American Bankers Association
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Electronically delivered

James P. 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 Sir:

The American Bankers Association[1] appreciates the opportunity to provide feedback on the Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions ("the Principles") published for comment by the Federal Deposit Insurance Corporation (FDIC). The Principles are intended to improve banks' identification and management of climate-related financial risks at banks with $100 billion in assets and above. The Principles call for enhanced governance, strategic planning, risk management, oversight, and data reporting practices for climate-related financial risks.

ABA and its members understand that climate change has implications for banks, their counterparties and the communities banks serve.[2] Overall, we support the Principles as a guide for larger institutions, which are currently working to better understand their climate-related risks and communicate the information and actions to regulators, investors and other stakeholders. We reiterate the concerns and comments discussed in response to the BCBS and OCC's proposed principles,[3] and emphasize the need for a tailored, principles-based approach until the data and methodologies for understanding climate-related financial risk are more fully developed.

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[1] *The American Bankers Association is the voice of the nation's $24 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $19.9 trillion in deposits and extend nearly $11.4 trillion in loans.*

[2] ABA has developed a set of principles guiding our advocacy on these issues: https://www.aba.com/advocacy/policy-analysis/climate-change-and-banking

[3] ABA comment letter to the OCC https://www.aba.com/advocacy/policy-analysis/clclimateocc20220214
ABA comment letter to the BCBS https://www.aba.com/advocacy/policy-analysis/clbcbs20220214

The largest banks are currently making significant investments in staffing, training, systems, modeling and data collection to better assess and monitor their climate-related risks. As the FDIC is aware, however, defining and quantifying climate change-related impacts on traditional bank risks is a relatively new and complex process, with the assumptions backing the analyses dependent on a vast number of policy choices and outcomes, over timeframes that extend far beyond those used to assess traditional banking risks.

Given these uncertainties, and to accommodate what will likely be significant changes to the practice of climate-related financial risk identification, we urge the FDIC to continue to take a principles-based approach that is flexible and iterative—and that allows banks to assess the risks they identify as the most material to their unique circumstances. Moreover, we urge the FDIC not to expand the scope of the guidance to mid-size and community banks until more robust data is available, and the climate-related financial risks and opportunities are better understood. This does not mean that these risks are unmitigated, rather, that banks and other corporations are being asked to identify and isolate new variables and concepts, such as exposure to transition risks. Banks are well-practiced in adapting to and managing change in the business environment and consumer and market preferences. Climate-related financial risks are naturally embedded into this process through the dynamic market, economic, and counterparty data that are the backbone of robust risk management. As the policy goals, definitions, and methodologies behind climate-related financial risk identification evolve, banks of all sizes will continue to apply traditional credit and financial risk tolerances and parameters to their balance sheets to manage their risks and support the customers and communities they serve.

Prescriptive guidance or regulation based on today's climate –related financial risk assumptions would be premature

The largest banks are conducting climate specific qualitative assessments, developing internal models, and incorporating forward-looking, climate-related considerations into strategy and new business assessment. As a practical matter, however, the nascent stage of climate-related risk assessment means that banks are in the earliest stages of exploring how to refine and adapt their management of climate-related financial risks.

The risk management frameworks, systems, and metrics the largest banks use to manage traditional bank risk are effective, well established, backed by deep and robust market and economic data, and understood by bank boards and management, bank counterparties, investors, supervisors, and other stakeholders. Climate-related financial risk assessment is not nearly as well understood or developed. For example, there is an absence of robust market data related to climate-related financial risk,a lack of standardized definitions surrounding what is meant by climate-related risk, and limited information about how climate-related risk interacts with traditional financial risks. For example, there is little information as yet on the risk of losses, posed by climate change, the probability of default or loss given default or the making the modeling necessary to identification extremely difficult. Together, these foundational gaps mean that the processes, procedures and methodologies surrounding climate-related risk identification and monitoring are in the earliest stages of development. It would be premature, then, to implement prescriptive or quantitative based requirements with respect to climate related financial risk, such as those related to risk limits and appetites. Any future guidance should not be so prescriptive as to require changes to existing - or creation of new - credit risk appetite and lending limits, as a result of climate risk considerations

ABA believes that any future guidance or regulations should remain open ended with regulators focused on ensuring that the largest banks are progressing in their capabilities and conducting internal climate-related risk analysis calibrated to the risks material to their individual business model. Over the near term, attaching regulatory consequences to climate-related risk exposures would be premature. Additional regulation based on today's capabilities could potentially result in a misallocation of resources.

The FDIC should continue to tailor its climate-related guidance

ABA understands that banks of all sizes must identify, monitor, and manage their risks. We support and appreciate the FDICs' assurances that any forthcoming regulation will be tailored to reflect differences in banks' circumstances such as complexity of operations and business models, and we agree with this approach. As a general matter, banks of differing sizes and complexity are engaged in different combinations of activities, which in turn present a wide variety of risk profiles. This is also the case with climate-related financial risks, with the added challenge of significant uncertainty around definitions, data, and the capacity to build necessary systems and expertise.

As discussed above, many of the largest institutions are devoting significant resources to better understand how to assess and integrate climate-related financial risks, while many smaller institutions are still trying to determine if they have exposure based on current definitions, and if so, what it may mean for their institution, their customers and their communities. Additionally, smaller institutions rely on third parties for data and reporting, so they will need additional time to quantify and assess their climate-related financial risks.

We recommend that the FDIC not apply this guidance to mid-sized and smaller institutions until climate-related financial risk is more precisely identified and understood, and the methodologies have evolved. Future supervisory expectations or further regulation will need to be calibrated for smaller institutions, mitigating any negative impact on their communities.

Climate scenario analysis should be an internal and confidential supervisory process

We appreciate the FDIC's distinction between "scenario analysis," and "stress testing." Scenario analysis is typically a forward-looking assessment of a potential future state of the world over time, resulting from a plausible and possibly adverse set of assumed events or sequence of assumed events. Stress testing typically assesses the potential impacts of transitory shocks to near-term economic and financial conditions. Stress testing usually has capital planning implications, and refers to exercises, conducted by the Federal Reserve, that may have regulatory consequences. "Climate scenario analysis" is a tool used to enhance critical strategic thinking and inform strategic decision-making to assess business risks and opportunities against a range of plausible future climate scenarios. To avoid confusion, we recommend that the FDIC provide further clarity by using the term "climate scenario analysis" to connote an exploratory exercise for banks' assessment of the impact of climate-related risks and opportunities over short, medium, and long-time horizons.

As part of their overall effort to better understand their climate-related financial risks, large banks are developing climate-related scenario analysis based on their unique systems, risks, and business models. Through this process, many banks are identifying key data and modeling gaps, and they are evaluating external providers to find a work around for those identified gaps. We

recommend that until climate-related risks are better understood, and more market and economic data is available, climate scenario analysis be performed using banks' internal models and processes.

The FDIC should ensure that banks can continue to serve their communities

Banks are a critical source of lending to retail and small business in communities across the United States. The FDIC, together with the OCC, Federal Reserve and other agencies, should ensure that any future guidance or regulations related to climate related financial risk allows banks to continue providing loans and other financial services to the communities and customers they currently serve.

ABA appreciates the question as to whether or not the banking agencies should, "modify existing regulations and guidance, such as those associated with the Community Reinvestment Act, to address the impact climate-related financial risks may have on LMI and other disadvantaged communities" While we will be submitting a detailed comment letter on the recently issued joint agency proposal to modernize the Community Re-investment Act, we tentatively support providing positive CRA consideration for certain loans and investments intended to address the impacts of climate change, particularly as it relates to low- and moderate-income customers and communities. We stand ready to work with the banking agencies to ensure that all communities are supported.

The FDIC must continue to collaborate with the other banking agencies and financial services regulators

An orderly and efficient progression forward dictates that the FDIC work in close conjunction with the other U.S. banking and financial agencies and international standard setting bodies to close data gaps and apply a consistent set of definitions, assumptions and methodologies. Collaboration will also help avoid unintended consequences and ensure that any rules or guidance are within the issuing agency's mandate. Moreover, to help avoid unintended consequences, it is critical that the banking agencies seek frequent public input from banks of all sizes to ensure supervisory goals and expectations align with current capabilities, are properly calibrated to the risks, and regulations, do not penalize bank customers or the communities banks support

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We appreciate the FDIC's use of principles, rather than reliance on more detailed or prescriptive rules, and encourage the FDIC to continue to use this more flexible and iterative approach. This will allow banks to adapt risk management to their most material issues and to adjust to the rapidly evolving climate-risk policy and practice environment. If you have any questions about these comments, please contact the undersigned at (202) 663-5182 or email: atouhey@aba.com.

Sincerely,

Alison Touhey