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Chief Counsel's Office
Attn: Comment Processing
Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, DC 20219
Docket ID OCC-2025-0142

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Attn: Comments – RIN 3064-AG12
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RE: Prohibition on Use of Reputation Risk by Regulators, Docket ID OCC-2025-0142 and RIN 3064-AG12

Simply because the Federal government hasn't figured out how to do something right yet doesn't mean it's not worth doing. Such is the case with the use of Reputation Risk by the federal bank regulatory agencies. Every executive recognizes the importance of sociopolitical issues to the sustainability of their business. Ignoring these risks is typically the result of short-term financial pressures, a lack of understanding, or an assumption that lawyers and / or taxpayers will come to their rescue should a crisis occur. Recent history has shown the latter to be particularly true when it comes to the financial sector and the moral hazard that exists between government and industry. Reputation risk left unmanaged creates financial risk.

The challenge has been finding a balance for financial institutions to incorporate the identification and mitigation of sociopolitical risks into their Enterprise Wide Risk Management (EWRM) programs in a manner that is responsive and tailored to their business model while, at the same time, allowing well-informed regulatory examiners to assess if this expanded EWRM program is adequate based on worst-case scenarios associated with known and emerging risks. This balance can only be achieved through an ongoing dialogue between the financial industry and the regulatory agencies who ensure its safety and soundness.

As an individual with extensive experience of the financial industry's version of Dave Chappelle's "When Keeping It Real Goes Wrong," I have found that a thoughtful and effective Reputation Risk Committee that incorporates the modern realities of what EWRM means in an age of instantaneous global communication, the creation and spread of misinformation, the financial ramifications of "guilt by association," and the tennis match of pandering from one political extreme to another, provides a layer of underwriting that helps to mitigate risks that do not fit cleanly (if at all) in traditional credit, market or operational risk models. From weaponry and cannabis to vaping and energy clients, the creation and active participation of internal Reputation Risk Committees at the global banks where I worked redefined the relationship between business and society as an implicit social contract that benefited the institution, its shareholders and society.

Sociopolitical trends that have nothing to do with credit, operations or past market performance are increasingly altering the strategic freedom of financial institutions and their clients who, therefore, cannot ignore the growing wave of expectations these trends create and the resulting power and influence of public, private and civic stakeholders who mobilize around them. As such, these issues present real and growing risks, and finding ways to idenfity and mitigate them through reputational risk policies and procedures is critical to ensure effective management.

Sociopolitical issues and emerging social forces are a critical part of the financial industry and do, in fact, have a direct impact on shareholder value and safety and soundness. For example, concerns in the banking industry about conflicts of interest, the effect of climate change on collateral and the insurance that protects it, predatory financial products, digital assets used to obscure the transparent flow of capital, artificial intelligence, and the inequitable flow of capital are already leading to changes in core banking practices and the overall financial industry that define how business is done and the cost associated with mitigating the risks to shareholder value. In these examples alone, billions of dollars are directly tied to sociopolitical issues that must be addressed at the highest level of corporate decision making, and very few, if any, fall neatly within the traditional models of EWRM. Institutions that ignore these risks simply because they aren't immediate financial risks do so at their own peril. As such, these risks must ultimately be fed into the new and evolving fundamental drivers of corporate performance, strategy, and regulatory oversight.

Financial institutions should introduce explicit processes to make sure that sociopolitical issues and emerging social forces are discussed and considered at the highest levels as part of overall strategic planning. To do so, financial institutions should expand the scope of risk reporting, identify shifts in client, product or asset allocations to capture expected future opportunities or to shed perceived risk exposure, anticipate changes in approaches to regulation and, at an industry level, develop and implement voluntary standards of behavior that matches evolving trends in sociopolitical expectations.

This will look different for each financial institution given their business model, industry focus, product suite, and the geographies they serve. Each institution should develop "radar" systems to identify and anticipate existing and future risks, present options on how to mitigate those risks, and identify failsafe points where an appropriate risk mitigation action is triggered. Waiting too long to implement reputation risk mitigation tools can be disastrously expensive. Ask Monsanto, which lost significant shareholder value in the backlash against genetically modified organisms in the European Union; an issue that had been building publicly for years. Or ask MUFG Union Bank who lost considerable commercial and consumer clients in the backlash to their parent company's financing of the Dakota Access Pipeline and created challenges in the attraction and retention of employees. That experience was sufficiently jarring to justify the creation of a Reputation Risk Committee for the Americas, which its Japanese parent company had been resisting.

Governments, also, represent a risk to the financial industry that does not fit cleanly in existing EWRM models. Subsidies to mitigate the risks associated with financing renewable energy in one administration can be withdrawn in the next. Encouragement to develop financial products and services that are responsive to the credit needs of traditionally excluded individuals, businesses, and communities in one administration can be labeled as discriminatory and illegal in another. The flow of capital and revenue tied to financial products and contracts associated with the terms of a long-standing trade agreement can quickly evaporate in the midst of a trade war, and an institution with a competitive advantage in an international market can quickly lose that advantage, and the revenue associated with it, when that market is labeled an economic enemy. Armed with a more solid approach to the management of social and political issues, financial institutions can not only reduce the risk to their reputations and shareholder value by anticipating changes in the regulatory environment but also create value by making the most of social and political shifts.

These are not minor issues to be treated lightly or ignored by bank regulatory agencies. Assuming that these new and evolving risks will somehow fit in existing and traditional risk categories and models is short-sighted. Discarding them when they don't fit into existing models is reckless. One way or another, these risks will need to be formalized and addressed. It will be a better use of existing resources to do so in a preemptive and proactive manner rather than follow our historical default of waiting until there is a financial crisis and building an exponentially more expensive risk-mitigation infrastructure from a defensive and reactive posture.

Proposed rules like ones recently issued intending to water down the Equal Credit Opportunity Act, delay and minimalize Section 1071 of the Dodd Frank Act, eliminate many of the functions of the Consumer Financial Protection Bureau and this one aiming to ignore evolving risks to the financial industry are short-lived headwinds towards the inevitable direction of the financial industry and the communities, consumers and businesses it serves. Nothing written in these rules cannot be immediately reversed when the sociopolitical winds shift. The only long-standing impact of inserting political issues into financial regulation is the necessary tactic to "wait things out." This results in two unfortunate outcomes. The first is that capital will be hesitant to flow due to the uncertainty created by the politicized regulatory environment. The second is that, similar to political influence on vaccines and the resulting increase of vaccine-preventable diseases throughout the United States, the degredation of our country's regulatory infrastructure (either by rule or through employee reduction) will result in increased systemic risk and financial harm. Neither of those results benefit financial institutions, consumers, or the stability of our financial system.

In its responsibility to both protect the financial industry and to represent the expectations of its citizens, the Federal Government must not prohibit the use of reputation risk by the federal bank regulatory agencies. Rather, it should proactively and constructively work with the industry to identify and build methods by which sociopolitical risks are identified and appropriately mitigated to ensure the safety and soundness of the industry while, at the same time, meeting the expectations of both shareholders and citizens. The results of this work may fall short, or it may be categorized as regulatory over-reach. Irrespective, both of those options are better than ignoring these risks and pretending that existing tools are sufficient as we wait for an inevitable financial crisis.

Sincerely,

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