INTERNATIONAL BANCSHARES
CORPORATION

June 3, 2022

**Via email:** Comments@fdic.gov

Federal Deposit Insurance Corporation
Mr. James P. Sheesley, Assistant Executive Secretary
Attn: Comments – RIN 3064-ZA32
550 17th Street N.W.
Washington, D.C. 20429

Re: Comments on Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions (RIN 3064-ZA31)

Dear Sir:

The following comments are submitted by International Bancshares Corporation ("IBC"), a publicly-traded, multi-bank financial holding company headquartered in Laredo, Texas. IBC maintains 167 facilities and 261 ATMs, serving 75 communities in Texas and Oklahoma through five separately chartered banks ("IBC Banks") ranging in size from approximately $480 million to $9.3 billion, with consolidated assets totaling over $16 billion. IBC is one of the largest independent commercial bank holding companies headquartered in Texas.

This letter responds to the request for comment by the Federal Deposit Insurance Corporation ("FDIC") related to the FDIC's Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions ("Statement"). The Statement contains draft principles that would provide a high-level framework for the safe and sound management of exposures to climate-related financial risks for large banks with over $100 billion in assets. The FDIC wants to implement these principles in order to "support efforts by large financial institutions to focus on key aspects of climate-related financial risk management." [Statement at 19507]

The statement outlines two primary climate-related risks: physical risks and transition risks. According to the FDIC,

> Physical risks generally refer to the harm to people and property arising from acute, climate-related events, such as hurricanes, wildfires, floods, and heatwaves, and chronic shifts in climate, including higher average temperatures, changes in precipitation patterns, sea level rise, and ocean acidification. Transition risks generally refer to stresses to certain financial institutions or sectors arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to limit climate change. [Statement at 19508]

IBC has provided general comments and comments to the specific requests as noted below.



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## General Comments

The FDIC and other federal regulators should be careful not to conflate "climate change" and climate-related risk. Any implementation of the principles or other related regulatory requirements needs to clearly define "climate-related risk." Many articles and studies on climate-related risk focus on any number of future timelines and speculate on widely differing scenarios about how "climate change" may affect climate-related risk. Using these two terms coextensively is a mistake. The existence, extent, and effects of "climate change" remain the subject of a continuing debate, data collection and evaluation. Climate science is in its infancy. IBC does not dispute that wildfires, hurricanes, and other destructive weather events may be leading to increased climate-related risks. However, it is important for the FDIC to be clear and accurate with its terminology in this space. This is especially important in order for insured institutions to understand exactly what the FDIC's goals are. Is it the case the FDIC is primarily concerned with, in its opinion, addressing "climate change" or the threat of climate-related risk related to insured banks' stability? These are two vastly different issues that would require significantly different plans and implementations, to say nothing of the fact that the FDIC, as a *financial* regulator, generally ***should not be engaging in environmental policymaking***.

The FDIC has a solution in search of a problem. Existing FDIC rules and guidance already provide a comprehensive risk management and safety and soundness framework for insured banks. [Statement at 19509] The risks the FDIC notes in the Statement are not fundamentally novel or unique. Regarding physical risk, hurricane alley exists. Flood zones exist. Tornado zones exist. Regarding transition risk, automobiles and the internet were invented and categorically changed our lives and the financial system of this country. Historically, banks have taken these realities into consideration in all of their activities, from consumer lending to merchant banking investments. It would be criminal ineptitude if the largest bank lenders to fossil fuel companies did not consider the changing economy and rise of renewable energy as a challenge to such markets as a matter of course. The FDIC seems to believe climate-related risk is an ephemeral threat that is otherwise not on the radar of insured banks. IBC is confident this is far from the truth. Climate-related risks are merely another case of changing times requiring a re-evaluation of the market landscape at both a micro and macro level, a process that banks have engaged in since the dawn of the modern financial system. The threat of environmental risks is not new, it is merely changing. Like all geographic changes, banks will learn to adapt or will face the consequences, like every other business. Did the FDIC step in with highly burdensome principles and guidelines when the internet threatened to throw our economy into upheaval? Did the FDIC step in when horse and buggy businesses faced obsolescence from automobile manufacturers? Or did the FDIC leave it to the banks' discretion in considering these economic realities when engaging with those businesses and markets? This is no different than traditional oil and gas companies facing increased uncertainty due to competing renewable alternatives. Unless the FDIC thinks these risks fundamentally endanger the insurance fund, it should not attempt to strong-arm a climate agenda onto insured depository institutions.

Banks are well-practiced in adapting to and managing changes in consumer market preferences and the commercial environment. Climate-related financial risks are already

naturally embedded into this risk assessment 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. The heavy hand of regulators is not needed to ensure adequate consideration by insured banks.

Banks, like all other businesses in this country, will begin to factor in additional climate considerations throughout their activities as applicable. These principles should not be foisted upon banks in an attempt to create an artificial response instead of allowing the response to grow and be addressed naturally. The free market should be left to address any climate-related risks and the changing economy, and stakeholders should be left to adjust their policies and practices over time to adapt to these changes. Time will also reveal through innovation new ways to adapt to the changes and any challenges.

IBC also urges the FDIC to work in close conjunction with the other banking and financial agencies and international standard setting bodies to address climate-related risk, including closing data gaps and applying a consistent set of definitions, assumptions and methodologies. Notably, the Office of the Comptroller of the Currency and the Securities Exchange Commission have both recently published proposed guidance and new rules related to climate risk. The FDIC should work with these and other federal regulators to ensure that any climate risk guidance and rules are conformed and harmonized between the various regulatory frameworks that apply to insured banks. This is especially true of the National Credit Union Administration, as banks should not (again) be subject to onerous regulatory obligations that their tax-advantaged credit union counterparts are not. Climate-related risk should not be another area in which banks face a huge disadvantage compared to credit unions, primarily driven by regulatory malpractice.

Additionally, the principles single out climate-related risk from other risks for unnecessary special treatment. Insured banks no longer may simply treat climate-related risk as they would any other risk. Instead, the principles would require banks to specifically focus on climate-related risk in a variety of ways. For instance,

1. Banks must communicate about climate-related risks in particular, must specially assign responsibilities for them "throughout the organization," and must be reported by bank management to the board. [Statement at 19509]
2. Climate-related risk is singled out for assessment with regard to "stakeholders' expectations, the bank's reputation, and...disadvantaged households and communities." [Statement at 19510]
3. Banks must "incorporate climate-related risks into their internal control frameworks, including internal audit," regardless of whether those risks would qualify for control or audit coverage under the procedures that the banks have reasonably adopted for other sorts of risk. [Statement at 19510]
4. Bank management must "develop and implement ... scenario analysis frameworks" for climate-related risks but not for other risks. [Statement at 19510]

5. Banks are to "consider climate-related financial risks as part of the underwriting and ongoing monitoring of portfolios." [Statement at 19510]

Singling-out climate-related risk for these additional and heightened analyses and obligations is unjustifiable. Climate-related risks do not pose greater risk than, for example, technological disruption, economic downturns, domestic political changes, foreign conflicts, civic unrest, changing consumer preference, and public health crises. IBC is especially concerned that federal regulators are choosing to focus on issues that are not critically important to financial institutions, while ignoring problems that fundamentally challenge the continued safety and soundness of regulated depository institutions. For example, changes in consumer protection regulations, financial services technology, and the Uniform Commercial Code have greatly increased the risk of fraud and unauthorized transactions, and the potential liability of financial institutions related to those risks. Instead of climate-related risk, financial institutions and their customers would be much better served if regulators could focus on and address the increased fraud risks and related liabilities. Even if climate-related risk is one of the most important risks for certain institutions, that is not true for all insured banks, let alone the vast majority of those banks. Banks would be encouraged, potentially required, to exclude entire geographies and markets that are implicated in climate-related risks. By singling out climate-related risk for special attention and treatment, the principles would prompt banks to deny financial services and credit, or offer such on worse terms, to consumers and businesses that might be affected by climate-related risk. This would be de-risking on steroids. This includes the entirety of the traditional energy and agricultural sectors, other industries that are carbon-intensive, or consume large amounts of water, energy, and other resources or produce, supply, or consume fertilizer and chemicals, or generate waste, as well as others that may be alleged to be at risk from possible changes in law or public opinion regarding climate-related risk. There would be no clearer example of the government picking and choosing winners and losers in the economy writ large. This is patently unacceptable. Because the principles require banks to consider climate-related risks to "the bank's reputation," banks would be forced to consider whether loan applicants viewed favorably by "green activists" or are "green enough." [Statement at 19511] Banks may interpret the principles to require that they lend only to businesses that make certain "green commitments" (e.g. net-zero emissions by 2030, etc.). Businesses that are accused of or perceived as harming the climate or not being "green" enough may find it hard to obtain credit or reasonable loan terms. Banks may even refuse to provide standard transactional and deposit services to businesses that are no in favor with climate activists.

Finally, IBC notes that climate-related risks and impacts are actually not all detrimental to banks, and can actually increase the health and stability of a bank's operations. In fact, a study published by the Federal Reserve found that weather disasters have not, in fact, damaged banks' bottom lines in any material way, and concluded that weather disasters are not likely to be a material source of bank instability, regardless of the size of the bank.[1]

[1] See " How Bad Are Weather Disasters for Banks?" available at (https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr990.pdf); and "How Bad Are Weather Disasters for Banks? Not Very, Study Finds," available at

The Federal Reserve found that, between 1995 and 2018, increased lending by banks heavily concentrated in geographic areas affected by natural disasters and major weather events actually increased the banks' profitability and only caused modest increases in loan-loss rates. After large weather disasters, both consumers and businesses may need credit to rebuild and repair. Earnings on new loans related to these destructive events can offset losses on prior loans and ultimately strengthen a bank's balance sheet, to say nothing of the good these new loans do for the community re-building efforts.

## Specific Requests for Information

### A. Applicability

Question 1: What additional factors, for example asset size, location, and business model, should inform financial institutions' adoption of these principles?

> **IBC Comment:** IBC strongly urges the FDIC to make clear that these principles will not be applicable to or held against institutions with less than $100 billion in assets, which amount should be indexed for annual future increase. IBC also asks that the FDIC exempt minority-owned depository institutions and community development institutions from the principles. These institutions largely serve rural and underserved communities and would be completely hamstrung if additional restrictions on their ability to lend or provide services to these populations were implemented. Defining and quantifying climate-related impacts on traditional bank risks is a relatively new and complex process. Given all of the uncertainties, and to accommodate what will likely be significant changes to the practice of climate-related financial risk identification, IBC urges 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. IBC requests that the FDIC not expand the scope of the principles to these banks until more robust data is available, and the climate-related financial risks and opportunities are better understood.
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> As a general note, the complexity of what is being proposed and asked of insured banks regarding measuring, monitoring, and controlling climate-related risks can only be met by the largest financial institutions. The level of difficulty of expertise, to say nothing of the time and costs, required is simply outside the capabilities of small and mid-sized community banks. This will no doubt be a boon for "climate consultants" who will start aggressively marketing their services to financial

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institutions. Notably, the FDIC received at least one comment letter from such a climate science consultant, which unsurprisingly included a full-throated endorsement of the Statement and went as far to ask that the FDIC "explicitly require financial institutions to research, outline, and detail the correlation between climate risks and the financial risks to which they are exposed, and provide transparency into the data utilized to validate any assumptions that underlie their models." [Comment Letter of Intercontinental Exchange, Inc.] Bankers should not need a doctorate-level understanding of climate science in order to do their jobs. Instead of focusing on creating jobs and helping local businesses, these principles will simply spur bank "investment" in consulting firms in order to meet these new requirements. It must also be pointed out there are many experts that do not believe the science is settled when it comes to climate change. In fact, the ability to forecast or model climate change is believed to be highly suspect. That is clearly set out in "Unsettled," a book authored by Steven E. Koonin, a climate expert.

**B. Tailoring**

Question 2: How could future guidance assist a financial institution in developing its climate-related financial risk management practices commensurate to its size, complexity, risk profile, and scope of operations?

**IBC Comment:** Future guidance will be absolutely necessary as the principles as they currently exist are esoteric to the point of confusion, and do not offer any concrete methodologies for how a small or mid-sized bank can even begin to start addressing the issues involved. Future guidance will need to ensure that bankers do not require a climate science degree to understand and implement the required principles. It is critical that the FDIC 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.

Banks of all sizes must identify, monitor, and manage their risks. IBC highly recommends that any forthcoming regulation will be tailored to reflect differences in banks' circumstances such as complexity of operations and business models. 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 herein. 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 models and 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, analysis, and reporting, so they will need additional time to quantify and assess their climate-related financial risks.

As argued herein, IBC asks that the FDIC not make the climate principles applicable to small and mid-sized institutions until climate-related financial risk is more precisely identified and understood, the methodologies have evolved, and the FDIC can provide robust guidance and requirements. Future supervisory expectations or further regulation will need to be calibrated for smaller institutions, mitigating any negative impact on their communities.

Finally, one of the biggest challenges community banks would face in complying with and implementing the principles is anticipating, measuring, forecasting, and analyzing unknown and unquantifiable risks. The principles are incredibly broad and lack specificity to help small and mid-sized banks and examiners identify *material* climate-related financial risks that may warrant review and heightened scrutiny. As currently proposed, IBC believes the principles do not contain sufficient protections that would ensure examiners do not get carried away in criticizing healthy banks on the basis of remote, highly speculative, or immaterial climate-related risks. The principles also do not contain defined terms, detailed hypothetical or explanatory examples, time periods for forecasting, or even a common data set banks could use to analyze climate related financial risks. Without these limits, the principles can broadly apply to every type of climate-related physical risk or transition risk imaginable, no matter how immaterial or remote, and banks could therefore be subject to undue regulatory scrutiny and enforcement actions for minor and immaterial deficiencies in their risk management programs. The resources and costs that would be necessary to comply with the principles would quickly overwhelm a community banks' limited staff or force a community bank to de-risk entire industries or loan portfolios even if the bank had no true safety and soundness weaknesses.

**C. General**

Question 3: What challenges do financial institutions face in incorporating these draft principles into their risk management systems? How should the FDIC further engage with financial institutions to understand those challenges?

**IBC Comment:** To start with, the FDIC should make clear how these principles should be incorporated into risk management systems. The FDIC already has ample risk management regulations and guidance, as previously noted. To the extent it feels the need to include these principles in that framework, it should carry the laboring oar in order to do so. Banks already consider climate issues, such as increased wildfire and flood risks, when evaluating transactions as part of their risk management. If the FDIC wants to include these principles, or parts of them, formally into its risk management requirements and guidance, it should do so itself.

Question 4: Would regulations or guidelines prescribing particular risk management practices be helpful to financial institutions as they adjust to doing business in a changing climate?

**IBC Comment:** As always, clear and concise guidance from regulators is necessary to enable banks to meet regulator expectations and provide stability to the federal regulatory framework. Banks want to comply with regulatory expectations, but it is nigh impossible if there is not sufficient guidance and cooperation from regulators regarding their expectations. Especially given the nascent stage of climate science and climate-related risk assessment, comprehensive *and flexible* regulatory guidance will be necessary if the FDIC chooses to impose climate-related risk obligations on insured banks.

Question 5: What specific tools or strategies have financial institutions used to successfully incorporate climate-related financial risks into their risk management frameworks?

**IBC Comment:** As noted elsewhere herein, banks are already incorporating climate risk in their risk assessment and management frameworks. As they have done since our modern financial system was created, banks are adapting to the changing economy and geographic realities without a mandate from regulators. Markets change. Economies change. Land use changes. Climate-related risks are not a uniquely new, insurmountable hurdle for banks to address without the overbearing hand of regulators directing the way. Perhaps there is no one "right" way forward to address climate risks. In fact, there certainly is not, especially when insured banks come in so many different sizes, locations, and specialties. The FDIC should strive to provide guidance that is flexible and broadly adaptable by banks of all types. Risk assessment and management is not broken, so there is nothing to fix. Banks, as always, are constantly adapting based on new market realities and changes without the need for regulator management.

Question 6: How do financial institutions determine when climate-related financial risks are material and warrant greater than routine attention by the board and management?

Question 7: What time horizon do financial institutions consider relevant when identifying and assessing the materiality of climate-related financial risks?

**IBC Comment:** Insured banks are highly-regulated financial institutions that are key providers of liquidity within an economy that must support individuals, companies, and communities in the immediate-, short-, intermediate-, and long-terms, often in the context of financing economic transition and avoiding the harm that will come to communities if financing of businesses and industries essential to local economies is abruptly or unnecessarily curtailed. A careful balance must be achieved that recognizes the potential effects of climate-related risk, but does not trigger actual transition risks harmful to the economy.

Some risks are considered in the short to medium term (1-3 years), such as reputation, extreme weather, and public policy risks. Other risks are considered over a longer time horizon, such as business, market sector, and geographic

concentrations, demographic changes, operational resiliency, and geopolitical trends. Climate-related credit risks should be considered on a time horizon commensurate with the nature of the underwriting, transaction, and collateral. Time horizons for climate-related risks should generally be tied to the underlying transaction. For example, for short-duration loans and other instruments, the appropriate time horizon may be current exposure and the exposure at 1 or 2 years out. For mortgage-related assets, the 7- and 10-year time horizons are common points of analysis and projection, while certain real estate transactions tend to look at 10- to 30-year time horizons.

But defining and quantifying the impacts of climate-related risks 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. Climate-related risks are inherently tied to government action and policy, which is simply unpredictable on a macro, long-term timeline. Will combustion engines eventually be banned? Will sweeping changes to off-shore drilling rights and permits be enacted in the next five years? It is impossible to know, but comfortingly, it has always been that way. Banks have learned to assess risk in an ever-changing American economy. To the extent the FDIC is set on implementing these principles, it should make clear what time horizons would be applicable to the underlying transactions and should acknowledge the complicated and dependent nature of such time horizons as applied to climate risk.

Question 8: What, if any, specific products, practices, and strategies – for example, insurance or derivatives contracts or other capital market instruments – do financial institutions use to hedge, transfer, or mitigate climate-related financial risks?

**IBC Comment:** IBC generally does not use specific products to hedge, transfer, or mitigate its climate-related risks outside of standard insurance products (e.g. flood insurance).

Question 9: What, if any, climate-related financial products or services – for example, "green bonds," derivatives, dedicated investment funds, or other instruments that take climate-related considerations into account – do financial institutions offer to clients and customers? What risks, if any, do these products or services pose?

**IBC Comment:** IBC does not currently offer climate-related financial products. Because of the dearth of accepted facts, data, and methodologies, these products pose risks related to accurately pricing future climate impacts from both physical and transition risks.

Question 10: How do financial institutions currently consider the impacts of climate-related financial risk mitigation strategies and financial products on households and communities, specifically LMI and other disadvantaged communities? 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?

**IBC Comment:** These climate principles will absolutely do more consumer harm than good. In fact, it is difficult to see how both consumers and small businesses will not be harmed if these principles are adopted. For example, how are banks to provide sufficient access to credit and banking services to rural and poor communities in "climate-affected" areas? How can banks provide affordable consumer and small business credit in areas prone to climate-related risk? Areas prone to fire and flooding are already populated largely by poor and middle class consumers, as are areas of higher pollution and those in close proximity to super-fund sites.[2] Are banks no longer encouraged to engage with rural customers in these areas? As certain areas become more prone to fire and flooding, are banks to simply ignore the needs of those communities? How are banks supposed to meet their Community Reinvestment Act requirements if they cannot engage with these populations in a fulsome manner? Even the FDIC notes that "[a]dverse effects could include potentially disproportionate impact on the financially vulnerable, including low- to moderate-income and other disadvantaged households and communities." [Statement at 19509] These principles will have a negative impact on persistently impoverished areas, areas of minority populations, and low to moderate income tracts. Simply put, the FDIC's principles would create a "green-lining" problem where institutions may refuse to lend to and service consumers in climate-affected areas. This could be the new redlining of the 21st century. This is to say nothing of the potential negative financial impacts these individuals will face if banks are restricted, or even prohibited from, lending to certain businesses and industries due to perceived climate-related risk. These individuals may face job loss or decreased salaries, in addition to a further erosion of their communities as businesses move to find more hospitable geographic markets.

The FDIC needs to consider how it will implement climate risk guidance and requirements in a way that banks are not punished for making loans in climate risk-implicated areas, on one hand, and also not punished for not lending in majority-minority and LMI tracts because of climate-related risks on the other hand. If climate risk obligations are not implemented thoughtfully and carefully, banks will face a Catch-22 no-win scenario regarding their activities in areas facing the most climate-related risk.

**E. Data, Disclosures, and Reporting**

Question 11: What, if any, specific climate-related data, metrics, tools and models from borrowers and other counterparties do financial institutions need to identify, measure, monitor, and control their own climate-related financial risks? How do financial institutions

[2] See, EPA, "Climate Change and Social Vulnerability in the United States," September 2021; available at https://www.epa.gov/system/files/documents/2021-09/climate-vulnerability_september-2021_508.pdf

currently obtain this information? What gaps and other concerns are there with respect to these data, metrics, tools or models?

> **IBC Comment:** As noted herein, any climate-related risk principles or guidance will almost certainly benefit the consultants that banks will be required to engage and rely on, as bankers are not climate scientists. Many of the largest banks are currently 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, this 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. 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. The FDIC should proceed with care, and avoid being "too early" on this matter, and implementing a framework that will stagnate and become obsolete in a short time.
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> IBC believes that regulators should focus on ensuring that the largest, systemically important banks are progressing in their climate-related risk assessment capabilities and conducting internal climate-related risk analysis calibrated to the risks that are material to their individual business model. Attaching regulatory consequences to climate-related risk exposures at this time would be premature. Additional regulation based on today's climate science and risk assessment capabilities could potentially result in a misallocation of resources.

Question12: How could existing regulatory reporting requirements be augmented to better capture financial institutions' exposure to climate-related financial risks?

> **IBC Comment:** If it must act, the FDIC should implement a modest set of general principles and requirements for the largest insured institutions in order to understand the effect such obligations may have on those institutions, small and mid-sized institutions, and the nation's economy. Those findings should inform any additional implementation of a more comprehensive climate-related risk framework. Regulatory reporting requirements should scale with the size, clientele, and complexity of the bank.

**F. Scenario Analysis**

Question 13: Scenario analysis is an important component of climate risk management that requires assumptions about plausible future states of the world. How do financial institutions use climate scenario models, analysis, or tools and what challenges do they face?

> **IBC Comment:** Scenario analysis is typically a forward-looking assessment of a potential future state of the world (or a specific section of it) over time, resulting

from a plausible and possibly adverse set of assumed events or sequence of assumed events. Scenario analysis is a complex, data-driven modeling exercise that should not be mandatory for community banks. To perform mandatory scenario analysis, small and mid-sized community banks would likely need to hire specialized consultants to perform the work. Even conservative estimates for an independent audit can exceed $100,000. Because climate science is in its infancy, there are few individuals and firms qualified to perform climate-related risk scenario analyses. The demand for these services, if scenario analysis is mandatory for community banks, would only drive up the costs of these audits and exercises. Small and mid-sized banks cannot afford to pay hundreds of thousands of dollars to third party consultants to perform climate-related risk scenario analyses, particularly if these analyses are evaluating immaterial or remote climate-related financial risks or are unlikely to result in any measurable changes to business operations.

The accuracy and effectiveness of scenario analysis depends on the availability of high-quality data, as well as advancements in modeling over medium and long time horizons. However, given the immature state of modeling, including both the availability of appropriate quality data and the modeling, detailed disclosure of the assumptions used and projected financial impacts (i.e., the results) of scenario analysis performed by banks are likely to be highly unreliable for the foreseeable future. Any principles or guidelines should make clear that scenario analysis is just one tool to be used in enhancing climate-related financial risk management. The FDIC should make clear that scenario analysis is a separate exercise, distinct from traditional stress testing, and is not intended to affect capital requirements or supervisory actions. Any attempt to include scenario analysis into stress tests or capital requirements are premature and would create confusion based on how these nascent data sets and methodologies would influence current capital requirements.

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

Question 14: What factors are most salient for the FDIC to consider when designing and executing scenario analysis exercises?

While IBC appreciates the FDIC's use of principles rather than detailed or prescriptive rules, IBC encourages the FDIC to continue to employ a flexible and iterative approach. This will allow banks to adapt their risk management to their most material issues and to adjust to the rapidly evolving climate-risk policy and practice environment.

Thank you for the opportunity to share IBC's view.

INTERNATIONAL BANCSHARES CORPORATION

[redacted]

Dennis E. Nixon
President and CEO