February 6, 2023

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th St. and Constitution Ave. NW
Washington, DC 20551

Re: Principles for Climate-Related Financial Risk Management for Large Financial Institutions [Docket No. OP-1793]

Dear Ms. Misback,

The Independent Community Bankers of America[1] ("ICBA") is pleased to provide comments in response to the Board of Governors of the Federal Reserve System's ("the Board") request for information regarding its principles for climate-related financial risk management for large financial institutions ("the Fed principles" or "the proposal").[2]

ICBA appreciates and applauds the Board's decision to limit its proposed climate-related financial risk management framework to financial institutions with more than $100 billion in assets. Additionally, we strongly support Governor Bowman's accompanying statement acknowledging that excluding community banks from the framework *"is appropriate based not*

[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5.8 trillion in assets, over $4.9 trillion in deposits, and more than $3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

[2] Board of Governors of the Federal Reserve System, *Principles for Climate-related Financial Risk Management for Large Financial Institutions*, Docket No. OP-1793, 87 FR 75267 (Dec. 8, 2022) available at: https://www.federalregister.gov/documents/2022/12/08/2022-26648/principles-for-climate-related-financial-risk-management-for-large-financial-institutions.

only on the size of such firms, but also in light of the robust risk management expectations already applicable to such firms."[3] As relationship lenders, leaders within their communities, and champions of their small business and agricultural customers, community bankers understand the unique risks facing their communities and have every incentive to ensure these risks are appropriately managed. For decades, community bankers have proven they are protective custodians of their local communities, reliable financial first responders in the aftermath of severe weather events, and stewards of the environments in which they and their customers live and work.

Since the late 19th century, community banks have successfully implemented risk management practices, and in so doing, have weathered and survived every type of natural disaster, including catastrophic hurricanes, tornadoes, earthquakes, wind events, droughts, freezes, snowstorms, wildfires, landslides, volcanoes, and flooding. Community banks should never be subject to climate-related financial risk management frameworks, as these requirements are unnecessary, costly, and duplicative to the risk management principles they currently, and capably, implement. And critically, because community banks are deeply invested in their communities, *i.e.* their limited geographic footprints, these small institutions cannot and should not be expected to minimize concentrations in their loan portfolios or abandon loan customers in response to remote, subjective, and speculative climate risk.

ICBA is greatly concerned the Fed principles, and other similar frameworks recently proposed by the Office of the Comptroller of the Currency ("OCC")[4] and the Federal Deposit Insurance Corporation ("FDIC")[5] were published without the agencies first conducting robust independent studies to closely examine the intersection between climate risk and bank safety and soundness. By publishing these principles for climate-related financial risk without citing sufficient data to confirm a single climate risk (let alone any and all conceivable climate risk) that constitutes a threat to bank safety and soundness, the agencies have put the proverbial

---

[3] Board of Governors of the Federal Reserve System, *"Statement by Governor Bowman on principles for climate-related financial risk management for large financial institutions"* (Dec. 2, 2022) available at: https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20221202.htm.

[4] Office of the Comptroller of the Currency, *Principles for Climate-Related Financial Risk Management for Large Banks* (Dec. 16, 2021) available at: https://www.occ.treas.gov/news-issuances/news-releases/2021/nr-occ-2021-138a.pdf.

[5] Federal Deposit Insurance Corporation, *Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions*, RIN 3064-ZA32, 87 FR 19507, (April 4, 2022) available at: https://www.govinfo.gov/content/pkg/FR-2022-04-04/pdf/2022-07065.pdf.

cart before the horse. ICBA supports Governor Waller's statement on the Fed principles, where he aptly explained, *"I disagree with the premise that it poses a serious risk to the safety and soundness of large banks and the financial stability of the United States. The Federal Reserve conducts regular stress tests on large banks that impose extremely severe macroeconomic shocks and they show that the banks are resilient."*[6]

While ICBA appreciates the Fed principles are tailored to bank size, complexity, risk profile and operations, we are troubled the Board followed the OCC and FDIC in summarily concluding a new climate risk-management framework may be necessary. If the Fed principles are finalized, the effects will be far-reaching, and community banks will be indirectly and negatively impacted if large financial institutions choke off lawful but climate disfavored industries from the financial system or if examiners allow climate risk principles to eventually trickle down to community banks.

Accordingly, even if the Fed principles do not apply to community banks, the Board should not finalize the proposal without carefully considering the impact this framework could ultimately have on thousands of small banks and their communities. Further, ICBA encourages the Board to do everything possible to ensure any regulatory approach to climate-related financial risk management aligns with the recommendations and comments described in sections I – V below.

I. <u>ICBA Recommendations</u>

- If the Fed principles are not intended to choke-off specific industries from the financial system, then at a minimum, any future guidance and rules published by the Board should expressly state there is no supervisory expectation that banks de-risk legal but climate disfavored industries.

- The Board should not apply its proposed principles or any climate-related financial risk framework to community banks with fewer than $100 billion in assets.

- The Board should not finalize the Fed principles or any climate risk framework without adopting strict safeguards to make certain any and all climate-related financial risk

---

[6] Board of Governors of the Federal Reserve System, *Statement by Governor Waller on principles for climate-related financial risk management for large financial institutions"* (Dec. 2, 2022) available at: Fhttps://www. federalreserve.gov/newsevents/pressreleases/waller-statement-20221202.htm.

management policies, rules or guidance will not trickle down to community banks and force an untenable regulatory burden upon the nation's smallest banks and their customers.

- The Board should not finalize the Fed principles or any climate risk framework until it conducts additional studies and gathers empirical data from its Reserve Banks, and jointly with the members of FSOC as well as the SBA, FEMA, and USDA to more fully understand whether, and the extent to which, climate risks threaten bank safety and soundness, and whether it is necessary to create a separate climate-related financial risk management framework in addition to existing, and time-tested risk management practices. Without more data to support its conclusions, any final rules or guidance the Board issues on climate-related financial risk could be deemed arbitrary and capricious.

- The Board should, on an ongoing basis, conduct outreach meetings with community banks to learn why climate risk principles that may be appropriate for large institutions will never be appropriate for community banks.

- To the greatest extent possible, the Board should coordinate with other agencies, including the prudential regulators and the members of FSOC, as well as the SBA, FEMA and USDA, to develop a harmonized and appropriately tiered approach to studying climate risks and evolving bank and supervisory practices that differentiates between banks of varying size, risk, and complexity.

II. <u>The Fed principles should not facilitate "Operation Chokepoint."</u>

ICBA is concerned the Fed principles, however well-intentioned the framework may be, will politicize the agency, jeopardize the independence of the agency, and discourage banks from doing business with legal but climate disfavored industries such as carbon-intensive industries. Because the Fed principles broadly apply to every facet of risk management, and do not provide guidance to banks or examiners to differentiate material climate-related risk exposures from all conceivable climate-related risk exposures, there is a troubling possibility the Board could cite deficiencies in climate-related risk management at every bank in every examination. As such, ICBA is concerned the Board could use the Fed principles to implement "Operation Chokepoint" and pressure banks to terminate business relationships with clients engaged in lawful activity by "de-risking" their portfolios and declining basic banking services, such as deposit accounts and loans, to entire categories of industries the Board believes may present climate- related financial risk.

The Board broadly defines "transition risks" as "stresses to certain banks or sectors arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to limit climate change."[7] Although the Board does not provide examples of transition risks, or specify which industries or occurrences might pose material transition risks, the Fed principles require large banks to analyze transition risk considerations within every aspect of risk management, including governance, policies, procedures and limits, strategic planning, risk management, data risk measurement and reporting, and scenario analysis. The Fed principles also require large banks to analyze transition risks within every facet of risk assessments including credit risk, liquidity risk, other financial risk, operational risk, legal and compliance risk, and other nonfinancial risk.

Both the breadth and lack of specificity in this proposal leave open the possibility that any number of lawful industries could be choked off from the financial system for posing climate risk, including industries that are carbon-intensive, or consume large amounts of water, energy and other natural resources, or produce, supply, or consume fertilizer and chemicals, or generate waste, and list goes on. Given the degree of speculation involved in this analysis, and the lack of specificity from the Board, it is plausible an examiner could interpret the Fed principles such that the only way to prepare for a speculative risk would be to take the extreme measure of eliminating the risk entirely. Banks should not be forced by their regulator to de-risk entire categories of business customers based on speculation that transition risks, no matter how remote, could arise related to the "changes necessary to limit climate change."

Further, while community banks typically are not the primary source of financing for large energy producing companies, they do provide the majority of small business credit in those communities where energy production, refinement, transportation and other ancillary businesses exist. Policies that would reduce access to credit to those businesses because they are connected to the fossil fuel industry would have devastating impacts on the local economies served by community banks.

The Department of Justice concluded Operation Chokepoint was a "misguided initiative" and that "law abiding businesses should not be targeted simply for operating in an industry that a

[7] Board of Governors of the Federal Reserve System, *Principles for Climate-Related Financial Risk Management for Large Financial Institutions*, Docket No. OP-1793, 87 FR 75267 (Dec. 8, 2022).

particular administration might disfavor."[8] If the Board has no intention of forcing banks to de-risk their portfolios or choke off lawful but climate disfavored industries from the financial system, the agency should make this abundantly clear in any finalized guidance and/or rules and state there will not be a supervisory expectation that banks de-risk entire geographies, industries, or customers from their lending portfolios.

III. <u>The absence of currently available data, the nascent understanding of climate-related financial risks, and the lack of empirical data on climate risk and bank safety and soundness suggest further studies are needed before the Board finalizes any climate risk framework.</u>

On May 20, 2021, President Biden signed an Executive Order directing the Secretary of the Treasury, as the Chair of the Financial Stability Oversight Council ("FSOC"), to "engage with FSOC members" to assess climate-related financial risk.[9] In response, the FSOC subsequently published a report on climate-related financial risks, which directed members to "address climate-related financial risks consistent with their mandates, focusing on the safety and soundness of regulated institutions."[10] Only two months later, on December 16, 2021, the OCC published the principles for climate-related financial risk management which set forth the sweeping conclusion that "weaknesses in how banks identify, measure, monitor, and control the potential physical and transition risks associated with a changing climate could adversely affect a bank's safety and soundness, as well as the overall financial system."[11]

While both the President and the FSOC asked the federal financial regulators to explore climate-related financial risks consistent with their mandates, neither concluded climate-related financials risk constitutes a safety and soundness risk to individual banks. Yet, the OCC, FDIC, and the Board specifically cite the FSOC Report as the only definitive support for the

---

[8] Letter from Stephen E. Boyd, Assistant Attorney General, to the Honorable Bob Goodlatte, Chairman, Committee on the Judiciary, U.S. House of Representatives (August 16, 2017) available at: https://www.consumerfinance monitor.com/wp-content/uploads/sites/14/2017/08/2017-8-16-Operation-Chokepoint-Goodlatte.pdf.

[9] Exec. Order No. 14,030, 87 Fed. Reg. 27967 (May 20, 2021).

[10] Financial Stability Oversight Council Report on Climate-Related Financial Risk (Oct. 21, 2021) available at: https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf.

[11] Office of the Comptroller of the Currency, *Principles for Climate-Related Financial Risk Management for Large Banks* (Dec. 16, 2021) available at: https://www.occ.treas.gov/news-issuances/news-releases/2021/nr-occ-2021-138a.pdf.

agencies' conclusions that climate-related financial risks may threaten bank safety and soundness.

The echo chamber between the FSOC, the OCC, the FDIC, and now the Board is reverberating. ICBA questions why the Board has not offered its own additional, independent, or separate evidentiary, statistical, meteorological, or empirical support for its position, or cited even a single instance of bank failure related to an extreme weather event or due to a bank's failure to manage climate-related financial risk. **Additionally troublesome, the Board has not acknowledged a recent staff report from the Federal Reserve Bank of New York which concluded "the average FEMA disaster is *not* detrimental to bank stability."[12]**

The report, titled, "*How Bad are Weather Disasters for Banks?"* ("the Staff Report"), evaluated all FEMA disasters and found "generally insignificant or small effects on bank performance and stability.[13] In particular, loan losses and default risk at local banks [did] not increase significantly . . . [m]oreover, not all effects are bad; income of multi-county banks increase significantly with disaster exposure."[14] The report's authors observed "financial institutions are likely to be affected by both the physical risks and transition risks associated with climate change," but concluded these "affects" are not necessarily negative, and do not *ipso facto* constitute threats to bank safety and soundness.[15]

As confirmed by the Staff Report, community banks have superior geographic knowledge as compared to their large-bank counterparts because "banks located closer to their borrowers have been found to harbor knowledge of both borrowers and local risk that more distant lenders may lack."[16] For example, "local banks reallocated mortgage lending from census tracts where flood risks seem understated relative to the FEMA maps (given recent flooding

---

[12] Staff Reports, Federal Reserve Bank of New York, *How Bad are Weather Disasters for Banks?*, No. 990 (Nov. 2021) at page 9 (emphasis added) available at: https://www.newyorkfed.org/research/staff_reports/sr990.

[13] *Id.*

[14] *Id.*

[15] *Id.*

[16] *Id.*

experience)."[17] By contrast, the Staff Report's authors did not observe similar behavior at multi-county banks.[18]

Last year, the FDIC published its own staff study, titled, *"Severe Weather Events and Local Economic and Banking Conditions,"* which also concluded climate risk is not a material threat to community bank safety and soundness. FDIC staff analyzed the net effect that six of the most severe weather events over the past two decades had on local economic conditions, community bank performance, and the structure of the local banking landscape and found *"[e]xcept for Katrina, the events studied had only a modest effect on community bank performance and asset quality. This modest effect was likely due to the amount of government aid, insurance proceeds, and other sources of financial and nonfinancial assistance that helped insulate community banks in the affected areas from deterioration in financial performance measures, including profitability and asset quality . . . no banks headquartered in the event areas failed during the study period."*[19]

The staff findings from the Federal Reserve Bank of New York and the FDIC demonstrate community banks do not need additional regulation to manage climate-related financial risks.

IV. <u>Current risk management practices adequately protect community banks from climate-related financial risks.</u>

As stewards of their local communities, community bankers have every incentive to ensure their lending practices support the long-term prosperity of their local economies. A community bank cannot flourish without the success of the local community because its customers and loan portfolios are geographically concentrated within the local markets the community bank serves. The risks of economic shocks, customer displacement and damaged collateral are not novel risks for community banks to manage, and each of these risks, if not properly managed, undoubtedly has the potential to impact a community bank. But history has shown that because community banks are experts in managing their risk, community banks do not fail simply because climate-related financial risks exist. **Importantly, although FDIC data shows 4,104 U.S. banks have failed since 1934, the Fed principles do not describe a single instance of**

[17] *Id.*

[18] *Id.*

[19] Federal Deposit Insurance Corporation, Report No. 2022-03, "*Severe Weather Events and Local Economic and Banking Conditions*" (June 2022) available at: https://www.fdic.gov/analysis/cfr/staff-studies/2022-03.pdf.

bank failure due to a bank's improper management of "physical risks" and "transition risks" related to climate change.[20]

(1) *Disaster Preparedness and Response*

Community banks are well-equipped to prepare for and respond to natural disasters and property losses. Community banks maintain detailed business continuity plans which outline the processes the bank will follow before, during, and after a natural disaster to safeguard employees, customers, products and services, and remain operational with limited business disruption.[21] These disaster plans are not obscure documents buried in dusty file drawers but are instead meticulously prepared, diligently tested, and carefully guarded reference guides that bank employees are ready to follow at any moment's notice. Business continuity plans not only contemplate the physical destruction of bank collateral, including the bank headquarters, ATMS, and branches, but also detail how the bank will respond to the needs of its customers and the community-at-large, and, in particular cash needs, in the aftermath of a disaster's destruction. As part of these plans, community banks proactively ensure they have enough cash on hand to meet customer needs and that redundant systems are in place so customers can continue to use debit cards and banks can readily access digitally stored bank records. Community banks also contemplate how bank employees can continue to utilize operationally critical systems and communicate with bank personnel, emergency responders, regulators, customers, and vendors in the event there is a loss of power, loss of physical bank records, inaccessible roadways, and displaced bank employees and customers.

(2) *Concentration Risk Management*

Community banks are also adept in managing other types of risks, such as concentration risk, under existing risk management frameworks. Every community bank portfolio is concentrated geographically, thus all community banks are exposed to some degree of credit concentration risk. Yet, exposure to concentration risk, even significant concentration risk, is not indicative that a bank will fail or that the bank should be subject to heightened supervisory scrutiny.

---

[20] *See* FDIC BankFind Suite: Bank Failures and Assistance Data available at: https://banks.data.fdic.gov/explore/failures?aggReport=detail&displayFields=NAME%2CCERT%2CFIN%2CCITYST%2CFAILDATE%2CSAVR%2CRESTYPE%2CCOST%2CRESTYPE1%2CCHCLASS1%2CQBFDEP%2CQBFASSET&endFailYear=2022&sortField=FAILDATE&sortOrder=desc&startFailYear=1934.

[21] *See* Federal Deposit Insurance Corporation FIL-62-2017, *Interagency Supervisory Examiner Guidance for Institutions Affected by a Major Disaster* (Dec. 15, 2017). *See also* FFIEC, *Business Continuity Management Booklet* available at: https://ithandbook.ffiec.gov/it-booklets/business-continuity-management.aspx.

Instead, the relevant inquiry is whether the concentration risk is material and whether the bank has properly managed its risk exposures. To measure the materiality of concentration risk, community banks and their regulators evaluate the quantity of risk exposures, the quality of a bank's risk management framework, the strength of bank governance, the adequacy of internal controls, and perform stress tests. As demonstrated during thousands of examinations, community banks are adept in mitigating risk due to seasonal weather changes and natural disasters, and credit concentration and should not be subject to additional burdensome, costly, duplicative, and unnecessary climate-related risk management practices.

(3) *Underwriting Practices and Estimating Allowance for Loan and Lease Losses ("ALLL")*

Existing due diligence and underwriting practices enable community bankers to carefully assess the level of risk posed by every customer relationship and ensure effective controls are in place to monitor these relationships on an ongoing basis. If necessary, community banks will shorten the maturity of their loans to protect the bank not only from interest rate risk but also from many different types of underwriting risks including climate risks.

Additionally, under the current supervisory framework for estimating credit losses, banks are expressly required to consider "qualitative or environmental factors that are likely to cause estimated credit losses associated with the institution's existing portfolio to differ from historical loss experience."[22] The Fed and other prudential regulators expect allowance estimates for ALLL to be "based on a comprehensive, well-documented, and consistently applied analysis of the loan portfolio, and should take into consideration all available information existing as of the financial statement date, including environmental factors such as industry, geographical, economic, and political factors."[23]

Plainly stated, the qualitative and environmental factors community banks currently use to analyze the adequacy of ALLL already estimate and quantify climate-related financial risk. For example, if a bank is located in a market that is in severe drought, the bank will increase qualitative and environmental factors to account for this increased risk to the loan portfolio, which in turn results in an increase in the bank's allowance estimate. Since community banks already consider qualitative and environmental factors as part of their "comprehensive, well-

---

[22] Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, National Credit Union Administration, Office of Thrift Supervision, *Interagency Policy Statement on the Allowance for Loan and Lease Losses,* available at: https://www.fdic.gov/regulations/laws /rules/5000-4700.html.

[23] *Id.*

documented, and consistently applied ALLL analysis," and since most community banks will be subject to CECL this year and be required to be forward looking with their estimates of loan losses, a separate risk management framework for climate risk is unnecessary.

(4) *Securing Insurance Policies to Offset Risk*

With respect to their lending and investment activities, community banks are keenly aware of the importance of risk mitigation particularly during times of economic stress or extreme weather events. To mitigate climate, disaster, and concentration risks, community banks ensure their property loans have adequate flood insurance and their agricultural loans have adequate crop insurance. Crop insurance allows agricultural producers to recover from severe weather disasters and repay their farm loans.

Additionally, community banks diversify their agricultural loan portfolios by utilizing the safety nets, insurance, and market protections for farmers and agricultural lenders authorized by the farm bill, including the Farm Service Agency's Guaranteed Farm Loan Programs. The farm bill, adopted by Congress approximately every five years, provides an income safety net for commodity prices to bolster income for farmers and ranchers. The farm bill also offers farmers and ranchers several guaranteed farm loan programs. The guaranteed farm loan programs protect up to 90 – 95 percent of the loan principal, thus ensuring the repayment of most of the loan principal should farmers and ranchers become unable to repay their loans. These programs also help protect community banks against loan losses by providing tools to manage their concentration risks, which is particularly important to banks that specialize in agricultural lending.

V. <u>Community banks will face insurmountable challenges incorporating the Fed principles into their risk management frameworks.</u>

a. *Cost, Resources, and Expertise*

The resources and costs necessary to comply with the Fed principles could quickly overwhelm a community bank's limited staff or force a community bank to de-risk entire industries or loan portfolios even if the bank had no other safety and soundness weaknesses. For example, to perform scenario analysis, community banks would likely need to hire specialized third-party consultants and experts to perform the work. Community banks should not be forced to spend compliance dollars on tools designed to analyze remote climate risks (such as scenario analysis) versus tools designed to analyze and improve the bank's operations (such as independent audits or investments in IT security infrastructure). But as every banker knows, compliance with regulations is not free. With only a small number of firms qualified to perform climate change scenario analysis, the demand for this service, if mandatory for community banks, would only push the costs of these exercises even higher than those already required for other bank services, like internal audits. Community banks cannot afford to pay hundreds of thousands of dollars to third parties to perform climate change scenario analyses, particularly if these analyses require community banks to forgo the expense of investing in other bank services, such as IT infrastructure, cybersecurity defenses, or independent auditors.

Since most community banks will be subject to CECL this year, many of them will find it necessary to stress test their loan portfolios to make accurate estimates of future losses under the new accounting standard. Further, community banks can test and validate their business continuity plans by participating in FEMA's National Exercise Program and the Homeland Security Exercise and Evaluation Program. Given that community bank portfolios are generally not as complex as large bank portfolios, and because community banks already perform numerous stress testing exercises, community banks simply do not need to perform yet another duplicative scenario analysis that does not have a measurable impact on business operations.

ICBA is also concerned mandatory scenario analysis could force community banks to engage in an impossibly difficult exercise of forecasting for remote risks that may occur decades in the future, or which may never transpire. The longer the timeframes that are selected in scenario analysis for default and loss projections, the more speculative and expensive the analysis becomes, while the utility of the exercise, and the likelihood of any measurable changes to the business, are greatly reduced.

Another concern is that the Fed principles impose heightened on management and bank boards to monitor climate risks. Community banks, especially those located in rural areas, already struggle to find qualified individuals to serve on bank boards and fill senior positions within the bank. If the Fed principles applied to community banks, small rural banks would find it challenging to comply with the Board's heightened supervisory expectations for management and board oversight because they would not likely be able to recruit and attract individuals with both the banking acumen and climate expertise to serve in these positions.

b. Implementing an Overly Broad Framework

One of the biggest challenges community banks would face in incorporating the Fed principles into their risk management systems is anticipating, measuring, forecasting, and analyzing all of the unknown and unquantifiable risks that could be captured under the proposal. The Fed principles are incredibly broad and do not contain sufficient guardrails to ensure examiners cannot get carried away in criticizing financially healthy banks on the basis of remote, or highly speculative, or immaterial climate-related risks.

The Fed principles also do not contain detailed hypothetical or explanatory examples, time periods for forecasting, or even specify a common data set banks should use to analyze climate-related financial risks. ICBA is concerned that without any of these limits, the Fed principles can broadly apply to every type of physical risk or transition risk imaginable, no matter how immaterial or remote, and banks could therefore be subject to undue regulatory scrutiny for minor deficiencies in their risk management programs that are only tenuously related to climate-risk.

VI. Technical observations

While ICBA does not support the finalization of the Fed principles or any climate risk guidance at this time, we note that unlike the FDIC, the Fed made numerous helpful changes to remove unnecessary verbiage from the OCC principles. As compared to the OCC and FDIC principles, we support the following revisions the Board included in the Fed principles:

- Limiting the effects described in the first sentence of the proposal to those risks that could impact the financial stability of the United States versus the stability of the financial system.[24]

- Removing from the definition of transition risks the phrase "changes necessary to limit climate change."[25]

- Removing the sweeping conclusion that "climate-related risks may pose a near term threat to safe and sound banking and financial stability."[26]

[24] *Compare* page 5 of the Fed principles to page 11 of the FDIC principles.

[25] *Compare* page 6 of the Fed principles to page 11 of the FDIC principles.

[26] *Compare* page 6 of the Fed principles to page 13 of the FDIC principles.

- Removing the sweeping conclusion that "weaknesses in how institutions identify, measure, monitor, and control the physical and transition risks associated with a changing climate could adversely affect . . . the overall financial system."[27]

- Changing verbiage to succinctly acknowledge the potential impact of adverse effects on LMI communities.[28]

- Removing the conclusion that "the draft principles are intended to support the use of scenario analysis as an emerging and important approach for identifying, measuring and managing climate-related risks, as well as risk assessment processes related to credit, liquidity, operational, legal and compliance, and other financial and nonfinancial risks."[29]

Finally, we believe that any finalized climate risk guidance or rules must correct the following:

- Throughout the proposal the term "financial institutions" is used. While the proposal does contain a blanket statement indicating the principles are intended to apply to large institutions, we suggest that for improved clarity, every time the term "financial institutions" is used, it be replaced with the term "large financial institutions." There are some places where the term "financial institutions" is misleading, and implies the Board intends for the Fed principles to trickle down and capture community banks. For example, the proposal states "The principles are intended to support efforts by financial institutions to focus on key aspects of climate-related financial risk management." Additionally, the proposal broadly states "all financial institutions, regardless of size, may have material exposures to climate-related financial risks."

- The Board should remove newly inserted language that states "The Board encourages financial institutions to take a risk-based approach in assessing the climate-related financial risks associated with individual customer relationships and

---

[27] *Compare* page 6 of the Fed principles to page 13 of the FDIC principles.

[28] *See* page 6 of the Fed principles.

[29] *Compare* page 7 of the Fed principles to page 14 of the FDIC principles.

to take into consideration the financial institution's ability to manage the risk."[30] Requiring banks to assess individual customers relationships for climate risk, as opposed to monitoring overall concentration risks within a portfolio, is highly indicative the Board expects banks to pick and choose customer favorites, and choke-off individual customers that are associated with lawful but climate disfavored industries.

- On pages 3 and 4 of the Fed proposal, the Board states "many financial institutions are considering these risks and would benefit from guidance as they develop strategies." We believe the word "many" is misleading here. Among the 4,746 insured depository institutions in the United States, 35 hold more than $100 billion in assets. Since the principles are intended to apply only to large banks, there cannot be many banks who would benefit from large bank climate-risk guidance unless the Fed's principles are designed to eventually trickle down to include community banks. This language should be revised to correctly state "some large banks are considering . . . "

Once again, ICBA appreciates this opportunity to share our views on the Board's proposal. Please feel free to contact Jenna Burke at jenna.burke@icba.org should you wish to discuss our comments in further detail.

Sincerely,

/s/ Jenna Burke

Jenna Burke
Senior Vice President, Senior Regulatory Counsel
Independent Community Bankers of America

[30] *See* page 8 of the Fed principles.