214 North Tryon Street
Charlotte, NC 28202
Office: 980.205.4595
Johnny.l.moore@truist.com

Moore, Johnny
Senior Vice President
Associate General Counsel for Regulation

James P. Sheesley
Assistant Executive Secretary
Attention: Comments—RIN 3064–ZA32
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

Dear Mr. Sheesley,

Truist appreciates the opportunity to comment on the Federal Deposit Insurance Corporation's ("FDIC") draft Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions ("FDIC Proposal")[1] (RIN 3064– ZA32). Truist supports the FDIC's efforts to develop principles-based guidance to assist financial institutions in managing the possible impacts of physical- and transition-related risks associated with climate change in a manner that is consistent with the existing risk management framework described in the FDIC's regulations and guidance.

Truist Financial Corporation is a purpose-driven financial services company committed to inspiring and building better lives and communities. Truist has a leading market share in many high-growth markets in the country, and offers a wide range of services including retail, small business and commercial banking; asset management; capital markets; commercial real estate; corporate and institutional banking; insurance; mortgage; payments; specialized lending; and wealth management. Headquartered in Charlotte, North Carolina, Truist is a top 10 U.S. commercial bank with total assets of $544 billion as of March 31, 2022.

During 2021 and the first quarter of 2022, Truist continued to build, integrate, and advance climate risk-related programs and initiatives across the enterprise. This included

---

[1] FDIC, *Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions*, 87 Fed. Reg. 19507 (April 4, 2022).

expanding its risk management teams and creating a dedicated climate risk management function that seeks to identify and evaluate climate risks and opportunities, and to integrate climate-related considerations into the Company's risk management framework and strategic plans. We do this by developing business practices that protect and conserve natural resources and reduce the carbon footprint of our own operations and that of our clients, as well as by harnessing opportunities to invest in innovative new products, services, and partnerships in areas such as renewable energy. Truist has also enhanced its climate-related reporting and transparency.

Truist supports the development of principles-based guidance for climate-related financial risk management. Truist further encourages the FDIC to continue coordinating with the other bank regulatory agencies as well as broader governmental entities operating in this area to ensure consistent requirements and supervisory expectations with respect to climate-related financial risk management.

General Principles

Climate-related financial risks may impact financial institutions across the range of traditional risk types and are likely to manifest in unique ways depending on each institution's size, complexity, operational footprint, business model, and strategy. The FDIC Proposal, in most cases, establishes principles-based standards that allows FDIC-regulated banks to tailor their risk management programs to the unique attributes of each institution. As climate-related financial risk management practices evolve and financial institutions develop processes to identify the climate-related financial risk exposures from their business activities and operations, individual banks should have the flexibility to tailor their risk management programs to address the unique circumstances of each institution, including with respect to its size, business model, and client portfolio. Given the variances among FDIC-regulated banks' size, geographic footprint, and business models, the final guidance should clearly acknowledge that managing climate-related financial risk should be risk-based and that "one size does not fit all."

In addition, many FDIC-regulated banks are subject to regulation from other governmental agencies, including prudential and financial market regulators, who are contemplating or have proposed their own climate related requirements. As the regulatory landscape evolves, the opportunity for divergent regulatory frameworks grows rapidly absent coordination among these governmental agencies. Early analysis on the impact of climate-related financial risks suggests that the effects of climate risk can be observed through traditional

risk types.[2] Given the interconnectedness of climate risk across risk types, it is imperative that supervisory expectations for climate-related risk management are consistently developed and applied, or banks may face the prospect of having to manage their climate-related financial risks to differing regulatory standards, potentially requiring redundant and inconsistent compliance requirements, resulting in increased costs and burden to the financial system as a whole without corresponding benefits.

Governance

The proposed governance principles helpfully posit that the responsibility and accountability for climate-related financial risk may be integrated within existing organizational structures or by establishing new structures for climate-related financial risk. Truist believes that the flexibility this implies would allow institutions to properly design governance structures that align with the way climate risks manifest within their institution. However, the FDIC Proposal also suggests that an institutions' board of directors should have *"an understanding of the potential ways in which these risks could evolve over various time horizons and scenarios."* Truist believes the final guidance should recognize the complexity and uncertainty of planning over longer time horizons, due to, among other things, the high number of scientific, macroeconomic, financial, and other variables that can vary and must be taken into account when assessing climate-related financial risk. In addition, more quantitative and statistically-based aspects of climate-risk management are in emerging stages, as many of the data points necessary to accurately assess climate-related financial risk, even in the medium term, are simply unavailable and there is substantial uncertainty with respect to the timing and scope of impacts of climate-related financial risk over medium- and longer-term time horizons. Truist believes that acknowledging that climate-related scenarios are less robust and predictable over long-time horizons will encourage directors to obtain more information over longer time horizons and enhance the usefulness of strategic planning over a longer time horizon.

Policies, Procedures, and Limits

Truist supports the proposal to incorporate climate-related risks into policies and procedures to provide guidance on the institution's approach to these risks that are in line with the strategy and risk appetite set by the board of directors. However, Truist does not believe that it is appropriate to include formal "limits" for climate-related financial risks at this time. Institutions should have the flexibility to assess their exposure to climate related risks, develop

---

[2] Basel Committee on Banking Supervision, *Climate-related risk drivers and their transmission channels,* Bank for International Settlements,
https://www.bis.org/bcbs/publ/d517.pdf?msclkid=44a8db7bcff811ec85062206d907bb66 Accessed May 9, 2022

and inform their risk appetite and risk management frameworks prior to considering whether any limits or thresholds would be appropriate.

The imposition of limits at this time could have unintended consequences, including constraining the flow of capital and access to credit for certain industry segments and asset classes, potentially exposing banks to additional legal and reputational risks. Many energy-related firms seeking to transition away from higher-climate-risk activities will rely on financing to achieve their business objectives, which very well could align with societal goals of reducing climate-related risks. Truist strives to serve its clients through their climate transition and the imposition of arbitrary or premature limits could constrain Truist's ability to do so.

Strategic Planning

Truist also supports the distinction between climate-related scenario analysis from traditional stress testing exercises. Truist agrees that scenario analysis can be an effective tool in evaluating the resiliency of an institution's strategy and risk management relative to the structural changes arising from climate-related risks. However, we believe the FDIC at the same time should acknowledge that the relative immaturity of underlying data and methodologies may limit the effectiveness of scenario analysis to accurately forecast potential impacts of climate risks on a bank's long-term strategy.

Risk Management

The proposal states that a financial institution should employ a comprehensive process to identify emerging and material risks stemming from the institution's business activities and associated exposures. While Truist agrees with the overall statement, we encourage the FDIC to clarify that individual banks should develop a materiality standard for their use and application in the risk appetite framework. Truist believes that clarifying the meaning of "material" as distinct from materiality in the context of securities laws provides banks with some comfort that determinations made in the context of climate-risk management will not generate securities liability.

Data, Risk Measurement, and Reporting

Truist agrees that the climate-related financial risk information should be incorporated into the institution's internal risk reporting framework, including reporting, monitoring, and escalation. However, given the existing data challenges facing institutions, the extent of any reporting should be commensurate with the capabilities and preferences of the institution. This

is not the case as climate change has the potential to manifest or drive risk within each of the existing primary risk types. As such, the final guidance should clearly state that climate risk does not need to be treated as a stand-alone risk for reporting purposes.

Management of Risk Areas

The proposed principles further break out how banks should incorporate climate-related financial risk across traditional risk types despite the previously acknowledged data limitations limiting the ability of banks to effectively execute such an exercise. Given the rapid development of industry thinking and best practices on climate risk management and climate data collection and analytic capabilities, any final guidance should provide sufficient flexibility for institutions to develop, adopt, implement, and refine both (i) data capabilities and methodologies and (ii) quantitative risk management tools that depend on that data, such as risk limits, risk appetites, or scenario analysis. These tools are instrumental to the application of the principles highlighted in the management of risk areas section.

Other Comments on the Proposal

The FDIC Proposal states that *"the manner in which financial institutions manage climate-related financial risks to address safety and soundness concerns should also seek to reduce or mitigate the impact that management of these risks may have on broader aspects of the economy."* Truist is concerned that this language may be read to imply a new, affirmative obligation for banks to implement risk management activities in a way that mitigates the impact of its lending activities "on broader aspects of the economy." Depending on the circumstances, such an obligation could be at odds with a bank's primary obligation to operate in a safe and sound manner, and present boards of directors, management and regulators with contradictory mandates on a continuous basis. Truist encourages the FDIC to reconsider whether this kind of statement belongs in prudential regulatory risk management guidance or is better left to elected policymakers. Truist also encourages the FDIC to coordinate with the other federal banking agencies regarding concerns over broader economic impacts of climate-related financial risk management.

The FDIC's proposal also requests comment on whether the federal banking agencies should modify existing regulations and guidance, such as those associated with the Community Reinvestment Act ("CRA"), to address the impact that climate-related financial risks may have on low- and moderate income and other disadvantaged communities. Consistent with other recommendations in this letter Truist encourages regulators modifying any existing regulations to take measures to ensure they do not create a prescriptive regime that doesn't reflect variability across firms. Truist believes that there are multiple areas ripe for modification when evaluating existing regulations and guidance to address climate-related financial risks on low-

and moderate income and other disadvantaged communities such as: i) clearly articulating which types of activities, for both individual properties and large-scale community projects, would be eligible for CRA credit; ii) ensuring transition externalities are addressed in a manner that balances safety, soundness, and fairness through coordination and consultation with the Department of Housing and Urban Development, the Federal Housing Finance Agency, and the Consumer Financial Protection Bureau; and iii) coordination with the federal housing agencies and government sponsored enterprises to improve other relevant federal programs, such as flood insurance.

Truist appreciates the opportunity to comment on the Proposal. If you have any questions, please contact the undersigned by phone at (980) 205-4595 or by email at johnny.l.moore@truist.com.

Sincerely,

Johnny L. Moore
Senior Vice President
Associate General Counsel for Regulation / Truist