Kentucky Bankers Association
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June 2, 2022

Mr. James Sheesley
Assistant Executive Secretary
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. Sheesley:

On behalf of the Kentucky Bankers and its 147 member banks, 102 of which are regulated by the FDIC and the Kentucky Department of Financial Institutions, we are very concerned that the climate-related financial risk management rules for large banks, if finalized, will work their way to all institutions, effectively choking off lawful, financially sound industries which are very important to our members. Therefor, we cannot overstate our opposition to this and to any regulations which establish a policy agenda rather than a safety/soundness or compliance matter.

We are not stating a position on the importance of clean air, which goes without question. However, the means for effecting clean air is a policy decision, which should be established by Congress and only THEN effected by regulation. And, regardless of that matter, we are concerned and oppose the use of the banking industry as the law enforcement "branch" of the government to choke off or reduce the viability of industries that any branch of the government deems dangerous to a properly invoked policy.

However, despite the failure of Congress to take a position on the use of banks in the climate control policy issues, it is necessary for us to comment on and oppose the current proposal. The FDIC's statement of principles for climate-related financial risk management purports to apply only to financial institutions with total consolidated assets $100 billion or more. However, from our member bank's previous experience with such regulations (i.e. Dodd-Frank), we have a valid concern that smaller banks (and, ultimately, all banks) will be impacted by these rules directly or indirectly. This may occur through gradual seeping of climate-related expectations into the mindset of regulators as a "best practice" or they may create a perception by communities, regulators or even banks themselves that the industries considered "climate risks" are somehow unsound customers or investments for all banks.

The seepage of these perceptions into the banking decisions of experienced banking professionals could result in unfounded financial risks, physical risks, and/or transition risks, resulting in criticisms or citations relating to bank customers and transactions which have already been evaluated by bank. The KBA has experience in seeing regulator "assignment of "risk" replacing an experienced banker's and the result was unsupported, but of course won in the end. A regulator should not (consciously or subconsciously) create a risk where none exists and should not replace the legal, safe and sound decisions made by banks with an artificial creation of a policy that discriminates against a lawful industry. That has been tried before by the government and failed woefully (Operate Choke Point).

An additional concern is the potential cost involved. When this proposal, if passed, seeps down to smaller banks the result will not only be the potential loss valued customers bit also the unreasonable and unnecessary expense of complex models, governance requirements, and specialized expertise—which can almost certainly only be completed as a result of third-party expertise. How much data will our banks be required to collect and obtain from their customers to satisfy the policy regulations of climate control? How many community banks and their small businesses will this cost weaken and destroy? What if the risk is false, but the data requested is what creates the risk to the customer, by imposing burdensome expenses? Is this really a benefit to the banking system or a short cut to a policy that should be implemented by Congress directly against the industries it wishes to restrict?

Banks know that every customer comes with risks. Every bank is designed to evaluate and weigh those risks. The means of weighing those risk is created in such a way that more evaluation is made where the risk is greater. The FDIC should, rather than passing climate policy regulations, continue to focus on its practice of evaluating a bank's ability to consider risks in a sound manner, without focusing on a single industry. The FDIC should PROTECT the industry against the improper use of the industry's access to data and the industry's access to the banking system, which is necessary to every business in the US.

We urge you to consider this regulation with an eye towards the job that banks and regulators already do well—and work together with the banking industry to ensure that banks are managing and weighing risks with safety and soundness in mind. We urge you to reject this proposal and keep our banking industry strong for communities, businesses and for banking, which the FDIC has regulated since 1933.