Ceres Accelerator FOR SUSTAINABLE CAPITAL MARKETS

December 22, 2025

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

Jennifer M. Jones
Deputy Executive Secretary
Attention: Comments—RIN 3064-AG12,
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429

Submitted Via https://regulations.gov

Re: [OCC-2025-0142] – Ceres Response to RIN 3064-AG12 - Prohibition on Use of Reputation Risk by Regulators

Ceres and the Ceres Accelerator for Sustainable Capital Markets appreciate the opportunity to provide comments and express our strong opposition to the Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation's (FDIC) proposed rule eliminating reputation risk from the agencies' supervisory programs (RIN 3064-AG12).

Ceres is a nonprofit advocacy organization with over 30 years of experience working to accelerate the transition to a cleaner, more just, and resilient economy. Our Investor Network, Company Network, and Policy Network include many large US institutional investors and large companies with whom we work on a range of sustainability-related and policy-related issues. The Ceres Accelerator for Sustainable Capital Markets aims to transform the practices and policies that govern capital markets by engaging federal and state regulators, financial institutions, investors, and corporate boards to address weather-driven risk as a systemic financial risk. The comments provided herein represent only the opinions of Ceres, and do not necessarily infer endorsement by each member of our Investor, Company, or Policy Networks.

Introduction

Our comments focus on the importance of allowing bank supervisors the ability to evaluate, consider, and respond to the risks facing their supervised entities using the risk management tools necessary within established and long-held supervision principles and frameworks. This proposed rulemaking disregards reputation risk as a risk category despite the OCC's long-standing recognition and supervision of this type of material risk. Although the language was later removed or substantially revised in the 2018 Comptroller's Handbook on Large Bank Supervision, the original text reads: "Reputation risk is the risk to current or projected financial condition and resilience arising from negative public opinion. This risk may impair a bank's competitiveness by affecting its ability to establish new relationships or services or continue servicing existing relationships. Reputation risk is inherent in all bank activities, and management should deal prudently with stakeholders, such as customers, counterparties, correspondents, investors, regulators, employees, and the community." Citing the risk as being "inherent" implies it is fundamentally present and ingrained, making it imprudent to ignore. Although not outlined in the proposed rule, the evaluation of reputation risk is material to ensuring bank safety and soundness – which the OCC is statutorily mandated to safeguard. As stated in the proposed rulemaking, "The OCC's supervision is required by law to focus on the safety and soundness of its institutions and compliance with laws and regulations as well as, as applicable, fair access to financial services and fair treatment of customers." Removing certain risk categories and imposing supervisory restrictions on reputation risk would not align with this mandate. With reduced staffing already posing challenges and raising concerns of the OCC's ability to carry out their core responsibilities, thereby placing the stability of the financial market at risk, the supervisory restrictions in this proposed rule are not constructive, prudent, or timely but rather counteract the OCC's safety and soundness mandate. Given these reasons, we urge the OCC and FDIC to withdraw the proposed rule.

Below we outline four important considerations around this proposed rule. We discuss the financial materiality of reputation risk, the financial consequences of reputation risk, the mounting physical risks facing banks amplifying systemic risks, and the flawed assumptions around "debanking" underpinning this proposal. Finally, we will address a selection of questions raised in the NPR.

1. Reputation risk is financially material and offers an initial forward-looking indicator tied to safety and soundness

OCC examiners play a critical role by conducting on-site reviews of banks and providing ongoing supervision of the banks' operations. The OCC issues rules and regulations that govern the banks it supervises, taking supervisory actions against banks that do not comply with these statutes or that otherwise engage in risky practices. Under the CAMELS rating system, reputation risk has historically and typically fallen under the asset quality, management, and compliance components forming a piece of the larger assessment of risk profiles. Explicitly keeping reputation risk in ratings and bank examinations such as CAMELS is critical for protecting our financial institutions, financial system, and communities. Reputation risks – and its associated consequences – directly and indirectly impacts bank balance sheets, strategies, and operations, and could increase credit, market, liquidity, and operational risk at financial institutions.

Oversight of reputation risk serves an important function by operating as an early signal of bank conduct, operational deficiencies, ethical missteps, governance weaknesses, and franchise stability. Responding to efforts to curtail the assessment of reputation risk, as former Treasury official Graham Steele notes, "The irony is that these bills cannot make the underlying risks go away. Instead, they just require banking agencies to ignore reality and experience." Ultimately, removing supervision of reputation risk doesn't also remove underlying risks that need to be managed, but it can serve as an important warning indicator. Consumer trust is critical to a well-functioning, safe banking system but fewer supervisory checks increase the risk of inconsistent or misleading disclosures, which can escalate into litigation or customer-trust problems and reduced insight into confidence-sensitive risks that influence liquidity and funding. The OCC previously validated and acknowledged the need to understand, measure, and track public trust in banking through its 2023 request for information on a proposed annual survey about the public's trust in banking and bank supervision. On the critical role of consumer trust, the RFI explicitly stated, "Changes in trust in banks can also affect banks' earnings, funding costs, business models, and safety and soundness. The reciprocal nature of the relationship between trust and safety and soundness should make consumer trust a key variable of interest to bank regulators."

Banks will experience consequences because of loss of consumer trust. Critically, this proposed rule would lead to reduced visibility of conduct issues that often precede financial deterioration.

2. Reputation deterioration accelerates liquidity stress and contagion

Reputation risks have implicated bank safety and soundness before, and this will continue to be the case if reputation risk is eliminated from supervisory programs. The elimination of the risk category does not eliminate the risk – it just ignores it and allows it room to flourish. The proposed changes limit examiners' ability to address emerging risks. While these risks do not immediately affect a bank's financial condition, they can lead to significant losses, bank failures, taxpayer-funded bailouts, and economic instability.

The collapse of multiple U.S. banks within two months of each other – 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 and the importance of consumer trust in financial institutions. As noted in Better Markets' Debunking Debanking report from February 2025, the failure of Signature, SVB, and Silvergate were due to the "failed banks' direct exposure to crypto" and which ultimately "caused second-order panic among non-crypto customers who recognized the risk and pulled their deposits from the failing banks, only accelerating their demise." This wave of panic in spring 2023 led to contagion across the banking sector. This report also highlights that after SBNY's collapse, the FDIC's review highlighted that the "toxic combination of reputation risk related to the inherent volatility of crypto, inadequate management, and crypto exposure were key contributing factors to SVB's demise." As demonstrated by the spring 2023 collapses, these types of risks pose a threat to a bank's financial stability. FDIC post-mortem reviews of the 2023 bank failures consistently highlight how rapid loss of depositor confidence amplified liquidity stress and accelerated contagion.

Additionally, the FDIC report notes that "Due to its reputation as a banker to many in the crypto industry, SBNY's stock price closely tracked these tumultuous events in the crypto industry space and dropped significantly during 2022..." As evidenced by the chaos caused by the bank run in 2023, deregulation of financial institutions hurts institutions and customers. Emerging industries and technologies will continue to influence what we see as a financial institution's reputation. This new rule completely cuts off this risk consideration and could lead to contagion that has the potential to spread across the market via losses, bank failures, taxpayer-funded bailouts, and economic instability.

The OCC's enforcement action against Wells Fargo's misconduct directly outlines the critical impact that reputation harm had on the bank. Under Article IV, "The Sales Practices misconduct problem resulted in serious financial harm and reputational damage to the bank", the notice describes the financial implications of how the sales misconduct had estimated in the tens of billions financial impact on the Company and Bank The notice also outlines the OCC's critical role in reviewing and notifying the misconduct earlier on in the process as part of its role as a prudential regulator:

> "In February 2015, the OCC commenced an examination of operational risk and cross-sell oversight within the Community Bank.
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> a. As a result of the examination, the OCC issued a Matter Requiring Attention related to sales practices to the Community Bank in April 2015.
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> b. The OCC uses Matters Requiring Attention to communicate concern about a bank's deficient practices to a bank's board of directors and management.
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> c. The sales practices Matter Requiring Attention found that the Community Bank "lack[ed] a formalized governance framework to oversee sales practices" and warned that the consequence of inaction included "heightened reputation risk and possible negative publicity."

It's particularly important to note that the OCC had warned of valid and warranted heightened reputation risk at the time, which would seemingly not be possible under the current proposal that is moving to strip bank supervisors of this risk category in examination evaluations. **3. Weather- and natural-disaster-related financial risks amplify systemic risks**

The very reason bank regulators manage risk is due to the fact that financial institutions both hold and manage people's money. Financial institutions must be regulated appropriately to ensure that these tangible assets are handled appropriately. This proposal has been explicit in mentioning traditional financial risk drivers, but growing evidence suggests that risk for financial institutions goes beyond what is deemed "traditional" financial risk drivers.

In the wake of floods, wildfires, hurricanes, and other weather-driven disasters, banks can experience significant stress on funding as households and businesses withdraw deposits or tap credit lines to cover immediate needs. These effects can arise rapidly, even in institutions with otherwise healthy loan performance. Research by the Bank for International Settlements shows that natural disaster events may trigger precautionary cash demands that erode liquidity buffers, especially when disaster impacts are widespread or repeated. Even institutions with diversified balance sheets can face sudden liquidity risks and pressures when multiple communities experience overlapping shocks.

Financial institutions are exposed to various extreme weather risks that pose significant financial risks to the communities they serve. Financial losses from extreme weather events to communities include impacts on physical assets, food systems, livability and workability, infrastructure services, and natural capital. These impacts include health care costs, productivity loss, social and political unrest, and forced migration – and are likely to worsen and compound as extreme weather activities intensify, substantially disrupting global markets and financial systems. The federal banking regulators, including the OCC, regularly recognize the impacts of extreme weather events and natural disasters on affected financial institutions, temporarily allowing them to close and providing leniency towards certain regulatory requirements.

These concerns have been underscored by the Financial Stability Oversight Council (FSOC), which has emphasized the need for federal regulators to integrate these risks into supervisory frameworks and to ensure that large financial institutions are prepared for both physical and transition risks that may affect financial stability. The FSOC 2023 staff report further emphasized that these risks, especially those related to insurance market volatility and credit market stress, require improved risk identification, enhanced disclosures, and stronger supervisory expectations to protect the resilience of the U.S. financial system.

Risk management is critical to a bank's ability to serve its clients and shareholders, while also helping it maintain a stabilizing role within the larger economy. In order to determine materiality, banks often make assessments by looking forward at different scenarios. Multiple scenarios show increasing emissions, rising temperatures, and widespread physical impact. Banks that curtail some of their exposure to the most risky projects are addressing risk in a rational manner. This proposed rule assumes the growing sophistication banks have attained through dedicated efforts to understand, price, and when necessary, avoid risk is being misused or misapplied. While financial institutions will continue to refine their assessment of extreme weather risks, firms deciding to not take on further undue risk should be applauded for prudent action, not threatened with enforcement.

4. Redefining supervisory practices as a response to "debanking"

Supervisory practices are being redefined in what appears to be an effort to address "debanking", but what is largely amounting to deregulation. Although debanking is not explicitly mentioned in this proposed rule, the NPR appears to be supporting this notion that examiners may be influencing debanking. It is not the job of the OCC to protect or provide favorable treatment of certain industries or sectors, however evidence is not offered that this is occurring. The OCC's debanking report cites public bank policies limiting exposure to certain lawful but high-risk sectors as evidence of debanking, without demonstrating that such decisions stem from supervisory coercion rather than independent risk management. Banks that curtail some of their exposure to the most risky projects are addressing risk in a rational manner. While financial institutions will continue to refine their assessment of risks, firms deciding to not take on further undue risk should be applauded for prudent action, not threatened with enforcement. Risk management is critical to a bank's ability to serve its clients and shareholders, while also helping it maintain a stabilizing role within the larger economy, but this report assumes the growing sophistication banks have attained through dedicated efforts to understand, price, and when necessary, avoid risk is being misused or misapplied. Given the OCC's affirmative duty to protect the safety and soundness of the institutions it oversees, it should support current disaster risk management efforts by banks and provide guidance on how to better manage such risks, rather than calling out banks already taking these important steps.

Addressing "debanking" of consumers is a worthy pursuit, but seeking to do so under the guise of reputation risk would not achieve the intended results. Addressing debanking is a valid pursuit with bipartisan support. But the track record and data of unbanked households and discrimination in financial services shows that the bystanders historically excluded or "debranched" are communities of color. The Cleveland Fed, which categorizes the "unbanked" as households with "no checking or savings account at a bank or credit union," quantifies the rate of "unbanked" U.S. households as 5.4% in 2019, but highlights racial disparities across this group given that, "The likelihood of being unbanked was even higher for some segments of the population, such as low-income and racial and ethnic minority households. "Unbanked" households continue to be a persistent reality that underscores the challenges of accessing and receiving financial services. Although the landscape of retail banking demands undergoes expected shifts and changes over time, the closure of bank branches contributes to some of the challenges behind unbanked rates in LMI communities and communities of color the research suggests trends in the communities where they appear to be closing most often. As suggested by Senator Warren, regulators should collaborate with the Consumer Financial Protection Bureau – a critical agency equipped to address unfair banking – to address debanking concerns of consumers and businesses.

RESPONDING TO NPR

Q2: *Is the definition of "adverse action" in the proposed rule sufficiently clear? Should the definition be broader or narrower? Are there other types of agency actions that should be included in the list of "adverse actions?" Does the catch-all provision at the end of the definition of "adverse action" appropriately capture any agency action that is intended to punish or discourage banks on the basis of perceived reputation risk? Is such catch-all provision sufficiently clear?*

The definition of adverse action is sufficiently clear but too broad:

"Adverse action," as defined by the proposed rule, would include the provision of negative feedback, including feedback in a report of examination, a memorandum of understanding, verbal feedback, or an enforcement action. Furthermore, "action" encompasses any action of any agency employee, including any communication characterized as informal, preliminary, or not approved by agency officials or senior staff."

Under the proposed removal, supervisors will be stripped of critical feedback loops as part of the examination process, which does not serve to protect the safety and soundness of the financial system. Including an example like "any negative feedback" is far too broad as it appears to silence examiners from even privately raising concerns of credible downstream risks.
Given this, supervisors would also lose several important evaluation mechanisms necessary for upholding safety and soundness. The OCC has an affirmative duty to protect the safety and

soundness of the institutions it oversees. Given the financial risk to financial institutions posed by reputation risk, the OCC should support risk management efforts and provide guidance on how to better manage such risks, rather than limiting its examiners and supervisors from taking important steps. Instead, we recommend updating the definition of reputation risk to address subjectivity concerns.

Q4: *Do commenters believe the definition of "reputation risk" should be broadened or narrowed? If so, how should the definition be broadened or narrowed? Please provide the reasoning to support any suggested changes.*

The NPR defines reputation risk as:

> "the risk, regardless of how the risk is labeled by the institution or by the agencies, that an action or activity, or combination of actions or activities, or lack of actions or activities, of an institution could negatively impact public perception of the institution for reasons unrelated to the current or future financial condition of the institution. This definition is intended to include not just risks that the agencies or the institution identify as "reputation risks," but any similar risk based around concerns regarding the public's perception of the institution beyond the scope of other risks in the agencies' supervisory frameworks. This definition is not intended to capture risks posed by public perceptions of the institution's current or future financial condition because such perceptions relate to risks other than reputation risk."

The definition should be narrowed especially as it relates to public perception. As evidenced above, there is a track record of examples where reputation risk negatively impacted a bank's safety and soundness. Tying public perception considerations to the risk evaluation would not be prudent as evidenced by the direct correlation established. As evidenced above with the examples involving Wells Fargo and the 2023 regional bank failures, public perception impacted reputation and thereby financial stability.

Q7: *Are there changes to the proposed rule that would help restrict the agencies' ability to evade the rule's requirements, including evasion through mislabeling a risk or through using alternative adverse actions? Is there other anti-evasion language that should be included?*

The OCC has an affirmative duty to protect the safety and soundness of the entities it supervises. Rather than focus on limiting its examiners and supervisors from taking important steps to address risks and "evading" oversight, regulators should support risk management efforts and provide guidance on how to better manage emerging risks to financial institutions. Priority focus should be placed on appropriately staffing, equipping, training and resourcing OCC examiners to supervise and manage the risks banks are confronting.

Q10: *Does the removal of reputation risk create any other unintended consequences for the agencies or their supervised institutions?*

Yes, the removal of reputation risk creates unintended consequences. While it is important to eliminate regulatory subjectivity, completely removing reputation risk as a consideration and not looking into other solutions could have unintended consequences. For example, instead of removing it completely, regulators could consider a potential framework to improve consistency. As mentioned in the rule text, the agencies have not clearly defined how banks should measure the reputation risk of various activities, instead of removing reputation risk completely, this could be an opportunity for regulators to create practical and clear standards for managing and measuring reputation risk for regulated entities.

One unintended consequence is the threat of a bank collapse similar to what occurred in spring 2023. The collapse of four U.S. banks within two months of each other – 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 and the importance of consumer trust in financial institutions. This also demonstrates that banks are not singular entities operating in a vacuum; contagion can spread to other banks, and it can happen quickly. In the case of Silicon Valley Bank, social media played a role in the rapid spread of information and misinformation. As mentioned in the Federal Reserve's Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank, social media and technology played a key role in the rapid dispersal of information regarding the bank run and helped further accelerate the bank's failure. If the same alarm and withdrawal of funds were to occur due to perceived or experienced impacts from weather-related risk and extreme weather events, the results could be catastrophic to financial institutions, the financial system, and consumers – especially for communities that are already most at risk both financially and from extreme weather events. While the rule text notes that "it is difficult to predict the public's reaction to business decisions made by institutions," there is concern that if the regulators remove reputation risk completely, consumers will be facing the burden of reputation risk without any regulatory guardrails to manage such risks.

The removal of reputation risk also creates a slippery slope in which displeased financial institutions can now blame or accuse their supervisors of misconduct if they don't like their exams. Regulatory supervisors must be able to carry out their duties and obligations to uphold safety and soundness and they cannot do that under fear of retribution or accusation. This proposal places additional burden on banks to navigate potential contradictory rules and regulations as state regulators seek to pass their own rules. Without direct regulatory guidance on managing reputation risk, financial institutions are left to their own devices.

Q11: *Would the proposed rule have any costs, benefits, or other effects that the agencies have not identified? If so, please describe any such costs, benefits, or other effects.*

Left unmanaged, reputation risks can lead to serious negative consequences for financial institutions and have the potential to destabilize capital markets. These risks could have significant, disruptive consequences on asset valuations, global financial markets, and global economic stability. This proposal would hinder or limit supervisory insight and weaken safety-and-soundness oversight in place of promoting a risk-aligned capital market.

CONCLUSION

Evaluation of reputation risk serves a critical function and purpose and disregarding the metric undermines transparency and accountability. Now more than ever, prioritizing financial security, robust consumer protection, and the stability of bank operations should be the tone set by regulators. Reducing supervisory rigor at this moment risks institutionalizing vulnerability across the banking system, just as weather-related financial shocks become more frequent and severe. To uphold their core statutory mission of protecting safety and soundness, reputation risk must also be evaluated as a proxy and indicator for a bank's risk profile. Thus, Ceres respectfully urges the FDIC and OCC not to eliminate reputation risk from supervisory programs.

Thank you for considering our views on this important matter. We appreciate the opportunity to deliver this feedback. We would be pleased to discuss any questions you may have on our feedback. Please contact Holly Li [redacted]) for any questions or suggestions.

Sincerely,

[redacted]

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[redacted]

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