Risk Management Association

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June 2, 2022

VIA ELECTRONIC SUBMISSION

James P. Sheesley, Assistant Executive Secretary
Attention: Comments-RIN (3064-ZA32)
Federal Deposit Insurance Corporation
550 17th St N.W.
Washington, DC 20429

Re: Principles for Climate-Related Financial Risk Management for Large Financial Institutions (RIN 3064-ZA32)

Ladies and Gentlemen:

On behalf of its members, the Risk Management Association's Climate Risk Consortium ("RMA Consortium") thanks the Federal Deposit Insurance Corporation ("FDIC") for the opportunity to comment on its proposed principles for climate-related financial risk management for large banks ("Proposal").

Launched in September 2021, the RMA Consortium seeks to assist banks in integrating climate risk management throughout their operations, preparing the industry to help economies transition to a low-carbon future. The RMA Consortium, representing 30 leading U.S. and Canadian banking organizations, also aims to advance climate risk management practices in the banking industry by facilitating the development of industry-wide taxonomies and standards.

Before responding to the Proposal, the RMA Consortium wishes to express its appreciation for the FDIC's efforts to assist banking organizations under its oversight in developing climate-related financial risk management practices. Our member institutions welcome the FDIC's engagement with banking organizations as the agency develops its approach to climate-related financial risk.

The RMA Consortium also appreciates that the FDIC and the Office of the Comptroller of the Currency ("OCC") have proposed similar guidance,[1] which will promote more efficient and effective climate-related risk management practices. As the RMA

1 Office of the Comptroller of the Currency, Principles for Climate-Related Financial Risk Management for Large Banks (Dec. 16, 2021) [hereinafter "OCC Proposal"].

Consortium explained in its comment letter to the OCC on its proposal ("OCC Proposal"),[2] the RMA Consortium broadly supports the Proposal's principles-based approach, preference for scenario analysis over traditional regulatory stress testing, recognition of current data, modeling and methodological challenges for banks, and general alignment with best practices for risk management. The RMA Consortium also appreciates the FDIC's intention to "appropriately tailor any resulting supervisory expectations to reflect differences in banks' circumstances such as complexity of operations and business models"[3] and distinguish the roles and responsibilities of boards of directors from those of management.

Nonetheless, our members recommend that the final guidance, which we hope to be issued on an interagency basis, include important clarifications. Throughout this letter and in our comment letter to the OCC, we explain in greater detail our recommendations. In sum, we recommend the final guidance:

1. Define a compliance approach that accounts for the time that banks will require to implement the climate-related financial risk management processes outlined in the guidance and incorporate climate-related financial risks into decision-making processes;

2. Support more explicitly banks' use of a risk-based approach in implementing the principles so that banks' climate-related financial risk management practices are proportionate to the extent of their exposures, consistent with how banks treat other risk exposures;

3. Acknowledge that (a) at present, banks may determine it appropriate to prioritize assessing potential climate-related financial risk impacts over the time horizons that banks use in strategic planning and related assessment processes and (b) once assessment capabilities mature, consistency in the time horizons used by banks may be beneficial by facilitating industry benchmarking;

4. Align with other U.S. bank regulators' approaches to climate scenario analysis so that banking organizations subject to supervision by multiple banking regulators are subject to consistent requirements;

5. Clarify that the scope of the board of director's responsibility to oversee climate-related financial risk is consistent with the scope of its responsibility to oversee other risks facing the bank;

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[2] *Id.*

[3] 87 Fed. Reg. 19507, 19509 (Apr. 4, 2022).

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6. Clarify expectations with respect to (a) banks' consideration of climate-related financial risk impacts on low-to-moderate income ("LMI") and other disadvantaged households and communities and (b) public communications regarding banks' climate-related strategies; and

7. Harmonize with bank regulatory frameworks and approaches for climate-related financial risk management in foreign jurisdictions.

We believe that these modifications are consistent with the FDIC's objectives and the Proposal. The final guidance will be a significant milestone in the establishment of a U.S. bank regulatory framework for climate risk, making these clarifications all the more important. The requested changes will help the final guidance achieve the FDIC's objective to support the "efforts by banks to focus on key aspects of climate risk management."

I. The final guidance should define a compliance approach that accounts for the time that banks will require to implement the climate-related financial risk management processes outlined in the guidance and incorporate climate-related financial risks into decision-making processes.

A. Observations and Considerations[4]

As a general matter, the "development and implementation of processes to identify, measure, monitor, and control climate-related financial risk exposures within [a bank's] existing risk management framework" will require a reasonable time period to complete in a safe and sound manner. Implementation of the guidance will require, among other things, modifications to or development of new systems, technology, models, processes, policies and governance structures. As best practices for climate risk management continue to evolve, banks and supervisors will need to continue to collaborate to define those practices.

Moreover, challenges exist in developing effective climate-related financial risk management practices, such as those outlined in the Proposal, due to issues of data, models and methodologies. The Financial Stability Oversight Council ("FSOC") Report on Climate-Related Financial Risk ("FSOC Report") describes several of these challenges, including:

- Limitations on data, in particular, data "connecting the science of climate change to financial risk assessments and real-world economic impacts";[5]

[4] This section is, in part, responsive to Question 3 posed by the FDIC: "What challenges do banks face in incorporating these principles into their risk management systems?"

- Uncertainty about the time horizons over which certain risks (*e.g.*, transition risks, longer-term risks) may manifest;[6] and

- The non-linear and complex nature of the impacts of climate change, which makes it difficult to forecast the frequency and intensity of severe climate events and assess the interlinkages between climate-related pathways and economic variables across the financial system.[7]

The FSOC Report also recognizes that better data and improved methods are essential prerequisites for the ability to measure and assess climate-related financial risk, stating: "enhancing the availability of and access to relevant, comprehensive data and developing methods and metrics to effectively utilize climate-related data and financial data" are "[n]ecessary steps for measuring and assessing climate-related financial risk."[8] Gaps in data, notes the FSOC report, render results of scenario analyses unreliable.[9] Thus, banks will require a reasonable time period to enhance relevant data, models and methods so that processes to identify, measure, monitor, and control climate-related financial risk exposures are more reliable and, thus, of greater utility.

The FDIC is aware of these issues, stating that the "FDIC recognizes that incorporation of material climate-related financial risks into various planning processes is iterative as measurement methodologies, models, and data for analyzing these risks continue to evolve and mature over time."[10] However, the Proposal also describes expectations for the identification, measurement, monitoring, and control of climate-related financial risk exposures without accounting for insufficiencies in the current methodologies, models and data upon which such processes and practices rely.

B. Recommendations

The final guidance should account more explicitly and comprehensively for the time banks will require to implement the processes to identify, measure, monitor, and control

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[5] Financial Stability Oversight Council, Report on Climate-Related Financial Risk, at 23 (Oct. 2021) [hereinafter, "FSOC Report"].

[6] *Id*.

[7] *Id*.

[8] *Id.* at 47.

[9] *Id.* at 49. ("While a large amount of potentially relevant data for climate-related physical risks currently exists, more work is needed to improve access to this data and incorporate it into financial risk assessments . . . This data is not standardized in a way that facilitates the aggregation of datasets across entities or industry sectors and may require extensive work before it is usable.").

[10] The Proposal also states that in conveying the results of climate-related scenario analysis, management should convey the "uncertainty of results." *See* 87 Fed. Reg. 19507, 19510 (Apr. 4, 2022).

climate-related financial risks, as well as incorporate those risks into decision-making processes. In particular, the final guidance should:

- Establish reasonable expectations for banks' near-term climate-related financial risk management capabilities, including by supporting more explicitly banks' use of reasonably available methods to begin identifying, measuring, monitoring and controlling climate-related financial risks while continuing to develop more robust capabilities. For example, the final guidance should clarify that qualitative risk appetite statements may be more appropriate than quantitative expressions of risk appetite until quantitative methods are sufficiently reliable;

- Clarify that (a) the FDIC does not expect banks' conformance with the guidance by a particular date but, rather, that banks work in earnest toward developing and implementing their climate-related financial risk management practices and make iterative, demonstrable progress and (b) at least in the near term, the FDIC does not anticipate that gaps in a bank's practices would result in an informal or formal enforcement action except in very unusual circumstances; and

- State the FDIC's intention to assess banks' progress in addressing climate-related financial risks and publish anonymized results to enable industry benchmarking, foster innovation, and facilitate the development of best practices.

II. The final guidance should support more explicitly banks' use of a risk-based approach in implementing the principles so that banks' climate-related financial risk management practices are proportionate to the extent of their exposures, consistent with how banks treat other risk exposures.

A. Observations and Considerations

The RMA Consortium appreciates the Proposal's principles-based approach and the flexibility that it affords banks to adapt, as best practices in climate-related financial risk management continue to evolve, and tailor their programs to more effectively address their climate-related financial risks and unique circumstances.

More broadly, the RMA Consortium's members believe that banks should employ a risk-based approach in managing climate-related financial risk and implement practices that are commensurate with the extent of their exposure, as well as their business model, complexity, and risk profile. This is consistent with the FDIC's examination approach, which is tailored based on each institution's business model, complexity, and risk profile.[11]

The RMA Consortium appreciates that the FDIC plans to "appropriately tailor any resulting supervisory expectations to reflect differences in banks' circumstances such as complexity of operations and business models," consistent with the FDIC's approach to risk-based supervision.[12] As a general matter, we anticipate that, ultimately, all banking organizations will be subject to supervisory expectations with respect to their climate-related financial risk management practices, and embedding proportionality in those expectations will be important. As to the Proposal, aspects of it suggest that banks employ a risk-based approach to address climate-related financial risk management. For example, the Proposal describes multiple practices and processes for prioritizing *material* climate-related financial risks, rather than simply stating that banks must address all climate-related financial risks.

However, the Proposal does not explicitly encourage banks to scale their climate-related financial risk management responses based on the extent of their exposures, sizes, activities or other factors. By way of comparison, the "Proposed Interagency Guidance on Third-Party Relationships: Risk Management" recommends that third-party relationship risk management be based on "the level of risk, complexity, and size of the banking organization and the nature of the third-party relationship."[13]

B. Recommendations

We recommend that the final guidance expressly adopt the concept of proportionality and further emphasize a risk-based approach to managing climate-related financial risks. Specifically, we recommend that the final guidance:

- Reflect a principles-based approach, as currently proposed, and not prescribe particular risk management practices;[14]

- State that banks should employ a risk-based approach that considers materiality in managing climate-related financial risk, consistent with how banks determine materiality and manage other risks; and

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11 *See* "RMS Manual of Examination Policies: Risk-Focused, Forward-Looking Safety Soundness Supervision," FDIC (2021), *available at* https://www.fdic.gov/regulations/safety/manual/section20-1.pdf.

12 87 Fed. Reg. 19507, 19509 (Apr. 4, 2022).

13 86 Fed. Reg. 38182, 38185 (July 19, 2021).

14 This recommendation is responsive to Question 4 posed by the FDIC: "Would regulations or guidelines prescribing particular risk management practices be helpful to financial institutions as they adjust to doing business in a changing climate?"

- Clarify that banks should design and implement climate-related financial risk management practices and processes that are commensurate with the extent of their exposures to climate-related financial risk, in addition to their size, complexity, business activities, and overall risk profile.[15]

III. The final guidance should acknowledge that (a) at present, banks may determine it appropriate to prioritize assessing potential climate-related financial risk impacts over the time horizons that banks use in strategic planning and related assessment processes and (b) once assessment capabilities mature, consistency in the time horizons used by banks may be beneficial by facilitating industry benchmarking.

A. Observations and Considerations

The Proposal states that "[a]s part of forward-looking strategic planning, the board and management should address the potential impact of climate-related financial risk exposures on the bank's financial condition, operations (including geographic locations), and business objectives over various time horizons."[16] The Proposal also notes that relevant time horizons for understanding "the potential ways in which these risks could evolve … may include those that extend beyond the bank's typical strategic planning horizon."[17]

The RMA Consortium appreciates the importance of banks' exploring potential climate-related financial risk impacts over various time horizons, including time horizons that extend beyond those typically used in financial risk assessments. As the Basel Committee on Banking Supervision ("BCBS") explains in its report on measurement methodologies for climate-related financial risks, "[c]onventional capital planning horizons have tended towards two- to three-year forecasts …, while strategic planning at banks has tended towards three- to five-year periods …. Conversely, many physical climate risks are expected to increase in materiality over a much longer horizon."[18]

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15 We recognize that size and complexity of banking organizations can be correlated with their potential to pose systemic risk. That said, there may be instances in which larger banks are less vulnerable to losses resulting from climate disaster. Notably, a recent report released by Federal Reserve Bank of New York staff revealed that, in the case of extreme weather events over the last quarter century, "losses at larger (multi-county) banks [were] barely affected and their income increase[d] significantly with exposure," whereas local banks, which do not benefit from diversification across multiple geographies, experienced more negative stability effects from extreme disasters. Kristian S. Blickle et. al., Federal Reserve Bank of New York, "How Bad Are Weather Disasters for Banks?" at 3 (Nov. 2021).

16 *See* 87 Fed. Reg. 19507, 19509 (Apr. 4, 2022).

17 *Id.* at 19510.

18 *See* Basel Committee on Banking Supervision, Climate-Related Financial Risks – Measurement Methodologies (Apr. 2021), at 20–21, https://www.bis.org/bcbs/publ/d518.pdf.

For example, the FDIC's "RMS Manual of Examination Policies" generally encourages banks to develop three to five year strategic plans, stating, "The planning time horizon will not be identical for every bank, but a three- to five-year planning horizon is generally satisfactory for most banks."[19] The RMA Consortium requests that the FDIC, as part of its ongoing work to develop a supervisory response to climate-related financial risks, to consider the expectation in the Proposal that, "[a]s part of forward-looking strategic planning," a bank "should address the potential impact of climate-related financial risk exposures on the bank's financial condition, operations … and business objectives over various time horizons," in light of the fact that climate-related financial risks can manifest over much longer time horizons.

We also note that the Federal Reserve Board ("Federal Reserve") requires nine-quarter projection periods for its Comprehensive Capital Analysis and Review ("CCAR").[20] After assessment capabilities mature, we encourage the FDIC to adopt an approach toward time horizons consistent with those of the OCC and Federal Reserve. This would be consistent with the Federal Reserve's view that "[a] consistent approach across bank regulatory agencies will best support the effective management of [climate-related] risks."[21]

We also appreciate the Proposal's and OCC's Proposal's alignment with other U.S. banking regulators in selecting scenario analysis rather than traditional stress testing exercises in the context of climate-related financial risks. The Federal Reserve has distinguished scenario analysis from stress testing[22] and has stated that the agency currently only is developing a program on climate-related scenario analysis.[23] Additionally, the FSOC Report strongly recommended that member agencies use scenario analysis and did not recommend climate stress testing akin to the Dodd-Frank Act Stress Tests or CCAR.[24]

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19 *See* "RMS Manual of Examination Policies: Section 4.1 Management," FDIC (2022), *available at* https://www.fdic.gov/regulations/safety/manual/section4-1.pdf.

20 Annual Company-Run Stress Test Requirements for Banking Organizations With Total Consolidated Assets Over $10 Billion Other Than Covered Companies, 77 Fed. Reg. 62396, 62401 (Oct. 12, 2012).

21 Rachel Koning Beals and Greg Robb, "OCC takes step toward pressure on large banks to reveal climate-change risks," Marketwatch (Dec. 16, 2021), https://www.marketwatch.com/story/occ-takes-step-toward-pressure-on-large-banks-to-reveal-climate-change-risks-11639688971.

22 *See, e.g.*, Jerome Powell Remarks, Green Swan Conference, hosted by the Bank for International Settlements (Jun. 4, 2021); Lael Brainard, "Financial Stability Implications of Climate Change" (Mar. 23, 2021), https://www.federalreserve.gov/newsevents/speech/brainard20210323a.htm.

23 *See, e.g.*, Federal Reserve, Financial Stability Report, at 63 (Nov. 2021), https://www.federalreserve.gov/publications/files/financial-stability-report-20211108.pdf.

24 FSOC Report, *supra* note 1, at 90 ("Scenario analysis is similar to, but distinct from, stress testing as deployed by financial regulators, such as the supervisory Dodd-Frank Act Stress Tests of the Federal

B. Recommendations[25]

The final guidance should:

- Retain the Proposal's focus on scenario analysis rather than traditional stress testing, consistent with the Federal Reserve's approach and FSOC's recommendations; and

- Outline expectations for scenario analysis frameworks and exercises—including with respect to time horizons, assumptions regarding "plausible future states," requirements regarding which portfolios are stressed, and use of third-party scenarios—that are consistent with those that the Federal Reserve ultimately issues.

IV. The final guidance should clarify that the scope of a board of director's responsibility to oversee climate-related financial risk is consistent with the scope of its responsibility to oversee other risks facing the bank.

A. Observations and Considerations

The RMA Consortium appreciates the FDIC's plan to distinguish the roles and responsibilities of the board and management with respect to climate-related financial risk oversight in the final guidance. We believe the FDIC's ongoing coordination with the Federal Reserve and OCC in this area is important. Both regulators have issued recent guidance addressing the responsibilities of the board, as distinct from those of management.[26]

B. Recommendations

The final guidance should clarify that expectations regarding climate-related financial risk management and the management of other risks are consistent. Specifically, the final guidance should clarify that the scope of a board of director's responsibility to oversee climate-related financial risk is consistent with the scope of its responsibility to oversee other risks facing a bank,

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Reserve Board, OCC, and FDIC and the Comprehensive Capital Analysis and Review (CCAR) performed by the Federal Reserve Board on the largest banking organizations.").

25 This section is, in part, responsive to Question 14 posed by the FDIC, "What factors are most salient for the FDIC to consider when designing and executing scenario analysis exercises?"

26 *See* Federal Reserve, SR 21-3 / CA 21-1: Supervisory Guidance on Board of Directors' Effectiveness (Feb. 26, 2021), *available at* https://www.federalreserve.gov/supervisionreg/srletters/SR2103.htm; OCC, Director's Book: Role of Directors for National Banks and Federal Savings Associations (Nov. 2020), *available at* https://www.occ.gov/publications-and-resources/publications/banker-education/files/directors-book.html.

V. The final guidance should clarify the FDIC's expectations with respect to (a) banks' consideration of climate-related financial risk impacts on LMI and other disadvantaged households and communities and (b) public communications regarding banks' climate-related strategies.

A. Observations and Considerations

The RMA Consortium agrees with the FDIC's statement in the Proposal that climate change could have disproportionate impacts on the financially vulnerable, including LMI and other disadvantaged households and communities, and that it is important for banks to consider the implications on such stakeholders. The RMA Consortium encourages the FDIC to continue to collaborate with peer banking agencies, federal housing agencies, and government sponsored enterprises to identify appropriate mechanisms for banks to employ to respond to the potential impacts to these communities. We appreciate the banking agencies' May 2022 proposal to update the Community Reinvestment Act ("CRA"), which would allow banks to receive CRA credit for "disaster preparedness and climate resiliency activities," such as the development of financial products and services to help the community prepare for future natural disasters.[27] Our member institutions welcome further discussion on this important issue.[28]

With respect to public statements, the Proposal calls for banks to "ensure that any public statements about their banks' climate-related strategies and commitments are consistent with their internal strategies and risk appetite statements."[29] We encourage the FDIC to clarify the wording of the expectation regarding public statements by stating that the FDIC's focus in this area is on whether banks make accurate disclosures regarding climate risk plans, strategies, or actions.

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27 The current CRA guidance does not explicitly include credit for these activities, defined in the May 2022 proposal as "activities that assist individuals and communities to prepare for, adapt to, and withstand natural disasters, weather-related disasters, or climate-related risks." The May 2022 proposal also includes disaster preparedness and climate resiliency activities as "qualifying activities in Native Land Areas." *See* OCC, Federal Reserve, FDIC, Joint Notice of Proposed Rulemaking: Community Reinvestment Act (May 5, 2022), Section III.E.6(b). We note that, in 2021, the New York Department of Financial Services incorporated similar climate-based credit incentives into the New York State Community Reinvestment Act. *See* New York State Department of Financial Services, CRA Consideration for Activities that Contribute to Climate Mitigation and Adaptation (Feb. 9, 2021), https://www.dfs.ny.gov/industry_guidance/industry_letters/il20210209_cra_consideration.

28 This recommendation is responsive to part of Question 10 posed by the FDIC: "Should the agencies 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?"

29 87 Fed. Reg. 19507, 19510 (Apr. 4, 2022).

B. Recommendations

The RMA Consortium encourages the FDIC to clarify its expectations with respect to (a) banks' consideration of climate-related financial risk impacts on LMI and other disadvantaged households and communities and (b) public communications regarding banks' climate-related strategies in the following ways.

- In order to effectively address disproportionate impacts, the RMA Consortium encourages the FDIC to continue to collaborate with relevant agencies to identify appropriate mechanisms for banks to employ to respond to potential climate-related financial risk impacts on LMI and other disadvantaged households and communities, including through the CRA.

- The final guidance should align expectations regarding banks' public communications with the U.S. securities disclosure regime, which requires accuracy in public statements. We further request that expectations regarding public communications and disclosures align with any future rules and guidance specifically related to climate disclosures issued by the Securities and Exchange Commission.

VI. The final guidance should harmonize with bank regulatory frameworks and approaches for climate-related financial risk management in foreign jurisdictions.

A. Observations and Considerations

The RMA Consortium also appreciates the FDIC's engagement on climate-risk management with foreign banking regulators. The scope of bank supervisors' mandates with respect to climate risk responses vary by jurisdiction, which may result in certain requirements differing across jurisdictions. Nevertheless, consistency to the extent of consistent mandates among supervisors across jurisdictions in evaluating a bank's incorporation of climate-related financial risk management practices would facilitate more efficient and effective compliance and climate-related financial risk management by internationally-active banks and foreign-headquartered banks subject to international laws and regulations on a consolidated, enterprise-wide basis.

B. Recommendations

The final guidance should aim for high-level alignment internationally across jurisdictions with consistent mandates. In particular, the RMA Consortium recommends the following:

- The FDIC should seek to coordinate among cross-jurisdictional authorities and aim for consistency in high-level industry standards across jurisdictions where appropriate, with the goal of creating "interoperable" climate-related financial risk management guidance and principles. As a result, the efforts of financial institutions to create tools and processes with respect to climate risk management in one jurisdiction may still be relevant and utilized to adhere to requirements in another jurisdiction.

VII. Conclusion

RMA Consortium appreciates the opportunity to provide these comments and thanks the FDIC for its efforts in developing guidance for banks on climate-related financial risk management practices. The RMA Consortium looks forward to continuing its engagement with the FDIC on these issues.

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Sincerely,

[redacted]

Fran Garritt
Director
Risk Management Association