at [Lauren.Anderson@bpi.com](mailto:Lauren.Anderson@bpi.com).

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Lauren Anderson', is written over a horizontal line.

Lauren Anderson  
Senior Vice President, Associate General Counsel  
*Bank Policy Institute*

# Appendix A



February 14, 2022

*Submitted Via Regulations.gov*

Chief Counsel's Office  
Attention: Comment Processing  
Office of the Comptroller of the Currency  
400 7th Street SW  
Suite 3E-218  
Washington, DC 20219

Re: Principles for Climate-Related Financial Risk Management for Large Banks  
(Docket ID No. OCC-2021-0023)

Ladies and Gentlemen:

The Bank Policy Institute<sup>1</sup> appreciates the opportunity to comment on the Office of the Comptroller of the Currency's draft Principles for Climate-Related Financial Risk Management for Large Banks ("Proposal"),<sup>2</sup> which aims to support the identification and management of climate-related financial risks at OCC-regulated institutions with more than \$100 billion in total consolidated assets.

BPI supports the OCC's efforts to develop and articulate principles-based guidance for climate-related financial risk management, which we believe can be helpful to both banks and supervisors as they work to ensure that banks identify and manage the possible manifestations of physical- and transition-related risks of climate change on their businesses and operations.<sup>3</sup> Our members are

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<sup>2</sup> OCC, *Principles for Climate-Related Financial Risk Management for Large Banks* (Dec. 16, 2021), <https://www.occ.treas.gov/news-issuances/news-releases/2021/nr-occ-2021-138a.pdf>.

<sup>3</sup> For purposes of our comments, the terms "climate-related financial risk," "physical risk," and "transition risk" have the meanings as outlined in the Financial Stability Oversight Council's Report on Climate-Related Financial Risk (Oct. 21, 2021), <https://home.treasury.gov/system/files/261/FSOC-Climate->

actively evaluating climate-related financial risks and their potential impacts, and are devoting substantial resources to developing risk management capabilities to identify, measure, and mitigate these risks.

## I. Executive Summary

Given BPI member banks' experience in this space, we believe six overarching principles should guide the OCC in finalizing its climate-related financial risk guidance. These principles and associated recommendations are summarized below:

- The principles-based nature of the Proposal appropriately reflects the diversity of climate-related financial risks to which banks may be exposed and the need for flexibility in the design and implementation of risk management approaches in this area.
  - The Proposal should reflect that there is significant variability of potential climate-related financial risk outcomes over longer time horizons.
  - The Proposal's Policies, Procedures, and Limits section should retain its flexible approach and acknowledge it would be premature at this time to require banks to establish and apply quantitative limits or thresholds for climate-related financial risk.
  - The Proposal's Governance and Data, Risk Measurement, and Reporting sections should permit appropriate flexibility in the design of reporting.
- The final guidance should clearly acknowledge that banks' approach to managing climate-related financial risk should be fundamentally risk-based, such that individual banks may tailor their risk management programs to the risks presented and calibrate that program to the risks identified.
  - The Proposal's Risk Management section should clarify that for purposes of risk management, individual banks will need to define "materiality" in the context of their individual circumstances and risk appetite framework.
  - The Proposal's Data, Risk Measurement, and Reporting section should acknowledge that an appropriate, risk-based approach may lead individual institutions to focus on different aspects of their portfolios.
  - The Proposal's Scenario Analysis section should acknowledge that banks have the flexibility to conduct scenario analyses at appropriate, risk-based intervals.

- The final guidance and its underlying expectations should reflect the fact that data and tools to measure and quantify climate-related financial risk remain nascent and not fully developed.
  - The Proposal should acknowledge that, in the near-term, climate-related financial risk metrics and reporting may be more qualitative in nature.
  - The Proposal's Strategic Planning, Risk Management, and Other Nonfinancial Risk sections should reflect the nascent state of relevant data.
  - The Proposal's Scenario Analysis section should reflect the relative immaturity of underlying data and methodologies.
- The final guidance should acknowledge that it may be appropriate and beneficial for banks to support customers through their respective low-carbon transition plans.
  - The final guidance should not suggest that banks mitigate credit risk by establishing and managing to prescriptive lending limits.
- We support the OCC's recognition of the distinction between climate scenario analysis and regulatory stress testing.
- We urge the OCC to coordinate with domestic regulators and international bodies to ensure consistent supervisory expectations with respect to climate-related financial risk management.

**II. The principles-based nature of the Proposal appropriately reflects the diversity of climate-related financial risks to which banks may be exposed and the need for flexibility in the design and implementation of risk management approaches in this area.**

We strongly support the principles-based nature of the Proposal, which appropriately reflects that climate-related financial risks may vary significantly across banks and that there is likely to be considerable diversity in the specific risk management tools and approaches that individual banks deploy, particularly as efforts to identify and measure climate-related financial risks remain relatively nascent. We also support the Proposal's acknowledgement that climate-related financial risk management processes may be developed and implemented within a bank's existing risk management framework.

We encourage the OCC to retain this overall approach in the final guidance, and to avoid the types of prescriptive or detailed mandates that are likely to hinder banks' abilities to explore, test, refine, and adapt how they manage climate-related financial risks over both the short- and long-term. For example, it is important that banks have sufficient flexibility to develop and adapt their internal risk taxonomies, to make decisions about how to incorporate climate-related financial risks organizationally within their existing risk management framework, and to determine the relative materiality of climate-

related financial risk exposures to the bank's financial condition. To that end, our comments identify a number of specific areas where maintaining this principles-based approach is particularly important to provide banks with appropriate flexibility.

**A. The Proposal should reflect that there is significant variability of potential climate-related financial risk outcomes over longer time horizons.**

First, the Proposal's Governance section notes that relevant time horizons may include those that extend beyond the bank's typical strategic planning horizon. While this attention to longer-term time horizons is relevant in the context of climate change, it is important that the final guidance acknowledge that there is significant variability and uncertainty of potential outcomes over longer time horizons. As a result, any expectation that the board of directors develop an understanding of future impacts should take account of this variability and uncertainty.

Second, the Proposal's Strategic Planning section notes that the board of directors and management should address the potential impact of climate-related financial risk exposures on the bank over various time horizons. Relatedly, the Proposal's Other Nonfinancial Risk section states that bank boards of directors and management should monitor how the execution of strategic decisions and the operating environment affect the bank's financial condition and operational resilience over time. The OCC's expectations relating to longer-term strategic planning should allow for appropriate, risk-based flexibility to account for the significant variability of outcomes over multi-decade time periods. There is significant complexity and unpredictability over these longer time horizons due to, among other things, the high number of scientific, macroeconomic, financial, and other variables that can vary and must be taken into account when assessing climate-related financial risk. The OCC's supervisory expectations should be calibrated to the usefulness of strategic planning over a given time period and recognize that substantial uncertainty exists with respect to the impacts of climate-related financial risk over medium- and longer-term time horizons. In addition, while a longer strategic planning horizon may be appropriate in the context of climate-related financial risk, it is important that such expectations not be carried over to other strategic planning exercises and processes, particularly those relating to capital and liquidity, for which typical planning horizons have been and remain effective.

Third, the Proposal's Scenario Analysis section notes that an effective scenario analysis framework can assist banks in evaluating the resiliency of their strategy and risk management to the structural changes arising from climate-related financial risks. Given the significant variability of outcomes over longer time horizons, supervisory expectations with respect to longer-term scenario analyses should allow for appropriate flexibility in approaches to developing and leveraging these analyses. Similarly, it would be useful for the OCC to acknowledge that relatively more resources and effort may be applied to shorter-term scenario analysis—where plausibility and degree of certainty is higher and therefore potentially more relevant for risk and business decision-making—and less to longer-term scenario analysis.

**B. The Proposal’s Policies, Procedures, and Limits section should retain its flexible approach and acknowledge it would be premature at this time to require banks to establish and apply quantitative limits or thresholds for climate-related financial risk.**

The Proposal would establish an expectation that bank management incorporate climate-related financial risks into policies, procedures, and limits to provide detailed guidance on the bank’s approach to these risks, in line with the strategy and risk appetite set by the board of directors. While this portion of the Proposal does not prescribe how banks should organize and implement these policies, procedures, and limits, any final guidance should be clear that the use of quantitative limits and thresholds for climate-related financial risk as a risk management tool is likely to be premature for many banks at this time.<sup>4</sup> Rather, banks should be permitted to initially use their directional analysis to develop and inform their risk appetite and risk management frameworks prior to assessing whether any limits and thresholds would be appropriate.<sup>5</sup>

**C. The Proposal’s Governance and Data, Risk Measurement, and Reporting sections should permit appropriate flexibility in the design of reporting.**

The Proposal states that management is responsible for regularly reporting to the board of directors on the level and nature of risks to the bank, including climate-related financial risks, and that effective risk data aggregation and reporting capabilities allow management to capture and report material and emerging climate-related financial risk exposures, segmented or stratified by physical and transition risks, based upon the complexity and types of exposures. This description could be interpreted to suggest that climate-related financial risk should be reported on as a stand-alone category of risk.

Climate risk is a transversal risk that may manifest in any one or more of the risk types that banks have traditionally managed on a dedicated basis, such as credit, liquidity, operational, and legal risk. Final principles on governance and reporting therefore should be flexible and recognize that climate-driven risks may be incorporated into and addressed through a bank’s existing risk management governance program—which may, for example, be designed around the risk types referenced in the OCC’s Heightened Standards—if the bank determines that this is the most effective means of risk management. The final guidance should make clear that it does not introduce a supervisory expectation that banks create new, bespoke governance structures and reporting regimes for climate-related financial risk as a standalone matter, as this would limit banks’ flexibility to integrate climate-related financial risk into existing risk management approaches and would effectively create a new risk type.

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<sup>4</sup> In addition, as discussed in section V.A below, requiring lending limits would not be appropriate at this time, as some banks already consider climate-related financial risks, particularly physical risks, in their credit underwriting processes as appropriate, and such limits could have unintended consequences on bank lending and access to credit.

<sup>5</sup> This recognition is particularly important because banks may be developing their respective approaches to climate-related financial risk management in a phased manner with multiple dependencies. For example, banks may have established different prioritizations and timelines for data collection and standardization or scenario analysis.

In response to the Proposal's Question 11, we also do not believe that a new type of regulatory or other external reporting specifically directed at climate-related financial risk by banks is appropriate or necessary at this point in time. Many banks are already engaged in voluntary reporting efforts through the Task Force on Climate-Related Financial Disclosures (TCFD) as well as other industry-led reporting frameworks.

**III. The final guidance should clearly acknowledge that banks' approach to managing climate-related financial risk should be fundamentally risk-based, such that individual banks may tailor their risk management programs to the risks presented and calibrate that program to the risks identified.**

As an important complement to a principles-based approach, the OCC's final guidance should recognize that each bank has the discretion to develop climate-related financial risk management in a risk-based manner that is consistent with the concept of proportionality. This not only means that supervisory expectations should be tailored to the *circumstances of each institution*—including with respect to its size, business model, and client portfolio—but also that banks should develop and deploy various capabilities to the extent proportionate with the *risk management utility and effectiveness* of those capabilities, which may vary considerably. For example, supervisory expectations with respect to the scope and extent of data or scenario analysis capabilities should reflect the utility of those capabilities as a risk management matter, which is likely to evolve considerably over time. The final guidance should clearly accommodate these kinds of risk-based approaches, as described further below.

**A. The Proposal's Risk Management section should clarify that for purposes of risk management, individual banks will need to define "materiality" in the context of their individual circumstances and risk appetite framework.**

The Proposal states that banks should employ a comprehensive process to identify emerging and material risks stemming from their business activities and associated exposures. We suggest that the OCC clarify that the meaning of "material" for purposes of risk management is distinct from materiality in the context of securities laws and it is for the individual bank to determine what is material in the context of its risk appetite and framework. For example, some important components of how banks may assess materiality for risk management could be the plausibility and certainty of risk (i.e., there will be potential risks that will be so speculative or distant as not to be material). This may be important for the OCC to recognize, as in practice supervisors may insist on deeming remote and uncertain outcomes driven by climate change as "material" in ways they would not for more traditional outcomes.<sup>6</sup>

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<sup>6</sup> It will also be important for the OCC to recognize that banks may not be in a position to evaluate the plausibility and certainty of the risk—and therefore make materiality determinations—at this time due to underlying data challenges. Relevant data must first be generated, translated, validated, analyzed, and weighted before materiality can be determined. As discussed in section IV.A below, banks generally are in the early stages of this process.

**B. The Proposal’s Data, Risk Measurement, and Reporting section should acknowledge that an appropriate, risk-based approach may lead individual institutions to focus on different aspects of their portfolios.**

The final guidance should recognize that it may be appropriate for banks, given their individual circumstances, to focus initially on developing data capabilities and reporting on sectors, components of certain value chains, or other parts of their portfolios that they deem may be more subject to climate-related financial risks (e.g., portfolios subject to heightened physical risks or higher emissions sectors subject to heightened transition risks).<sup>7</sup> Conversely, the final guidance should permit banks to determine that certain sectors or types of climate-related financial risks represent sufficiently de minimis risk that related reporting may not be useful or necessary.

**C. The Proposal’s Scenario Analysis section should acknowledge that banks have the flexibility to conduct scenario analyses at appropriate, risk-based intervals.**

The Proposal notes that management should develop and implement climate-related scenario analysis frameworks in a manner commensurate to the bank’s size, complexity, business activity, and risk profile. Consistent with this guidance, banks should have the discretion to conduct scenario analysis at intervals that are appropriate to their size, business activity, and other factors, as appropriate.

**IV. The final guidance and its underlying expectations should reflect the fact that data and tools to measure and quantify climate-related financial risk remain nascent and not fully developed.**

The OCC’s final guidance should reflect the evolving nature and understanding of climate-related financial risks and the fact that existing data and tools to measure and quantify climate-related financial risk—and in particular, longer-term physical and transition risks—are only just emerging, and will need to undergo substantial exploration, refinement, and adaptation over time. Although data capabilities are improving, significant gaps in data sourcing, capture, standardization, and aggregation substantially affect the accuracy of projections and risk assessment.<sup>8</sup> Given these challenges, the OCC should give banks due flexibility to develop, adopt, implement, and refine both (i) data capabilities and methodologies and (ii) quantitative risk management tools that depend on that data, such as risk limits, risk appetites, or scenario analysis. For this same reason, we also believe that it is important that any final guidance acknowledge and affirm that, in many cases, banks may need to rely on qualitative assessments and judgments about climate-related financial risks, particularly in the near-term while more sophisticated and standardized data and measurement tools are being developed.

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<sup>7</sup> The banking sector, private sector generally, and regulatory agencies are developing data capabilities as well, and the ability of individual banks to develop data capabilities in many ways depends on these larger efforts.

<sup>8</sup> Climate-related data provided by borrowers and counterparties is often limited and not consistent or comparable. For example, while property, asset, and supply chain data are available for larger public clients, there are gaps when assessing smaller and privately-held clients or those in less carbon-intensive sectors. Further, and importantly, we note that emissions data may not necessarily be indicative of risk.

**A. The Proposal should acknowledge that, in the near-term, climate-related financial risk metrics and reporting may be more qualitative in nature.**

Data gaps currently prevent banks from being able to develop the kind of precise metrics that are conducive to developing quantitative thresholds, limits, and KPIs and KRIs to generate, analyze, and validate the kind of data needed to support those metrics. Accordingly, it is important for the final guidance to recognize that policies, procedures, and any limits as they relate to climate-related financial risk, as well as reporting, initially may be more qualitative in nature and may rely less on standardized metrics, limits, and thresholds. The final guidance should acknowledge that the development of a comprehensive risk identification process based on quantitative metrics may appropriately pass through an extended transition state that is short of the mature approach identified in the Proposal and may be useful only for limited purposes in the short-term.

**B. The Proposal's Strategic Planning, Risk Management, and Other Nonfinancial Risk sections should reflect the nascent state of relevant data.**

Given data gaps and the evolution of climate and risk transmission models, banks are generally in the data collection and risk identification and measurement stage and therefore it will be premature in many instances to integrate climate-related financial risk into medium- and longer-term strategic planning.<sup>9</sup> For example, an expectation that banks further incorporate climate-related financial risk into their capital and liquidity planning processes at this time would be inappropriate in light of the need for further maturation of the relevant quantitative tools.<sup>10</sup> As the Basel Committee on Banking Supervision recently determined, there is limited research and accompanying data that explore how climate-related financial risks feed into the traditional risks faced by banks.<sup>11</sup> The final guidance should establish an expectation that banks integrate climate-related financial risk into strategic planning only to the extent that the underlying data and methodologies are sufficiently developed and tested, and further should acknowledge that banks may employ qualitative approaches in the near-term while data and methodologies remain under development.

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<sup>9</sup> We also note that the integration of climate-related financial risk management into strategic planning is distinct from the integration of public commitments with respect to emissions or other environmental goals into strategic planning.

<sup>10</sup> Moreover, to the extent that banks are expected to incorporate climate-related financial risk into their capital planning process, it is critical that the capital planning framework maintains its existing parameters, especially as relates to time horizon, plausibility, and expected and unexpected losses. Banks already incorporate short-term, evolving physical risk into capital planning, as is appropriate given the purpose and goals of capital planning.

<sup>11</sup> Basel Committee on Banking Supervision, *Climate-related risk drivers and their transmission channels* (April 2021), <https://www.bis.org/bcbs/publ/d517.pdf>.

**C. The Proposal’s Scenario Analysis section should reflect the relative immaturity of underlying data and methodologies.**

Banks are actively engaged in developing scenario analysis capabilities,<sup>12</sup> and any final guidance should recognize the exploratory nature of scenario analysis given the data gaps and the fact that models and methodologies are evolving. For example, even the internationally established reference scenarios have developed granularity only for a subset of sectors. The final guidance should permit banks to leverage the results of scenario analysis in a manner commensurate with the maturity of the underlying data and methodologies. Further, given that this work is in the early stages, banks should have sufficient flexibility to develop and implement scenario analysis and related data capabilities over time.

**D. It would be helpful to banks if the OCC could provide initial comparative risk data among peer institutions.**

The OCC has requested feedback on what challenges banks face in incorporating the risk management principles articulated in the Proposal into their risk management systems, and how the OCC should further engage with banks to understand those challenges. One challenge in incorporating these risk management principles is that banks lack comparative data across peer institutions with respect to risk measures. This challenge exists because, unlike quantitative metrics for other risk pillars, for which there are generally known metrics based on accepted associated data, there is a lack of standardized and accepted climate risk metrics. It also exists because there are diverse sources of data that are available to banks for risk management and reporting, which makes it difficult to compare risk management and reporting practices across banks in a consistent manner. Until these risk measures are accessible and standardized, it would be helpful to banks if the OCC’s Supervision System and Analytical Support group could provide initial comparative data among peer institutions.

**V. The final guidance should acknowledge that it may be appropriate and beneficial for banks to support customers through their respective low-carbon transition plans.**

It is crucial that the final guidance acknowledge and affirm that it is appropriate—and indeed, in many cases desirable—for banks to support and serve customer needs over the course of any climate-driven economic transition. This recognition is not only important to ensuring an effective and orderly transition to a carbon-neutral economy, but it is also to be encouraged as a matter of safety and soundness, as giving banks the flexibility to support customers through that transition is likely to produce better outcomes for the bank in both the short- and long-run. This recognition also is consistent with previous remarks by the OCC about the potential consequences for customers when banks terminate these relationships.<sup>13</sup>

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<sup>12</sup> For example, many banks are onboarding sophisticated acute physical risk models to quantify asset and exposure impacts under more severe physical risk scenarios (e.g., RCP8.5).

<sup>13</sup> Remarks by Comptroller of the Currency Thomas J. Curry, Institute of International Bankers (March 7, 2016), <https://www.occ.treas.gov/news-issuances/speeches/2016/pub-speech-2016-25.pdf> (stating that,

**A. The final guidance should not suggest that banks mitigate credit risk by establishing and managing to prescriptive lending limits.**

The Proposal states that the board of directors and management should consider climate-related financial risks as part of the underwriting and ongoing monitoring of portfolios and that bank management should determine credit risk appetite and lending limits related to these risks. Some banks already consider climate-related financial risks, particularly physical risks such as flooding, fire, and other severe weather-related risks, in their credit underwriting processes as appropriate, and banks are continuing to explore the impact of physical and transition risks on credit decisions as analytical approaches evolve and the climate data environment expands. It should also be noted that banks may already impose limits or certain thresholds for industrial or geographic sectors based on a variety of risk factors and it is not clear that any climate-related risk for such sectors would in any way alter or replace existing risk limits or thresholds; significantly more analysis is needed to make such assessments.

As described above, however, the final guidance should clarify that the OCC does not expect banks to mitigate credit risk by establishing and managing to prescriptive limits on lending to certain sectors or otherwise. Such an expectation could have unintended consequences on bank lending and access to credit. The final guidance should recognize that banks are supporting these clients' transition to a low-carbon economy across a necessarily long-term horizon, and managing any climate-related financial risks of doing so within the construct of their internal risk appetite and management frameworks. It also would be helpful if the final guidance recognized that the integration of climate-related financial risk into the credit granting and monitoring process is nascent and will improve as climate-related financial risk measurement techniques mature.

**B. We believe that banks have an important role to play in addressing the impact of climate-related financial risks on LMI communities.**

The Proposal states that the board of directors and management should consider climate-related financial risk impacts on, among other things, low- and moderate-income ("LMI") and other disadvantaged households and communities. We agree with the Proposal's statement that climate change could have a potentially disproportionate impact on the financially vulnerable and believe that banks have an important role to play in supporting LMI communities in response to increased climate risks.

We also believe that partnership with the government is crucial to this effort. We recommend that regulators work with the industry to analyze impacts on LMI communities and how they can be best addressed in accordance with the existing banking laws and regulations. For example, through their rulemaking to modernize the Community Reinvestment Act, the agencies should consider how activities

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"[D]ecisions to terminate relationships can have regrettable consequences. Longstanding business relationships may be disrupted. . . . Customers whose banking relationships are terminated and who cannot make alternate banking arrangements elsewhere may effectively be cut off from the regulated financial system altogether.").

to improve the climate resilience of LMI communities receive CRA credit. For example, the agencies should clearly articulate which types of activities, for both individual properties and large-scale community projects, would be eligible for CRA credit. Further, given the importance of housing to CRA plans and the complexity of risk pricing and insurance impacts that may affect long-term value and wealth preservation in impacted communities, it is essential for the agencies to consult and coordinate with the Department of Housing and Urban Development, the Federal Housing Finance Agency, and the Consumer Financial Protection Bureau to ensure transition externalities are addressed in a manner that balances safety, soundness, and fairness. Policy responses to the issue of climate-related financial risk could also be advanced through coordination with the federal housing agencies and government-sponsored enterprises to improve other relevant federal programs, such as flood insurance.

**VI. We support the OCC's recognition of the distinction between climate scenario analysis and regulatory stress testing.**

The Proposal notes that climate scenario analysis exercises differ from traditional regulatory stress testing exercises, which typically assess the potential impacts of transitory shocks to near-term economic and financial conditions. We strongly support the OCC's recognition of this distinction.<sup>14</sup>

As background, banks are investing in talent, data, and technology to build robust climate scenario modelling and analytical capabilities across all lines of business and risk types and running exercises across different parts of their portfolios to assess a range of plausible climate change outcomes. Scenario analysis frameworks are generally based on selecting discrete points along a spectrum of potential future global temperatures—leveraging output from organizations such as the International Energy Agency (“IEA”), Network for Greening the Financial System (“NGFS”), and Intergovernmental Panel on Climate Change (“IPCC”)—which represent baseline, strategic, and stress scenarios. Publicly-available climate scenarios do not provide banks with the appropriate sectoral and regional granularity, however, to directly translate scenario output into readily consumable inputs for internal risk modeling. For banks, the value of climate scenario analysis can only be fully realized when the science-based or macroeconomic output (e.g., global oil price or oil demand from the transportation sector) is expanded into more granular financial impacts (e.g., electric vehicle vs. internal combustion engine sales volume or lithium demand from elective vehicle battery producers) that can be applied across a diverse set of client industries and sub-sectors. There is also a limited understanding of the Integrated Assessment Models that drive these scenarios, which makes it more challenging for banks and vendors alike to expand scenario output while staying within the bounds of the model.

The OCC has requested feedback on what factors are most salient for the OCC to consider when designing and executing scenario analysis exercises. Given the significant work that is already underway within banks, as described above, and the extensive work that has already taken place through the IEA,

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<sup>14</sup> The FSOC report on climate-related financial risk likewise distinguished scenario analysis from stress testing, noting that the former is “exploratory in nature” while the latter is linked to regulatory requirements such as loss-absorbing capital. FSOC Report on Climate-Related Financial Risk (Oct. 21, 2021), 90, <https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf>.

NGFS, and IPCC, we would recommend the OCC not develop its own bespoke scenarios for banks to use in scenario analysis at this point in time. It may be helpful, however, for the OCC to provide guidance as to which of these or other external scenarios might be useful for banks to use as they build out their capabilities, and for the OCC to affirm that banks have the flexibility to make appropriate judgments on the implementation of these scenarios. It will also be important that the OCC coordinates with the Federal Reserve on any efforts being undertaken to develop climate scenarios and modelling capabilities. Notably, it is important that any expectations with regard to specific scenarios for integration into risk management frameworks focus on severe but plausible scenarios and not exaggerated scenarios that unrealistically frontload physical and transition risks.

**VII. We urge the OCC to coordinate with domestic regulators and international bodies to ensure consistent supervisory expectations with respect to climate-related financial risk management.**

BPI urges the OCC to coordinate closely with its peer U.S. banking agencies (i.e., the FDIC and Federal Reserve), the Basel Committee on Banking Supervision, the Financial Stability Board, and other international regulatory colleagues to help ensure that supervisory expectations for the management of climate-related financial risk, including with respect to scenario analysis, are consistent within the U.S. and coordinated internationally.<sup>15</sup> Such consistency and coordination will be crucial to avoid the potential for duplicative or conflicting requirements imposed on banks, which would not only be burdensome, but would also likely undermine rather than support banks' abilities to manage climate-related financial risk. Simply put, it will be untenable and counterproductive for larger banking organizations to be expected to manage climate-related financial risk one way at the depository institution level and another at the holding company level, or one way in the United States and another abroad. Successful management of climate-related financial risk is a global, enterprise-wide endeavor.<sup>16</sup> Furthermore, we recommend any future guidance developed through the interagency process or at the international level be subject to robust public comment given that banks are at the forefront of some of the technological developments that are occurring in relation to climate-related risk tools and analytics.<sup>17</sup>

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<sup>15</sup> We support the OCC's stated objective of establishing climate-related financial risk expectations applicable to all OCC-supervised banks, because climate-related financial risk impacts all banks, regardless of size.

<sup>16</sup> As a global concern and as discussed in section VIII.A below, the final guidance should permit enterprise-wide climate-related financial risk management approaches to be established at the parent company level. This would have the benefit of accounting for the different structures of foreign banking organizations operating in the U.S. and allow for flexibility and tailoring in the application of the guidance.

<sup>17</sup> Given that the management of climate-related financial risk is an evolving practice, we believe it would be appropriate for the OCC to update the final guidance as appropriate.

**VIII. Other Comments on the Proposal****A. The Proposal's Governance section should affirm that the board of director's role in climate-related financial risk management is effective oversight of senior management's implementation of risk management.**

The Proposal notes that effective risk governance is essential to the safe and sound management of exposure to climate risk and outlines key responsibilities of the board of directors and management with respect to climate risk, and indicates that the OCC intends to issue subsequent guidance to further distinguish roles and responsibilities of the board of directors and management. It is important that any such final guidance follow clear and longstanding legal and safety and soundness principles that clearly distinguish the roles and responsibilities of the board of directors and senior management, respectively, and not conflate the two. As discussed in a recent industry report issued by the Bank Policy Institute<sup>18</sup> and consistent with the OCC's Heightened Standards, a central tenet of effective corporate governance is the distinction between, and complementary nature of, the board of director's responsibility for *oversight* of the business and affairs of the bank, and management's responsibility for the *day-to-day operations* of the organization. Any blurring of this distinction would detract from effective governance by potentially reducing the board of director's ability to perform its oversight role objectively and creating uncertainty as to roles and responsibilities.

While the approaches taken by individual boards of directors will appropriately vary, we note the following relating to the core role of boards of directors and board committees: (i) directors should ask informed, probing questions of management, including with respect to the resources being dedicated to climate-related financial risk management;<sup>19</sup> (ii) reporting to the board of directors by senior leaders with responsibility for climate-related financial risk oversight should generally relate to *material* risks, developments, policies, and/or other issues, consistent with the board of director's role in guiding the strategic direction of the organization and providing effective and objective oversight of management's performance; and (iii) the performance of core board of directors functions, such as oversight of risk management and control frameworks, at the various levels of the banking organization may be coordinated at the top-tier parent holding company level, taking into account the independent legal and governance responsibilities of subsidiary boards. In view of the foregoing, flexibility should be maintained to permit delegation to management on such matters as (i) organization of internal climate-related roles, responsibilities, and governance structures and/or (ii) review of any public statements to ensure consistency with internal strategies and risk appetites.

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<sup>18</sup> See generally, Bank Policy Institute, *Guiding Principles for Enhancing U.S. Banking Organization Corporate Governance* (Jan. 12, 2021 Exposure Draft Edition), <https://bpi.com/wp-content/uploads/2021/01/BPI-Guiding-Principles-on-Enhancing-Banking-Organization-Corporate-Governance.pdf>. See also The Clearing House, *The Role of the Board of Directors in Promoting Effective Governance and Safety and Soundness for Large U.S. Banking Organizations* (May 2016), <https://bpi.com/wp-content/uploads/2021/03/58463da32970443bb9e2ab796a0dc699.pdf>.

<sup>19</sup> See, e.g., Acting Comptroller Michael J. Hsu, "Five Questions Every Bank Board Should Ask" (Nov. 8, 2021), <https://www.occ.gov/news-issuances/speeches/2021/pub-speech-2021-116.pdf>.

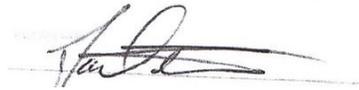
**B. The Proposal's Strategic Planning section should establish realistic expectations with respect to public statements.**

The Proposal states that, where banks engage in public communication of their climate-related strategies, the board of directors and management should ensure that any such statements are consistent with internal strategies and risk appetite statements. The final guidance with respect to public communications should recognize the aspirational nature of external commitments and the fact that these commitments and plans will need to adapt over time as data and methodologies improve and external circumstances change. In addition, the final guidance should recognize that banks are already subject to a variety of securities and consumer protection laws and regulations that regulate the manner in which they disclose information and market their products, and that banks are actively engaged with the authorities enforcing these laws and regulations to ensure their public statements meet applicable requirements. Therefore, the OCC should calibrate its expectations as to the granularity between external statements and internal risk appetite statements accordingly.

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Bank Policy Institute appreciates the opportunity to comment on the Proposal. If you have any questions, please contact the undersigned by phone at +1 202.737.3536 or by email at [Lauren.Anderson@bpi.com](mailto:Lauren.Anderson@bpi.com).

Respectfully submitted,



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