Ceres | Ceres Accelerator for Sustainable Capital Markets

December 7, 2023

James P. Sheesley
Assistant Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429
Via email to comments@FDIC.gov

Re: RIN 3064-AF94 – Response to Guidelines Establishing Standards for Corporate Governance and Risk Management for Covered Institutions with Total Consolidated Assets of $10 Billion or More

Dear Mr. Sheesley,

We are pleased to submit comments on behalf of Ceres and the Ceres Accelerator for Sustainable Capital Markets. Ceres is a nonprofit organization with over 30 years of experience working on climate change with the world's leading investors and companies to drive sustainability in the bottom line and through ambitious federal and state climate and clean energy policy.

Ceres works with leading global investors and companies. Our Investor Network is currently over 220 investors that collectively manage over $46 trillion in assets. Our Company Network includes approximately 50 of the largest global companies and banks with whom we work on an in-depth basis on climate strategy and disclosure, among other issues. The Ceres Accelerator works to transform the practices and policies that govern capital markets in order to reduce the worst financial impacts of the climate crisis. It spurs capital market influencers to act on climate change as a systemic financial risk, driving the large-scale behavior and systems change needed to achieve a just and sustainable future and a net zero emissions economy.

I. INTRODUCTION

The collapse of four U.S. banks within two months of each other earlier this year – three of which were taken over by the FDIC before being sold to other banks – demonstrates just how quickly unmanaged risk can sweep through the financial system. The Principles for Climate-Related Financial Risk Management for Large Financial Institutions issued by the FDIC, OCC, and Fed recognize that climate presents a systemic risk to individual financial institutions and our financial system as a whole. Bank boards and governance frameworks are integral to managing these risks, and the Principles identify governance as the first principle in risk management. The financial sector must implement stronger management frameworks to better assess and capture a broader range of emerging, unpriced risks and contagion channels to understand the potential consequences of unforeseen climate events.

The Ceres Governance team engages with numerous board members, including a significant number of individuals on the boards of financial intuitions, to understand their concerns and challenges related to climate risks and sustainability. Ceres' focus on board and management engagement, as well as training, has allowed Ceres to develop thought leadership around board oversight of climate risks and opportunities, including for financial institutions. We previously partnered with Berkeley School of Law and are currently collaborating with the Michigan Ross School of Business to provide Board Member and C-suit executives the essential climate and sustainability skills needed by every board member in today's rapidly evolving board rooms. Our latest report on Responsible Policy Engagement Benchmarking for Banks provides a benchmark analysis examining the climate-related risk management, governance, and lobbying practices of 13 of the largest banks operating in the United States.

Below, we provide our comments on the FDIC's corporate governance and risk management standards RFI. We appreciate the FDIC's recognition of the climate-related challenges that are facing financial institutions through its work on the Principles and urge the agency to incorporate these challenges into these governance guidelines.

II. RESPONSE TO REQUEST FOR INFORMATION AND COMMENT

Ceres supports the principle that effective corporate governance depends upon boards of directors who are active, engaged, and accountable to investors, and agrees with the observation of the FDIC that institutions with weak corporate governance are more likely to fail and experience significant loses, with the accompanying negative impacts on clients, customers, shareholders, employees, and other stakeholders. In general, Ceres supports the FDIC's Guidelines for the boards of covered institutions regarding boards of directors' obligations, composition, duties, and committee structure to set expectations for effective corporate governance.

Additionally, we wish to note that regarding the crucial topic of board composition, Ceres agrees with the idea that diversity of demographic representation, opinion, and experience, is key to a board composition that can provide effective oversight of risk. Furthermore, Ceres maintains that the increasing challenges of climate risk faced by institutions require additional skills and experience on the part of board members and directors to effectively address these emerging risks. Climate and sustainability expertise for board members and directors has become as essential to their skill sets as expertise in accounting, finance, and marketing.

A. *Question 7. Should the proposed Guidelines include more specific suggestions for corporate governance? If so, what additional suggestions should be included?*

Climate risk strategy requires new capabilities, and institutions will be better positioned to respond to climate risk by expanding internal talent with climate expertise and investing in internal processes and systems to help increase feasibility and efficiency. Failure to consider material climate-related risks could implicate a board member's or director's fiduciary duties, in the same manner failure to address other material risks could violate their duties of care, loyalty, and obedience. Thus, the Guideline should consider explicitly including climate-risk as a part of corporate governance.

Given the systemic nature of climate risk and the growing understanding that this issue is material to most financial institutions, boards should oversee climate change as part of their oversight of corporate risk, strategy, and resilient performance. Boards should consider how climate risk could

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affect their institution; evaluate whether existing processes allow for the discovery of climate risk, formalize oversight of climate risk at the board level; look to a range of sources in identifying climate risk, such as operations, legal, communications, investor relations, and peer institutions; ensure that climate risk is surfaced appropriately in board discussions about corporate strategy; consider how prioritized climate risk affect organizational strategy and what strategies are available to mitigate those risks; and hold executives accountable for addressing climate risk.

B. *Question 8. Should the proposed Guidelines include more specific requirements for risk management? If so, what additional requirements should be included.*

As noted in the Basel Committee on Banking Supervision's Principles for the effective management and supervision of climate-related financial risks, to which Ceres was a key contributor, banks and financial institutions are potentially exposed to climate-related financial risks regardless of their size, complexity, or business model. Climate-related financial risk drivers can translate into traditional financial risk categories. Institutions should therefore consider the potential impacts of climate-related risk drivers on their individual business models and assess the financial materiality of these risks. Institutions should manage climate-related financial risks in a manner that is proportionate to the nature, scale, and complexity of their activities and the overall level of risk that each bank is willing to accept. Climate-related risk can have wide-ranging impacts in terms of the sectors and geographies it affects. Institutions should take into account the unique characteristics of such risks, including but not limited to potential transmission channels, the complexity of the impact on the economy and financial sector, uncertainty related to climate exposure, and potential interactions between physical and transition risks.

The impacts of climate risk can and likely will materialize over varying time horizons and are likely to worsen over time. Some climate-related risks may materialize beyond an institution's traditional two- to three-year capital planning horizon but within the maturities of longer-dated assets and liabilities. Other climate risks may materialize over a much longer time horizon. The high degree of uncertainty around the timing of these risks suggests that institutions should take a prudent and dynamic approach to developing their risk management capacities. Multiple time horizons should be considered in the process of risk identification and assessment as well as in scenario analysis. The board of directors and senior management are also expected to take a long-term consideration of climate-related financial risks. Lastly, in addition to the oversight of climate and sustainability risk, the global transition to a low-carbon economy will provide institutions with enormous commercial opportunities. It essential that board members are focused on the potential opportunities as well as risks. Ceres has outlined the importance of oversight of climate risks and opportunities in its recent report, Sustainable Finance Opportunities: A Guide for Financial Institutions.

C. *Question 9. Do the proposed Guidelines provide sufficient and appropriate requirements for the role of the board for corporate governance and risk management?*

As many institutions already assess their boards by evaluating board member backgrounds and capabilities against a desired skills matrix, institutions should include board members with climate risk competence and expertise and/or invest in training for existing board members.

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In general, Ceres discourages a single board member from holding all of the board's climate risk expertise, to avoid insulating climate risk management from more traditional risk categories as well as board awareness. Institutions should consider their governance capabilities, including whether the entire board or a board committee is responsible for the oversight of climate risk, and whether and how the board or specified committee considers climate risk as part of its business strategy, risk management, and financial oversight. To ensure that board members have access to climate and ESG training, Ceres has partnered with the University of Michigan Ross School of Business to offer an online training program that focuses on how board members can embed ESG into their roles. Additionally, Ceres offers extensive governance-related resources on its website. Additionally, the Office of the Comptroller of the Currency prepared a resource on five questions bank board of directors should ask their senior management regarding their climate-related financial risk.

D. *Question 10. Do the proposed Guidelines provide sufficient and appropriate requirements regarding the role of executive management for managing the covered institution and its risks?*

The proposed guideline's discussion of board oversight of executive management is useful, clear, and instructive. In support of the growing awareness of the increasing magnitude of climate risk faced covered institutions, it is important to also include an emphasis on the specific role of the board in the oversight executive management's strategy, tactics, and actions to address climate risk. Presentations by management groups to board committees, as well as the full board, should include explanations of the integration into the overall strategy of an organization of climate risks and opportunities. Ceres stresses that mitigation of climate risk and identification of related business opportunities often requires cross team collaboration, and it is a key role of the board to facilitate and influence such collaboration. We have also prepared 10 core questions that companies should ask the banks they do business with to assess the bank's progress on climate risk management, and believe these same questions are useful for bank directors and executive management to assess their own progress.

Additionally, a key role of the board in the oversight of management is the evaluation and approval of executive compensation systems. Such systems should include linkages between climate and sustainability goals and targets and executive compensation. Ceres has examined various approaches to the integration of climate goals into executive compensation systems. While a "one-size-fits" all approach is neither appropriate nor feasible, the board has a key role to play in the establishment of oversight of climate risks and opportunities, their application to the organization's strategy, and the inclusion of climate risk- and opportunity-related metrics into executive compensation systems. Ceres has several resources discussing the interplay between ESG metrics and executive compensation, including effectively identifying top ESG priorities, setting goals that address ESG priorities, and integrating ESG into compensation.

III. CONCLUSION

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Ceres thanks the FDIC for its work on this RFI and related research. We would be pleased to discuss any questions you have on our feedback. Please contact Todd Miller (tmiller@ceres.org) or Kelsey Condon (kcondon@ceres.org) at your convenience.

Sincerely,

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