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May 31, 2022

James P. Sheesly, 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 (RIN 3064-ZA32)

Dear Mr. Sheesly:

The Institute of International Bankers (the "**IIB**") submits this letter in response to the "Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions" issued by the Federal Deposit Insurance Corporation (the "**FDIC**") on March 30, 2022 (the "**FDIC Draft Principles**").[1] We welcome the FDIC's plans to release future guidance on the effective management of climate-related financial risks (the "**Final Guidance**"), and we appreciate the opportunity to provide our unique perspective on the topic. In sum, we believe that Final Guidance that is closely based on the FDIC Draft Guidance would support the work of financial institutions with respect to their climate-related financial risk management and would provide them with the flexibility that will allow them to do this work efficiently and effectively. We appreciate this opportunity to provide additional thoughts and look forward to engaging in further conversations on this topic with you and your team.

As FDIC Chairman Gruenberg and many others have made clear,[2] climate change and its associated financial risks are a global problem, necessitating dialog and coordination among regulatory and supervisory bodies across all jurisdictions. Disparate initiatives on climate-related financial risk across various jurisdictions could lead to circumstances in which different sets of requirements result in inefficient and duplicative efforts or even conflict with one another. To that end, the IIB applauds the FDIC's decision[3] to join the Network of Central Banks and Supervisors for Greening the Financial System, as well as its domestic coordination on climate-related financial regulatory work, including as a member of the Financial Stability Oversight Council ("**FSOC**"). We urge the FDIC to continue its cooperative efforts with domestic and international regulators, as well as with industry participants.

We especially applaud the FDIC for its cooperation with its domestic counterparts, including with the Office of the Comptroller of the Currency (the "**OCC**") on the OCC's own recent "Principles for Climate-Related Financial Risk Management" (the "**OCC Draft Principles**").[4] This kind of coordination

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[1] FDIC, *Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions*, 87 Fed. Reg. 19507 (Apr. 4, 2022).
[2] Director Martin Gruenberg, FDIC Board of Directors, *The Financial Stability Risk of Climate Change* (Dec. 8, 2020).
[3] Chairman Martin Gruenberg, FDIC, *FDIC Priorities for 2022* (Feb. 7, 2022).
[4] OCC, *Principles for Climate-Related Financial Risk for Large Banks* (Dec. 16, 2021), https://www.occ.treas.gov/news-issuances/news-releases/2021/nr-occ-2021-138a.pdf.

is critical to achieving a consistent regulatory regime for climate-related financial risk management, and the alignment between the draft principles of the FDIC and the OCC is encouraging.

Given the substantive similarities between the FDIC Draft Principles and the OCC Draft Principles, we offer below a high-level overview of our feedback and attach the IIB's comment letter submitted to the OCC, which addresses in considerable detail the text of the proposed principles.

At a high level, the IIB's comments focus on the following three points:

- The Final Guidance should continue to recognize that methodologies, models, and data for analyzing climate-related financial risk remain a work in progress;

- Domestic and international cooperation around consistent and comparable climate-related financial risk management principles is critical; and

- Any final guidance should consider the unique structure and governance of internationally headquartered financial institutions.

We believe that the FDIC Draft Principles embody a principles-based approach that would provide an internationally headquartered financial institution (which is subject to the laws and regulations of a non-U.S. jurisdiction on a consolidated, enterprise-wide basis) with the necessary flexibility to consider the regulatory posture of its home country and internationally agreed upon standards. Any Final Guidance that is consistent with the FDIC Draft Principles would be helpful and effective. If there are any material developments to the FDIC Draft Principles beyond the high-level approach already taken, we would expect that these developments would be open for additional review and comment to give industry and other stakeholders the chance to weigh in on these important issues.

The IIB supports the FDIC's approach to climate-related financial risk, and we appreciate the opportunity to share our perspective. We are, of course, available to discuss these comments and the specific concerns and experiences of our members, and we look forward to engaging in further conversation on this topic with you. Thank you for your consideration.

Sincerely,

[redacted]

Briget Polichene
Chief Executive Officer

Enclosure: IIB comment letter of February 14, 2022

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February 14, 2022

By Electronic Mail

Office of the Comptroller of the Currency
400 7th St. SW, Suite 3E-218
Washington, DC 20219

Re: Request for Feedback on Principles for Climate-Related Financial Risk Management for Large Banks (Docket ID OCC-2021-0023)

Dear Acting Comptroller Hsu:

The Institute of International Bankers (the "IIB") submits this letter in response to the request for public feedback on the "Principles for Climate-Related Financial Risk Management for Large Banks" (the "Draft Principles") issued by the Office of the Comptroller of the Currency (the "OCC") on December 16, 2021 (the "Request for Feedback").[1] We welcome the OCC's plans to release future guidance on climate-related financial risk management (the "Final Guidance"), a topic that is of great importance to many internationally headquartered financial institutions. We believe that Final Guidance closely based on the Draft Principles would effectively support and provide the needed flexibility to advance the efforts of financial institutions with respect to their climate-related financial risk management. We appreciate this opportunity to provide additional thoughts and look forward to engaging in further conversations on this topic with you.

A. IIB's Distinctive Perspective

The IIB represents internationally headquartered financial institutions from over 35 countries around the world doing business in the United States. The IIB's members consist principally of international banks that operate branches and agencies, bank subsidiaries, and broker-dealer subsidiaries in the United States.

Our members believe that financial institutions have an important role to play in facilitating the climate-related transition objectives of their clients and approach the topic of climate change and financial risk from an international perspective. Many of our members are headquartered in jurisdictions where financial regulators are in the process of implementing, or have implemented, regulations and supervisory expectations pertaining to climate-related financial risk. For instance, regulators in some of the jurisdictions of our members have formally assessed how financial institutions are managing climate-

1 OCC, *Principles for Climate-Related Financial Risk Management for Large Banks* (Dec. 16, 2021).

related financial risk as compared to supervisory expectations or are asking financial institutions to conduct scenario analyses. In addition, many of our members already have deployed considerable resources toward the management of climate-related financial risk, including by developing greater internal climate risk management expertise (such as hiring dedicated personnel and teams), modeling and undertaking scenario analyses, and engaging with regulators on these issues.

We come to this Request for Feedback with enthusiasm about what principles-based, internationally consistent climate risk management guidance stands to achieve. We believe that a principles-based Final Guidance provides the best avenue for allowing financial institutions to make tailored risk management decisions and operate under multiple international regulatory regimes. As organizations in the business of managing risk, financial institutions are uniquely well-suited to help their clients meet their climate objectives and manage the challenges that a transition to a lower carbon economy could entail, while remaining focused on the financial institution's own management of physical and transition risks. Financial institutions have a role to play in the efforts of their clients to further climate-related transition objectives, including those clients operating in traditionally carbon-intensive industries. Participation in these efforts likely will take different forms and differ among financial institutions across timelines and geographies. Consequently, flexible, principles-based guidance – in contrast to prescriptive requirements[2] – maximizes the chances that financial institutions can bring innovation and resources to better support the climate-related transitions of their clients.

We would be pleased to meet with you to discuss the Request for Feedback and provide you with information about practices in non-U.S. jurisdictions, as well as our experiences with clients and other regulators. Further, under the understanding that the federal banking regulators are in dialog on this issue, we have copied the Board of Governors of the Federal Reserve System (the "Board") and the Federal Deposit Insurance Corporation ("FDIC") on this letter. We also have copied the New York State Department of Financial Services ("NYDFS"), which has also been focusing on climate-related risk management.

Below, we offer some additional considerations and request some key clarifications in relation to the issuance of any Final Guidance.

B. The Final Guidance Should Continue to Recognize that Methodologies, Models, and Data for Analyzing Climate-Related Financial Risk Remain a Work in Progress

We appreciate the OCC's acknowledgement in the Draft Principles that "incorporation of material climate-related financial risks into various planning processes is iterative as measurement methodologies, models, and data for analyzing these risks continue to evolve and mature over time." As the Financial Stability Oversight Council's ("FSOC") recent report similarly notes, "Defining, identifying, measuring, and monitoring exposures to climate-related financial risks will necessitate investment in data and analytic capacity by FSOC members, other government agencies, and the private sector."[3]

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[2] As Governor Brainard has stated in the context of climate risk, "We would not tell banks which sectors to lend to or which sector to not lend." See also Board Chair Jerome Powell, as quoted in Law360 (Jan. 11, 2022) ("Climate is appropriate for us as an issue to the extent it fits within our existing mandates. I think it does, in the sense of it's another risk over time that banks are going to run. But the broader answer to climate change has to come from legislators and the private sector").

[3] FSOC, *Report on Climate-Related Financial Risk* (Oct. 21, 2021).

Methodologies, models, and data for analyzing climate-related financial risk remain a work in progress. To take the example of data gaps, financial institutions are both producers and consumers of data. A financial institution can only fully evaluate its own financial risks by drawing upon relevant and appropriate data situated outside the financial institution's own operations. Such data must be collected from its clients, counterparties, and transactions, and there is no question that consistent and comparable data is not always easily available and does not always exist.[4] For example, broad corporate public disclosure lacks standardization, rigor, and granularity, and forward-looking data from clients on their transition plans is weak at best. While these sources mature, banks must continue to rely upon approximations and extrapolations derived from less direct data sources.

We believe that financial institutions should continue working to identify and understand gaps in methodologies, models, and data. As Acting Comptroller Hsu suggested in a recent speech, the risk management processes of banks and the questions that their boards should start posing to management can have an important role in illuminating gaps in information and tools.[5] These endeavors will be non-trivial given the multitude of overlapping, often inconsistent, and rapidly evolving private and public sector definitions and measurement approaches to climate risk, reporting regimes, and the vetting of numerous regionally limited third-party data offerings. Even as data becomes more available, the proliferation of definitions and measurement approaches could complicate the efforts of financial institutions to incorporate this information into their risk management frameworks. Thus, such efforts will take time and likely will necessitate cooperation between regulators and the financial services industry.

Scenario analysis as a risk management tool also remains in development, and the accuracy and effectiveness of scenario analysis depends on the availability of high-quality data, as well as advancements in modeling over medium and long time horizons. The Draft Principles make clear that scenario analysis is just one tool alongside others in enhancing climate-related financial risk management. Any Final Guidance should continue this position, and additionally make clear that scenario analysis is a separate exercise, distinct from traditional stress testing, and is not intended to affect capital requirements or supervisory actions regarding U.S. operations. We believe that attempts by other jurisdictions to incorporate scenario analysis into stress tests or capital requirements are premature[6] and have created confusion based on how nascent measurement methodologies and data would influence current capital requirements. To maximize the potential effectiveness of any guidance related to scenario analysis, we would urge further dialog between regulators and industry. We would be pleased to discuss our experiences with scenario analysis in other jurisdictions with the OCC.

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4 Like the OCC, domestic and international regulators and standard-setting bodies have acknowledged the data gaps that affect the measurement of climate-related financial risk. Reports by a number of authorities have emphasized this important issue. See, e.g., Basel Committee on Banking Supervision ("BCBS"), *Climate-related financial risks – measurement methodologies* (Apr. 14, 2021); Networking for Greening the Financial System ("NGFS"), *Progress report on bridging data gaps* (June 3, 2021); Financial Stability Board, *The Availability of Data with Which to Monitor and Assess Climate-Related Risks to Financial Stability* (July 7, 2021); FSOC, *Report on Climate-Related Financial Risk* (Oct. 21, 2021); European Systemic Risk Board, *Positively green: Measuring climate change risks to financial stability* (June 8, 2020); Climate Financial Risk Forum, *Climate Data and Metrics*, (Oct. 21, 2021). See also Board Gov. Lael Brainard, "Building Climate Scenario Analysis on the Foundations of Economic Research" (Oct. 7, 2021).

5 Acting Comptroller of the Currency Michael J. Hsu, "Five Climate Questions Every Bank Board Should Ask" (Nov. 8, 2021).

6 See, e.g., Sec. Janet Yellen, as quoted in Bloomberg Law (Feb. 2, 2022) ("It's just premature at this point to talk about raising capital requirements . . . it's really important that regulators do the groundwork that's necessary for them to evaluate risks to individual firms") and Board Gov. Lael Brainard, "The Role of Financial Institutions in Tackling the Challenges of Climate Change" (Feb. 18, 2021) ("To be clear, scenario analysis is distinct from our traditional regulatory stress tests at banks").

If finalized largely as written, the Draft Principles would allow sufficient leeway for, and encourage, the continued development of methods, models, and data to quantify and understand climate-related financial risks.

C. Domestic and International Cooperation Around Consistent and Comparable Climate Change Risk Management Principles Is Critical

The risks and effects of climate change are rarely confined within state or national borders, making dialog and coordination among regulators essential. Disparate initiatives on climate-related financial risks among various jurisdictions could lead to circumstances in which different sets of requirements result in inefficient and duplicative efforts (or even worse, conflict with each other).

We applaud the OCC for its international work (e.g., participation in the NGFS as well as the BCBS's Task Force on Climate-related Financial Risks), its climate-related work under the FSOC umbrella, and other initiatives such as the creation of the Climate Change Risk Officer position, one of the aims of which was to expand the OCC's capacity to coordinate with stakeholders, and more. We urge the OCC to continue its coordination efforts among U.S. and international regulators (as the OCC indicated it would in development of the Final Guidance), as well as its dialog with industry participants. To foster clarity and efficiency, the Final Guidance should reflect the aggregate views of the U.S. prudential regulators (the Board, the FDIC, and the OCC) and, to the extent possible, consistency with state-level regulators. Inconsistent or uncoordinated guidance is likely to come at the expense of effective risk management.

Internationally headquartered financial institutions develop their risk management and strategic decisions for the consolidated organization at the level of head office, and the institution is subject to the laws and regulations of a non-U.S. jurisdiction on a consolidated, enterprise-wide basis. Consequently, a key consideration for an internationally headquartered financial institution is whether it can use the work that the financial institution does to understand, quantify, and manage climate-related financial risk in one jurisdiction across the organization to meet the expectations of other jurisdictions. Final Guidance that is flexible and principles-based, as the Draft Principles are, will allow for the development of methodologies, models, and data that are fit for multiple purposes across entities and geographies, including both host and home country supervisory expectations. Moreover, additional multinational and international frameworks for data, risk measurement, and other key financial institution tasks will undoubtedly be developed and adopted, and we urge the OCC to maintain sufficient flexibility such that a financial institution's adoption of those international standards will exhibit compliance with U.S. regulatory expectations as well. We believe that Final Guidance that incorporates the principles-based expectations of the Draft Principles would provide internationally headquartered financial institutions with the necessary flexibility to consider the regulatory postures of their home countries and of internationally agreed upon standards.

Even in the context of internationally consistent and comparable risk management guidance, issues will remain that should be addressed through cooperation among regulators. To name just a few examples, entities within an affiliated financial institution group that are subject to the rules of different jurisdictions are likely to encounter inconsistent timing requirements for implementation or for meeting regulatory expectations. Furthermore, the Draft Principles, like other climate-related financial risk management pronouncements by international regulators and standard-setters, use the term "material." Guidance from the OCC and other U.S. regulators should clarify that each institution should be able to make decisions of materiality based on its own facts, circumstances, geographical footprint, home country regulator, and other similar factors. In addition, "materiality" also has a specific meaning in the securities law context, and regulators should acknowledge that the investor focus of the securities laws and their disclosure requirements (including conservative development of forward-looking risk factors) does not necessarily equate to what may be material for safety, soundness, and risk management purposes. These competing meanings of "materiality" provide just one example of the importance of flexible, principles-based guidance.

D. Any Final Guidance Should Consider the Unique Structure and Governance of Internationally Headquartered Financial Institutions

An important undercurrent to our comments is the theme of adaptability and iteration. We believe that flexible, principles-based Final Guidance in the same vein as the Draft Principles would best accommodate the ever-evolving climate risk management landscape. Supervisory activity stemming from the Final Guidance also should consider the reality that best practices around climate-related financial risk management remain in development and should support rather than dictate the efforts of firms to refine, readjust, and revisit their approaches in light of evolving capabilities and circumstances. To that end, any Final Guidance should constitute "guidance" under the OCC's framework for guidance.[7] We also would expect that the OCC would provide reasonable timeframes for banks to incorporate the principles of the Final Guidance into their risk management processes. Rather than require conformance with the new guidance by a certain date, the Final Guidance should focus on ensuring that banks are working effectively, in good faith, to establish and evolve their climate-related financial risk management practices. Any timeframes for implementing the Final Guidance should reflect and accommodate the iterative nature of climate-related financial risk management, particularly given limitations with respect to models, methodology, and data, as well as potential compliance obligations in different jurisdictions.

We applaud the OCC for its statement that it will tailor the Final Guidance "to reflect differences in banks' circumstances such as complexity of operations and business models." There are many different factors that shape a bank's climate-related financial risk profile (for example, even institutions that are the same size could have very different climate-related risk exposures). As previously mentioned, for internationally headquartered banks operating in the United States, the unique structure of their operations reflects a further need for appropriate tailoring to take into account the fact that enterprise-wide risk management principles, analyses, and business strategies are established by a bank's board and management at head office, and any risk management policies, procedures, and principles applied in the United States must necessarily be consistent with those enterprise-wide mandates. We also would ask that the OCC clarify that the Draft Principles (and subsequent Final Guidance) apply only to federal branches / agencies that have over $100 billion in total consolidated assets at the branch or the agency level and, separately, to internationally headquartered national bank subsidiaries of financial institutions that have over $100 billion in total consolidated assets.

We believe that Final Guidance that reflects the principles-based approach of the Draft Principles would be helpful and effective. If there is any material development of the Draft Principles beyond the high-level approach already taken (as we note that the OCC indicated that it likely would present a more granular Final Guidance taking into account additional views from the Board and FDIC, as well as further research into climate-related financial risk management), we would expect that these developments would be open to additional review and comment to give industry and other stakeholders the chance to weigh in on these important issues.

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[7] OCC, Role of Supervisory Guidance, 86 Fed. Reg. 9253 (Feb. 12, 2021).

We appreciate your consideration of our comments and would welcome the opportunity to discuss these comments and the specific concerns and perspectives of our members.

Sincerely,

[redacted]

Briget Polichene
Chief Executive Officer
Institute of International Bankers
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cc: Board of Governors of the Federal Reserve System

Federal Deposit Insurance Corporation

New York State Department of Financial Services