Martin J. Gruenberg
Acting Chair, Federal Deposit Insurance Corporation
550 17th St. NW
Washington, DC 20429

June 3, 2022

Re: Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions

Dear Acting Chair Gruenberg,

On behalf of the 67 undersigned organizations and our millions of members and supporters, we welcome the opportunity to comment on the Federal Deposit Insurance Corporation's (FDIC's) Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions. We support this important step toward advancing financial institutions' efforts to assess and address climate-related risk, and we urge the FDIC to strengthen and finalize the draft as soon as possible.

Climate change poses significant risks to the safety and soundness of financial institutions, the financial system, and communities. We support the FDIC's recommendations for large financial institutions to take a whole-of-business approach to mitigating climate risk, to consider longer time horizons for assessing and addressing climate risk, and to develop climate-related data and scenario analysis modeling. We also welcome the provisions directing these financial institutions to align their internal strategies with their public climate commitments and to recognize the fair lending implications of their risk-management measures and their adverse effects on low-income and other disadvantaged households and communities.

Nevertheless, we are concerned that the Statement does not directly acknowledge that: (1) nearly all of the financial institutions regulated by the FDIC are community banks and savings associations — financial institutions disproportionately threatened by climate change; and (2) large US financial institutions not only face significant climate-related risks, but also fuel the risks through their financing of greenhouse gas (GHG) emitting activities. The Statement should acknowledge these realities and explicitly recognize that large financial institutions — through their financing and facilitating of emissions — are threatening the safety and soundness of other important FDIC-regulated financial entities, as well as the financial system. This acknowledgment will lay the groundwork for the FDIC to cooperate with other federal banking regulators to protect the safety and soundness of the banking system.

We also urge the FDIC to provide greater clarity around what it means for large financial institutions to align their climate commitments to their internal strategies, and to provide even greater attention to fair lending concerns fueled by climate risk management.

Acknowledging the need for large financial institutions to stop enabling climate change

The FDIC is mandated to ensure the safety and soundness of approximately 4,000 community banks and savings associations in the US, many of which are critically important for low and moderate income communities. One in five counties depends on community banks for access to a physical bank branch.

And, yet, the Statement targets climate risks to only large financial institutions - of which the FDIC regulates only a handful. This focus draws inadequate attention to the fact that community banks and savings associations are particularly vulnerable to climate change-related impacts. One federal advisory committee explained that this vulnerability is due to community banks' focus on agriculture, residential, and commercial real estate lending, and their reduced capacity to move or shift portfolios. This committee observed that climate-related sub-systemic shocks to communities and, in turn, to community banks, are creating a systemic crisis in slow motion.

The FDIC is understandably seeking to tailor expectations for small banks to reflect their circumstances. But this Statement is an opportunity to acknowledge the fact that protecting small banks and the deposit fund requires addressing the risks that large banks are facilitating. The Statement acknowledges that climate-related financial risks can be transmitted to a significant number of financial institutions and raise financial stability concerns. Indeed, the Statement rightly defines climate-related financial risks as a clear and significant risk to the U.S. financial system and a near-term threat to safe and sound banking and financial stability. When banks finance the creation of heightened climate-related risks, they contribute to this threat. This is exactly what the largest US banks are doing. The Banking on Climate Chaos report and other studies have demonstrated that large US banks, through their financing and facilitating of fossil fuel-related activities and other high-emitting projects, contribute significantly to GHG emissions and, in turn, exacerbate climate-related risks. Similar to bank action during the subprime mortgage crisis, banks supporting fossil fuel-related activities are creating risks that other entities are left to deal with. The Statement should recognize that orderly reductions in such financing and support would meaningfully reduce safety and soundness risks for all financial institutions — large and small — as well as the risks of impaired access to financial services for all communities and risks to the financial system. Because few of the banks that must make these reductions are under the FDIC's primary jurisdiction, the Statement should be

followed by an interagency guidance from all federal banking regulators detailing the risks that financed emissions create, and how to reduce those risks.

Ensuring transparency and alignment of climate commitments and strategies

We welcome the provision directing financial institutions to ensure that their internal strategies are consistent with their public statements, given that many large US financial institutions - including FDIC-regulated Truist bank - have publicly committed to creating and executing "net-zero" transition plans. However, to ensure that this provision contributes to meaningful climate-related risk management, greater detail is necessary.

To date, many US banks that have made commitments to "net-zero" emissions by 2050, including members of the bank-led Net-Zero Banking Alliance (NZBA) initiative under the Glasgow Financial Alliance for Net Zero (GFANZ), are falling short of establishing strategies to meet these commitments, and are still engaging in actions inconsistent with them. Financial institutions are continuing to finance new fossil fuel activities, other high-emitting projects, and companies expanding high-emitting activities. This financing is not compatible with reaching net-zero emissions by 2050 or limiting global temperature rise to 1.5°C. This conduct raises questions about whether financial institution managers desire to follow through on these commitments or are merely seeking public relations wins.

To meet its public commitments, a financial institution's corresponding actions and internal strategies must be grounded in climate science and technological realities.

The FDIC should clarify what it means in practice for large financial institutions to align their net-zero transition plan commitments with their internal strategies. Among the most significant parameters to expand on are (1) providing measurable near-term targets based firmly in climate science and technological realities; (2) aligning financial institution financing with the institution's own commitments to net-zero emissions; and (3) accurately accounting for the challenges posed by offsets.

Measurable Targets

The FDIC should make clear that financial institutions committing to net zero by 2050 must have in place, and must implement, credible internal strategies that meet the imperatives of climate science, technological realities, and safety and soundness. A credible plan in line with public commitments includes short- and medium-term targets and metrics. Such milestones are

critical not just to meeting the commitments, but also to avoiding a fire sale from financial institutions trying to meet their commitments at the last minute. A credible plan should include milestones such as a 50% reduction in absolute financed emissions by 2030 and should be publicly available.

Aligning Financing Activity to Emissions Reductions Targets

The expansion of fossil fuel production is not compatible with any science-based limit on global temperature rise or with meeting public commitments for net-zero financed emissions by 2050. Key tenets of the International Energy Agency's roadmap for achieving net-zero emissions by 2050 include "no investment in new fossil fuel supply projects" and "no further final investment decisions for new unabated coal plants." Yet, as indicated by the recent Banking on Climate Chaos report, U.S. financial institutions are the most significant financiers of fossil fuels globally, and have continued to increase their funding despite voicing their support for the Paris Agreement and committing to net zero by 2050. Such contradictions raise serious questions about the sincerity of financial institutions' climate commitments or, alternatively, the soundness of their management processes and controls.

To meaningfully align their internal strategies and their commitments, financial institutions need to switch to a science-based approach to meeting absolute emissions reduction targets. We urge the FDIC to work with all regulators to adopt a consistent approach to overseeing alignment of climate commitments in line with these recommendations. .

Offsets

Some institutions may seek to rely heavily on purported "offsets" of carbon emissions from forests, wetlands, and carbon removal technologies to achieve net-zero carbon emissions. But offsets have such deep limitations that they cannot be relied on to play more than a trivial role in any credible net-zero plan. The limitations include difficulties quantifying or verifying avoided or reduced emissions, questions about the effectiveness and permanence of natural sinks that may be threatened by human or natural impacts, concerns about the reliability and legal norm compliance of promised reductions due to violations of Indigenous rights and treaties, the lack of technologies that are credible and dependable, and the potential for fraud. For these reasons, climate commitment standard setters are increasingly treating offsets as only a last resort to negate residual emissions that remain after financial institutions have directly reduced financed emissions as near to zero as is possible.

Questions about the integrity of offsets have stymied efforts by Mark Carney and others to advance the carbon offset market, and also prompted the Commodity Futures Trading Commission to begin examining the integrity of offsets-related claims. Given these challenges, regulators should understand how banks are assessing offsets as part of their climate commitments, and carefully scrutinize plans that rely on offsets for reductions of more than a residual level of emissions.

Ensuring fair access to financial services

We welcome the FDIC's attention to potential fair lending concerns as financial institutions reduce their own exposures to climate change-related credit and other financial risks.

Financial institutions are increasingly likely, for example, to reduce financing in "hot-spot" areas and for assets threatened by climate-related extreme weather events — following the lead of insurers who are restricting or raising the price of coverage in hotspot areas. Costs related to financing in these areas are likely to increase, which will slow these communities' ability to recover and adapt, further entrenching climate-exacerbated racial and economic inequalities. The FDIC's recent proposal to revise Community Reinvestment Act rules recognizes several of these challenges.

The FDIC correctly calls on financial institutions to reduce or mitigate the impact that risk management may have on broader aspects of the economy, including disproportionate impact on disadvantaged communities. It should move quickly to issue additional guidance on how financial institutions can improve on providing credit to vulnerable communities equitably while acting in a safe and sound manner. As part of this guidance, the agency should call on financial institutions to identify, measure, monitor, and address potential and actual disproportionate impacts on marginalized communities, such as communities of color and low-moderate-income communities, and have a system for tracking the progress of their actions to avoid or address disproportionate impacts. It should also reiterate that banks cannot exacerbate climate-related financial risks with their willingness to finance high emissions activities, and then pull back from the communities harmed by the climate impacts their financing has fueled. Such conduct cannot be a path to prudently meeting the financial services needs of their communities.

Conclusion

These draft principles are an important step in the right direction. They are also only a starting point that should be followed by additional guidance. The U.S. lags behind much of the world on mitigating climate-related risk. We encourage the FDIC to take the lead with its global peers

at the European Central Bank (ECB), Canada's Office of the Superintendent of Financial Institutions, and other regulators who are actively exploring the need for additional supervisory measures to respond to climate risk, including the need for increased attention to capital and liquidity requirements at the largest, most complex institutions.

We look forward to continuing to engage with you on these issues.

For questions, please contact Anne Perrault at aperrault@citizen.org and Yevgeny Shrago at yshrago@citizen.org.

Sincerely,

Accelerate Neighborhood Climate Action
Action Center on Race and the Economy
Amazon Watch
Americans for Financial Reform Education Fund
Animals Are Sentient Beings, Inc
Bold Alliance
Businesses for a Livable Climate
California Reinvestment Coalition
Call to Action Colorado
CatholicNetwork US
Connecticut Citizen Action Group
Center for International Environmental Law
Central Jersey Coalition Against Endless War
Citizen's Alliance for a Sustainable Englewood
Climate Action Rhode Island – 350
Climate Finance Action
CO Businesses for a Livable Climate
Community for Sustainable Energy
Earth Action, Inc.
Earth Guardians
Evergreen Action
Extinction Rebellion San Francisco Bay Area
FracTracker Alliance
Greater New Orleans Housing Alliance
Greenpeace USA

Honor the Earth
I-70 Citizens Advisory Group
Indivisible Ambassadors
Larimer Alliance for Health, Safety and Environment
League of Conservation Voters
Mayfair Park Neighborhood Association Board
Mental Health & Inclusion Ministries
Montbello Neighborhood Improvement Association
North Range Concerned Citizens
Oil Change International
Piedmont Environmental Alliance
Positive Money US
Public Citizen
RapidShift Network
Revolving Door Project
Save EPA
Sierra Club
Small Business Alliance
Southwest Organization for Sustainability
Spirit of the Sun, Inc.
Stand.earth
System Change Not Climate Change
Texas Campaign for the Environment
The Green House Connection Center
The Phoenix Group
U.S. PIRG
Unite North Metro Denver
Wall of Women
Waterway Advocates
Western Slope Businesses for a Livable Climate
Wilwerding Consulting, also Co-Chair, Littleton Business Alliance
Women's Earth and Climate Action Network (WECAN)
Womxn from the Mountain
Working for Racial Equity
1000 Grandmothers for Future Generations
350.org
350 Conejo / San Fernando Valley
350 Humboldt

350 Wisconsin
350 Brooklyn
350 Hawaii
350 NYC