

April 27, 2023

VIA ELECTRONIC SUBMISSION

New York Department of Financial Services  
Banking\_Climate\_Guidance@dfs.ny.gov

**Re: Proposed Guidance for New York State Regulated Banking  
and Mortgage Organizations Relating to Management Of Material Financial Risks  
from Climate Change**

Ladies and Gentlemen:

On behalf of its members, the Risk Management Association’s Climate Risk Consortia (“RMA Consortia”)<sup>1</sup> thanks the New York Department of Financial Services (“NYDFS”) for the opportunity to comment on its proposed guidance for New York State Regulated Banking and Mortgage Organizations Relating to Management of Material Financial Risks from Climate Change (“Proposal”).<sup>2</sup>

Launched in September 2021, the RMA Consortia seek to assist banks in integrating climate risk management throughout their operations, preparing the industry to help economies transition to a low-carbon future. The RMA Consortia, representing 42 leading banking organizations, also aim to advance climate risk management practices in the banking industry by facilitating the development of industry-wide taxonomies and standards.

We support the high-level, principles-based approach of the Proposal and its broad compatibility with other climate-related financial risk management frameworks, both domestically and internationally. We also support NYDFS’s ongoing coordination with its state, federal, and international counterparts on climate-related financial supervision.<sup>3</sup> The RMA Consortia support the concept of proportionality as it is set out in the Proposal, and appreciate the Proposal’s recognition that Regulated Organizations may incorporate climate-related financial risks “into their existing frameworks, consistent with established risk appetites and business strategies.”<sup>4</sup> We also appreciate NYDFS’s focus on climate-

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<sup>1</sup> The RMA Consortia consist of two groups: the Large Bank Climate Risk Consortium and the Regional Bank Climate Risk Consortium.

<sup>2</sup> New York State Department of Financial Services, Proposed Guidance for New York State Regulated Banking and Mortgage Organizations Relating to Management of Material Financial Risks from Climate Change (Dec. 21, 2022), available [here](#).

<sup>3</sup> Proposal ¶ 10.

<sup>4</sup> Proposal ¶ 7. We understand that this means the discussion of audit, as a third line of defense, would be consistent with a risk-based auditing program, in line with a Regulated Organization’s existing approach to risk management.

related scenario analysis as opposed to traditional stress testing.<sup>5</sup> Furthermore, we appreciate that the Proposal recognizes that data quality and methodologies are evolving and the suggestion that the incorporation of climate-related financial risks by Regulated Organizations may be an iterative process.<sup>6</sup>

Given the importance of the Proposal, the RMA Consortia recommends that NYDFS make certain refinements in the final guidance so that it further aligns with how banking organizations currently manage their climate-related financial risks, as well as other risks. In particular, we make the following five recommendations, each of which we discuss in more detail below.

1. The final guidance should further distinguish the role of the board from that of management by removing expectations of the board that are more appropriately within the purview of management.
2. The final guidance should expand the flexibility afforded Regulated Organizations to leverage parent- or Group-level policies, procedures, and processes to other appropriate levels in their organizations.
3. NYDFS should continue to consider ways to leverage the New York State Community Reinvestment Act (“NY CRA”) to respond to the potential disproportionate impacts of climate change on low to moderate income (“LMI”) and other disadvantaged households and communities.
4. The definition of “physical risk” should be modified in the final guidance to clarify that certain descriptors are illustrative examples, rather than defining components of the definition.
5. NYDFS should not establish new reporting requirements for climate-related financial risks.
6. NYDFS should adopt a timeline for implementation that aligns with that of other regulators.

**I. The final guidance should further distinguish the role of the board from that of management by removing expectations of the board that are more appropriately within the purview of management.**

The Proposal suggests that both the board of directors and the management of a Regulated Organization are responsible for implementing climate-related financial risk management practices, such as by indicating that the “[t]he board and management

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<sup>5</sup> Proposal ¶ 56.

<sup>6</sup> Proposal ¶ 9.

should establish and implement plans to mitigate and manage [the organization’s] exposures to material climate-related financial risks and . . . review and assess the effectiveness of mitigation plans regularly.”<sup>7</sup> The Proposal also assigns the responsibility to “ensure that any public statements about [a Regulated Organization’s] climate-related strategies and risk appetite statements” to both the board and management.<sup>8</sup> We appreciate the Proposal’s clarification that references to boards of directors of Regulated Organizations include equivalent bodies that perform the same functions as boards of directors.<sup>9</sup>

We urge NYDFS to refine the expectations for the board to align with the board’s well-established and distinct role to oversee and hold management accountable for its implementation of the Regulated Organization’s risk management framework and strategic objectives. For example, NYDFS regulations, including the recently proposed amendment to the cybersecurity rules,<sup>10</sup> more clearly delineate the responsibilities of the board from those of management. Our members believe that the final guidance should take a similar approach by further differentiating between the responsibilities of board and management discussed in the Proposal, as this would align more closely with current and proposed NYDFS regulations. Distinguishing the board’s responsibilities from those of management also would align the final guidance with the climate-related financial risk management guidance recently proposed by the Federal Reserve Board.<sup>11</sup>

## **II. The final guidance should expand the flexibility afforded Regulated Organizations to leverage parent- or Group-level policies, procedures, and processes to other appropriate levels in their organizations.**

Our members appreciate NYDFS’s intent to provide flexibility to Regulated Organizations by allowing Regulated Organizations that are “part of a group of affiliated entities or a holding/parent company structure (“Group”)” to, subject to certain conditions, “leverage the policies, procedures, and processes developed at the Group level.”<sup>12</sup> We understand that this would encompass the ability to conduct scenario analysis at the Group level as well.

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<sup>7</sup> Proposal ¶ 42.

<sup>8</sup> Proposal ¶ 27.

<sup>9</sup> Proposal ¶ 5. See also Part II for a discussion regarding governing bodies in the context of at the “Group” and other levels of an organization.

<sup>10</sup> NYDFS, Proposed Second Amendment to 23 NYCRR Part 500 (Nov. 9, 2022), available here. The proposed amendment would add new subsections (c) and (d) to § 500.4, which addresses Chief Information Security Officers’ reporting obligations and the specific obligations of covered entities’ boards of directors, respectively.

<sup>11</sup> FRB, Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 75267 (Dec. 8, 2022).

<sup>12</sup> Proposal ¶ 21.

However, the Consortia believe that, in light of the different governance structures used by Regulated Organizations for risk management, the Proposal should enable Regulated Organizations to leverage policies, procedures and processes developed at other appropriate levels in the organizations. The additional flexibility is relevant to a number of Regulated Organizations, and particularly large state-licensed branches and agencies of FBOs. Large FBOs subject to the Federal Reserve’s Enhanced Prudential Standards may organize aspects of their climate risk governance at the level of CUSO.<sup>13</sup> Domestic institutions with entities regulated by NYDFS may also organize their climate risk management in a way that similarly leverages or is reflected in the risk governance at other levels of the enterprise, not necessarily the ultimate parent.

Accordingly, in furtherance of NYDFS’s approach, the Consortia recommend that the final guidance clarify that Regulated Organizations may rely on climate-related financial risk management policies, procedures, and processes developed at other organizational levels in addition to the Group level. To conform with the foregoing, we likewise recommend that the discussion of the board of the parent/holding company in paragraph 21 of the Proposal be revised to clarify that Regulated Organizations may rely on the appropriate Group-level board or other designated equivalent body responsible for oversight of climate-related financial risk management, which may be at the “Group” level or elsewhere, for example at CUSO.

**III. NYDFS should continue to consider ways to leverage the NY CRA to respond to the potential disproportionate impacts of climate change on LMI and other disadvantaged households and communities.**

The RMA Consortia agree with NYDFS’s statement that climate change could have disproportionate impacts on LMI and other disadvantaged households and communities. Our members support NYDFS making climate-related activities eligible for NY CRA credit, as indicated in their Industry Letter: CRA Consideration for Activities that Contribute to Climate Mitigation and Adaptation on February 9, 2021. Our members encourage NYDFS to continue considering ways to address potential impacts to LMI and other disadvantaged households and communities through the NY CRA.<sup>14</sup>

**IV. The definition of “physical risk” should be modified in the final guidance to clarify that certain descriptors are illustrative examples, rather than defining components of the definition.**

We appreciate the Proposal’s clarification that “illustrative examples . . . should not be viewed as mandatory or exhaustive, [and] are provided throughout the Guidance for explanation and clarification purposes.”<sup>15</sup> In light of this clarification, we do not view the

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<sup>13</sup> See, e.g., 12 CFR § 252.132.

<sup>14</sup> Proposal ¶¶ 18-19.

<sup>15</sup> Proposal ¶ 3.

Proposal’s granular descriptions regarding certain practices, for example regarding internal control frameworks, as articulating specific expectations for each Regulated Organization.<sup>16</sup>

However, our members recommend that the final guidance modify the definition of “physical risk,” changing the language from “including” to “such as,” to clarify that “increased flooding and coastal erosion, droughts that can disrupt agriculture production, and intensifying heat waves responsible for increased mortality risk” are illustrative examples rather than defining components of chronic shifts in weather.<sup>17</sup> Using “such as” would also more closely align the Proposal’s definition of “physical risk” with the definition articulated by the Basel Committee in its report on climate-related risk drivers and their transmission channels (April 2021), promoting consistency across all frameworks.

**V. NYDFS should not establish new reporting requirements for material climate-related financial risks.**

In response to question three set forth in the Proposal, our members do not believe NYDFS should establish new reporting obligations for material climate-related financial risks. While we appreciate NYDFS’s supervisory need for information regarding Regulated Organizations’ management of their material risks, we believe it would be premature to require data without greater crystallization and convergence in reporting requirements across jurisdictions and that any future NYDFS reporting obligations should be incorporated into other reports to avoid unnecessary compliance burden. In addition, many of our members already publish or will publish reports based on the recommendations of the Task Force on Climate-related Financial Disclosures.

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<sup>16</sup> Proposal ¶¶ 33-36.

<sup>17</sup> Proposal ¶ 12.

**VI. NYDFS should adopt a timeline for implementation that aligns with that of other regulators.**

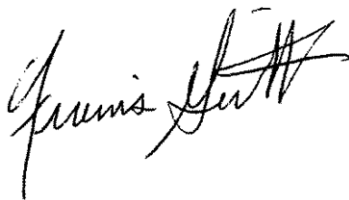
In response to question one set forth in the Proposal, our members believe NYDFS should establish a phased or iterative timeline for implementation of climate risk management practices that is in line with other regulators' approaches. We believe that this approach would promote greater consistency and efficiency in the implementation of climate risk management practices within and across financial institutions, particularly for Regulated Organizations that are subject to climate-related financial supervision of other regulators.

**VII. Conclusion**

The RMA Consortia appreciate the opportunity to provide these comments and thank NYDFS for its efforts in developing guidance for financial institutions on climate-related financial risk management practices. The RMA Consortia look forward to continuing its engagement with NYDFS on these issues.

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Sincerely,



Fran Garritt  
Director  
Risk Management Association

Attachments: RMA comment letter to FRB (February 6, 2023), RMA comment letter to FDIC (June 2, 2022), RMA comment letter to OCC (February 14, 2022)

## Attachments



February 6, 2023

VIA ELECTRONIC SUBMISSION

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue N.W.  
Washington, DC 20551

**Re: Principles for Climate-Related Financial Risk Management for Large  
Financial Institutions (Federal Reserve Board Docket No. OP-1793)**

Ladies and Gentlemen:

On behalf of its members, the Risk Management Association’s Climate Risk Consortium (“RMA Consortium”) thanks the Board of Governors of the Federal Reserve System (“FRB”) for the opportunity to comment on its proposed principles for climate-related financial risk management for large financial institutions (“Proposal”).

Launched in September 2021, the RMA Consortium seeks to assist banks in integrating climate risk management throughout their operations and to prepare the banking industry to navigate the transition to a low-carbon economy. The RMA Consortium, representing 31 leading international banking organizations, also aims to advance climate risk management practices in the banking industry and facilitate the banks’ development of risk frameworks, taxonomies and standards.

As discussed in our comment letters to the Office of the Comptroller of the Currency (“OCC”) and the Federal Deposit Insurance Corporation (“FDIC”) on their respective proposed principles,<sup>1</sup> the RMA Consortium broadly supports the high-level, principles-based approach of the Proposal, its focus on exploratory scenario analysis rather than traditional stress testing, and its recognition of continuing data, modeling and methodological challenges as financial institutions continue to develop the capabilities to identify, measure and manage climate-related financial risks. The RMA Consortium is supportive of interagency coordination in issuing any final guidance. This coordination would support consistency and efficiency in the implementation of climate risk management practices within and across financial institutions.

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<sup>1</sup> OCC, Principles for Climate-Related Financial Risk Management for Large Banks (Dec. 16, 2021); FDIC, Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 19507 (Apr. 4, 2022).



Our members appreciate that the Proposal responds to several comments the RMA Consortium and others in the industry provided on the OCC's and FDIC's proposals, such as by further distinguishing board and management responsibilities, and expressly supporting implementation of the guidance in a manner commensurate with a financial institution's size and the nature, scope, and risk of its activities, and recognizing that institutions may incorporate climate-related financial risk management into their existing risk management frameworks.

The RMA Consortium recommends that the final guidance reflect the following additional modifications, as described below.

1. The final guidance should not suggest boards of directors consider changing compensation policies to incorporate climate risk because financial institutions' compensation-related risk metrics are generally designed broadly enough so as to capture climate risk already.
2. The definition of "physical risk" should be modified in the final guidance to clarify that "higher average temperatures, changes in precipitation patterns, sea level rise, and ocean acidification" are illustrative examples, rather than defining components, of chronic shifts in climate.
3. The final guidance should incorporate proportionality in its expectations for scenario analysis governance based on the scope and use of scenario analysis exercises.
4. The final guidance should clarify expectations for the timing of financial institutions' conformance.
5. We also recommend modifications to certain principles in the final guidance which we briefly discuss at the end of this letter.

**I. The final guidance should not suggest boards of directors consider changing compensation policies to incorporate climate risk because financial institutions' compensation-related risk metrics are generally designed broadly enough so as to capture climate risk already.**

As noted above, the RMA Consortium appreciates that the Proposal more clearly distinguishes the roles and responsibilities of the board and management with respect to climate-related financial risk management. Furthermore, the RMA Consortium appreciates the FRB's clarification that the Proposal "is not intended to conflict with

existing guidance from the Board regarding the roles of board and senior management or advocate for a specific board structure.”<sup>2</sup>

However, specific consideration of climate-related financial risk in compensation policies is not necessary because climate change risk likely would be captured in other risk metrics that are already included in compensation policies. The specificity of the expectation also appears in tension with the intended approach of the guidance in providing a high-level framework.

**II. The definition of “physical risk” should be modified in the final guidance to clarify that “higher average temperatures, changes in precipitation patterns, sea level rise, and ocean acidification” are illustrative examples, rather than defining components, of chronic shifts in climate.**

In developing climate risk management responses that are consistent with regulatory expectations, financial institutions are likely to consider the definitions of physical risk and transition risk in the final guidance. For that reason, we believe consideration should be given as to whether the regulatory definitions are accurate, comprehensive and practical.

The current language defining physical risks is as follows: “Physical risks 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.” (emphasis added). The word “including” could be read to mean that the FRB expects financial institutions to account for each potential type of chronic shift in climate — higher average temperatures, changes in precipitation patterns, sea level rise and ocean acidification — in their management of physical risks. Elsewhere, the FRB has used “such as” in place of “including” in defining physical risk which clarifies that higher average temperatures, etc. are illustrative examples rather than defining components of chronic shifts in climate.<sup>3</sup> The final guidance should replace “including” with “such as,” aligning the definition across recent FRB guidance.

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<sup>2</sup> See, e.g., SR 21-3/CA 21-1: Supervisory Guidance on Board of Directors’ Effectiveness (Feb. 26, 2021), available [here](#).

<sup>3</sup> See Pilot Climate Scenario Analysis Exercise: Participant Instructions 3 (Jan. 2023), available [here](#). See also European Central Bank, Guide on Climate-related and Environmental Risks: Supervisory Expectations Relating to Risk Management and Disclosure 11 (Nov. 2020), available [here](#) (“Physical risk is therefore categorised as ‘acute’ when it arises from extreme events, *such as*, droughts, floods and storms” (emphasis added)).

### **III. The final guidance should incorporate proportionality in its expectations for scenario analysis governance based on the scope and use of scenario analysis exercises.**

We also continue to support the draft principles' focus on climate scenario analysis as distinct from traditional, regulatory stress testing, which may have capital implications. However, we recommend that the final guidance incorporate flexibility in the design and governance of scenario analysis exercises given the continuing development in data, methodological and modeling capabilities and the exploratory and varying nature and use of scenario analysis exercises today.

The Proposal suggests that exploratory climate scenario analysis be subject to “oversight, validation, and quality control standards” and that results be “regularly communicated to the board.” Validation and quality control standards to which other scenario analysis exercises may be subject may not be appropriate, useful, or effective in the context of early-stage exploratory scenario analysis. The FRB acknowledges current challenges in subjecting climate scenario analyses to typical model validation and quality control standards.<sup>4</sup> In addition, while our members agree that the board should be briefed on climate scenario analysis exercises and results, the scope and use of exercises vary. As written, the Proposal could be read to suggest that all exercises are equally appropriate or relevant for the board and not guided by materiality. For these reasons, we recommend that the final guidance provide sufficient flexibility to financial institutions to apply and integrate governance practices that are commensurate with the scope and use of scenario analysis.

### **IV. The final guidance should clarify expectations for the timing of financial institutions' conformance.**

We appreciate that the Proposal acknowledges that the process of incorporating climate-related financial risk management will be iterative as “measurement methodologies, models, and data for analyzing these risks” will continue to mature and evolve.

We interpret this language to indicate that this guidance is meant to provide direction to financial institutions as they seek to build out their risk management capabilities rather than supervisory standards against which institutions will be evaluated in examinations. Alternatively, as suggested in our letters to the OCC and FDIC, we recommend that the final guidance define a conformance timeline that will assist financial institutions in directing resources appropriately and afford financial institutions adequate time and flexibility in light of the current maturity of climate risk management capabilities. This will allow institutions the necessary period of time for implementation and appropriate allocation of resources.

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<sup>4</sup> See Pilot Climate Scenario Analysis Exercise: Participant Instructions 9 (Jan. 2023), available [here](#).

## V. Other recommendations.

We recommend the final guidance reflect the following additional discrete modifications.

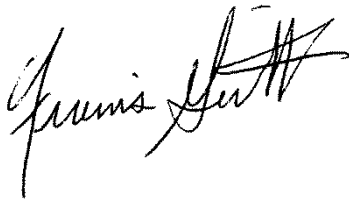
- Our members appreciate that the Proposal recognizes that institutions may incorporate climate-related financial risk management into their existing risk management frameworks. We are supportive of integration of climate-related risks into existing risk frameworks, consistent with our institutions' current risk appetite statements and business planning. As the Proposal is written, it may be interpreted so as to mandate new credit risk tolerances and lending limits. This would be unduly prescriptive on banks' risk management practices and not align with previous FRB statements on the flexibility of a principles-based approach. We suggest the FRB further clarifies that banks have discretion in setting their risk appetites and tolerances as they relate to distinct identified risks. We support the integration of climate-related risk tolerances and limits into existing frameworks.
- The Proposal's language that the board should assure that public statements on climate strategies are consistent with risk appetite is prescriptive in assigning responsibility to the board and may counter the flexibility that the Proposal generally provides financial institutions to implement climate programs into existing frameworks based on individual bank assessment of materiality and proportionality. We recommend removing this language in the final guidance.
- We also recommend that the final guidance clarify its applicability to foreign banking organizations' U.S. operations in light of the language in footnotes 1, 4, and 8.

## VI. Conclusion

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

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Sincerely,



Fran Garritt  
Director  
Risk Management Association

Attachments: RMA comment letter to FDIC (June 2, 2022), RMA comment letter to OCC (February 14, 2022)

**Attachments**



June 2, 2022

VIA ELECTRONIC SUBMISSION

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

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

Ladies and Gentlemen:

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

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

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

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

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

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

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

1. Define a compliance approach that accounts for the time that banks will require to implement the climate-related financial risk management processes outlined in the guidance and incorporate climate-related financial risks into decision-making processes;
2. Support more explicitly banks’ use of a risk-based approach in implementing the principles so that banks’ climate-related financial risk management practices are proportionate to the extent of their exposures, consistent with how banks treat other risk exposures;
3. Acknowledge that (a) at present, banks may determine it appropriate to prioritize assessing potential climate-related financial risk impacts over the time horizons that banks use in strategic planning and related assessment processes and (b) once assessment capabilities mature, consistency in the time horizons used by banks may be beneficial by facilitating industry benchmarking;
4. Align with other U.S. bank regulators’ approaches to climate scenario analysis so that banking organizations subject to supervision by multiple banking regulators are subject to consistent requirements;
5. Clarify that the scope of the board of director’s responsibility to oversee climate-related financial risk is consistent with the scope of its responsibility to oversee other risks facing the bank;

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<sup>2</sup> *Id.*

<sup>3</sup> 87 Fed. Reg. 19507, 19509 (Apr. 4, 2022).



6. Clarify expectations with respect to (a) banks' consideration of climate-related financial risk impacts on low-to-moderate income ("LMI") and other disadvantaged households and communities and (b) public communications regarding banks' climate-related strategies; and
7. Harmonize with bank regulatory frameworks and approaches for climate-related financial risk management in foreign jurisdictions.

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

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

*A. Observations and Considerations*<sup>4</sup>

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

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

- Limitations on data, in particular, data "connecting the science of climate change to financial risk assessments and real-world economic impacts",<sup>5</sup>

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

- Uncertainty about the time horizons over which certain risks (*e.g.*, transition risks, longer-term risks) may manifest;<sup>6</sup> and
- The non-linear and complex nature of the impacts of climate change, which makes it difficult to forecast the frequency and intensity of severe climate events and assess the interlinkages between climate-related pathways and economic variables across the financial system.<sup>7</sup>

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

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

### *B. Recommendations*

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

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<sup>5</sup> Financial Stability Oversight Council, Report on Climate-Related Financial Risk, at 23 (Oct. 2021) [hereinafter, “FSOC Report”].

<sup>6</sup> *Id.*

<sup>7</sup> *Id.*

<sup>8</sup> *Id.* at 47.

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

<sup>10</sup> The Proposal also states that in conveying the results of climate-related scenario analysis, management should convey the “uncertainty of results.” *See* 87 Fed. Reg. 19507, 19510 (Apr. 4, 2022).

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

- Establish reasonable expectations for banks' near-term climate-related financial risk management capabilities, including by supporting more explicitly banks' use of reasonably available methods to begin identifying, measuring, monitoring and controlling climate-related financial risks while continuing to develop more robust capabilities. For example, the final guidance should clarify that qualitative risk appetite statements may be more appropriate than quantitative expressions of risk appetite until quantitative methods are sufficiently reliable;
- Clarify that (a) the FDIC does not expect banks' conformance with the guidance by a particular date but, rather, that banks work in earnest toward developing and implementing their climate-related financial risk management practices and make iterative, demonstrable progress and (b) at least in the near term, the FDIC does not anticipate that gaps in a bank's practices would result in an informal or formal enforcement action except in very unusual circumstances; and
- State the FDIC's intention to assess banks' progress in addressing climate-related financial risks and publish anonymized results to enable industry benchmarking, foster innovation, and facilitate the development of best practices.

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

*A. Observations and Considerations*

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

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

which is tailored based on each institution’s business model, complexity, and risk profile.<sup>11</sup>

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

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

## *B. Recommendations*

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

- Reflect a principles-based approach, as currently proposed, and not prescribe particular risk management practices;<sup>14</sup>
- State that banks should employ a risk-based approach that considers materiality in managing climate-related financial risk, consistent with how banks determine materiality and manage other risks; and

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

<sup>12</sup> 87 Fed. Reg. 19507, 19509 (Apr. 4, 2022).

<sup>13</sup> 86 Fed. Reg. 38182, 38185 (July 19, 2021).

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

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

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

*A. Observations and Considerations*

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

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

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

<sup>16</sup> See 87 Fed. Reg. 19507, 19509 (Apr. 4, 2022).

<sup>17</sup> *Id.* at 19510.

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

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

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

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

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

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

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

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

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

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

*B. Recommendations*<sup>25</sup>

The final guidance should:

- Retain the Proposal’s focus on scenario analysis rather than traditional stress testing, consistent with the Federal Reserve’s approach and FSOC’s recommendations; and
- Outline expectations for scenario analysis frameworks and exercises—including with respect to time horizons, assumptions regarding “plausible future states,” requirements regarding which portfolios are stressed, and use of third-party scenarios—that are consistent with those that the Federal Reserve ultimately issues.

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

*A. Observations and Considerations*

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

*B. Recommendations*

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

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

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

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

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

*A. Observations and Considerations*

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

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

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<sup>27</sup> The current CRA guidance does not explicitly include credit for these activities, defined in the May 2022 proposal as “activities that assist individuals and communities to prepare for, adapt to, and withstand natural disasters, weather-related disasters, or climate-related risks.” The May 2022 proposal also includes disaster preparedness and climate resiliency activities as “qualifying activities in Native Land Areas.” See OCC, Federal Reserve, FDIC, Joint Notice of Proposed Rulemaking: Community Reinvestment Act (May 5, 2022), Section III.E.6(b). We note that, in 2021, the New York Department of Financial Services incorporated similar climate-based credit incentives into the New York State Community Reinvestment Act. See New York State Department of Financial Services, CRA Consideration for Activities that Contribute to Climate Mitigation and Adaptation (Feb. 9, 2021), [https://www.dfs.ny.gov/industry\\_guidance/industry\\_letters/il20210209\\_cra\\_consideration](https://www.dfs.ny.gov/industry_guidance/industry_letters/il20210209_cra_consideration).

<sup>28</sup> This recommendation is responsive to part of Question 10 posed by the FDIC: “Should the agencies modify existing regulations and guidance, such as those associated with the Community Reinvestment Act, to address the impact climate-related financial risks may have on LMI and other disadvantaged communities?”

<sup>29</sup> 87 Fed. Reg. 19507, 19510 (Apr. 4, 2022).



## *B. Recommendations*

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

- In order to effectively address disproportionate impacts, the RMA Consortium encourages the FDIC to continue to collaborate with relevant agencies to identify appropriate mechanisms for banks to employ to respond to potential climate-related financial risk impacts on LMI and other disadvantaged households and communities, including through the CRA.
- The final guidance should align expectations regarding banks' public communications with the U.S. securities disclosure regime, which requires accuracy in public statements. We further request that expectations regarding public communications and disclosures align with any future rules and guidance specifically related to climate disclosures issued by the Securities and Exchange Commission.

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

### *A. Observations and Considerations*

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

### *B. Recommendations*

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

- The FDIC should seek to coordinate among cross-jurisdictional authorities and aim for consistency in high-level industry standards across jurisdictions where

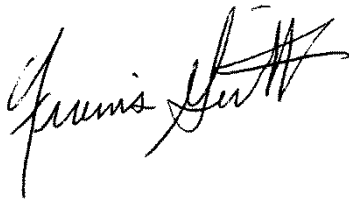
appropriate, with the goal of creating “interoperable” climate-related financial risk management guidance and principles. As a result, the efforts of financial institutions to create tools and processes with respect to climate risk management in one jurisdiction may still be relevant and utilized to adhere to requirements in another jurisdiction.

## VII. Conclusion

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

\* \* \*

Sincerely,



Fran Garritt  
Director  
Risk Management Association

February 14, 2022

VIA ELECTRONIC SUBMISSION

Chief Counsel's Office  
Attention: Comment Processing  
Office of the Comptroller of the Currency  
400 7<sup>th</sup> Street, Suite 3E-218  
Washington, DC 20219  
Docket ID OCC-2021-0023

**Re: Principles for Climate-Related Financial Risk Management for Large Banks**

Ladies and Gentlemen:

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

Launched in September 2021, the RMA Consortium seeks to assist banks in integrating climate risk management throughout their operations, preparing the industry to help economies transition to a low-carbon future. The RMA Consortium, representing 25 leading U.S. and Canadian banking organizations, also aims to advance climate risk management practices in the banking industry by facilitating the development of industry-wide taxonomy and standards.

Before responding to the Proposal, however, the RMA Consortium wishes to express its appreciation for the OCC's efforts to assist banking organizations under its oversight in developing climate-related financial risk management practices. Our member institutions welcome the OCC's engagement with banking organizations as the agency develops its approach to climate-related financial risk, including by soliciting information on banks' evolving approaches to climate change-related risk management and efforts to improve the necessary methodologies, models and data.

As to the Proposal, the RMA Consortium broadly supports its principles-based approach, preference for scenario analysis over traditional regulatory stress testing, recognition of current data, modeling and methodological challenges for banks and general alignment with previous risk management guidance issued by the OCC. The RMA Consortium also

appreciates the OCC's intention to "tailor any resulting supervisory expectations to reflect differences in banks' circumstances such as complexity of operations and business models" and distinguish the roles and responsibilities of boards of directors from those of management.

Nonetheless, our members believe the final guidance should include the following important clarifications, which we summarize below and then explain in greater detail throughout the letter. In sum, we recommend the final guidance:

1. Define a compliance approach that accounts for the time banks will require to implement the climate-related financial risk management processes outlined in the guidance and incorporate climate-related financial risks into decision-making processes;
2. Support more explicitly banks' use of a risk-based approach in implementing the principles so that banks' climate-related financial risk management practices are proportionate to the extent of their exposures, consistent with how banks treat other risk exposures;
3. Acknowledge that, at present, banks may determine it appropriate to prioritize assessing potential climate-related financial risk impacts over the time horizons banks use in strategic planning and related assessment processes and that, once assessment capabilities mature, consistency in the time horizons used by banks may be beneficial by facilitating industry benchmarking;
4. Align with other U.S. bank regulators' approaches to climate scenario analysis so that banking organizations subject to supervision by multiple banking regulators are subject to consistent requirements;
5. Clarify that board of director responsibilities are consistent with previous OCC guidance regarding risk management;
6. Clarify the OCC's expectations with respect to (a) banks' consideration of climate-related financial risk impacts on low-to-moderate income ("LMI") and other disadvantaged households and communities and (b) public communications regarding banks' climate-related strategies; and
7. Harmonize with bank regulatory frameworks for climate-related financial risk management in foreign jurisdictions.

We believe these modifications are consistent with the OCC's objectives and the Proposal. The final guidance will be a significant milestone in the establishment of a U.S. bank regulatory framework for climate risk, making these clarifications all the more important. The requested changes will help the final guidance achieve the OCC's

objective to support the “efforts by banks to focus on key aspects of climate risk management.”

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

*A. Observations and Considerations*

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

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

- Limitations on data, in particular, data “connecting the science of climate change to financial risk assessments and real-world economic impacts”;<sup>1</sup>
- Uncertainty about the time horizons over which certain risks (*e.g.*, transition risks, longer-term risks) may manifest;<sup>2</sup> and
- The non-linear and complex nature of the impacts of climate change, which make it difficult to forecast the frequency and intensity of severe climate events and assess the interlinkages between climate-related pathways and economic and financial variables across the financial system.<sup>3</sup>

The FSOC Report also recognizes that better data and improved methods are essential prerequisites for the ability to measure and assess climate-related financial risk, stating: “enhancing the availability of and access to relevant, comprehensive data and developing

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<sup>1</sup> Financial Stability Oversight Council, Report on Climate-Related Financial Risk, at 23 (Oct. 2021) [hereinafter, “FSOC Report”].

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

methods and metrics to effectively utilize climate-related data and financial data” are “[n]ecessary steps for measuring and assessing climate-related financial risk.”<sup>4</sup> Gaps in data, notes the FSOC report, render results of scenario analyses unreliable.<sup>5</sup> Thus, banks will require a reasonable time period to enhance relevant data, models and methods so that processes to identify, measure, monitor, and control climate-related financial risk exposures are more reliable and, thus, of greater utility.

The OCC is aware of these issues, stating that the “OCC recognizes that incorporation of material climate-related financial risks into various planning processes is iterative as measurement methodologies, models, and data for analyzing these risks continue to evolve and mature over time.”<sup>6</sup> However, the Proposal also describes expectations for the identification, measurement, monitoring, and control of climate-related financial risk exposures without accounting for insufficiencies in the current methodologies, models and data upon which such processes and practices rely.

### *B. Recommendations*

The final guidance should account more explicitly and comprehensively for the time banks will require to implement the processes to identify, measure, monitor and control climate-related financial risks and incorporate those risks into decision-making processes. In particular, the final guidance should:

- Establish reasonable expectations for banks’ near-term climate-related financial risk management capabilities, including by supporting more explicitly banks’ use of reasonably available methods to begin identifying, measuring, monitoring and controlling climate-related financial risks while continuing to develop more robust capabilities. For example, the final guidance should clarify that qualitative risk appetite statements may be more appropriate than quantitative expressions of risk appetite until quantitative methods are sufficiently reliable;
- Clarify that the OCC does not expect banks’ conformance with the guidance by a particular date but, rather, that banks work in earnest toward developing and implementing their climate-related financial risk management practices and make iterative, demonstrable progress and that, at least in the near term, the OCC does

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<sup>4</sup> *Id.* at 47.

<sup>5</sup> *Id.* at 49. (“While a large amount of potentially relevant data for climate-related physical risks currently exists, more work is needed to improve access to this data and incorporate it into financial risk assessments . . . This data is not standardized in a way that facilitates the aggregation of datasets across entities or industry sectors and may require extensive work before it is usable.”).

<sup>6</sup> The Proposal also states that in conveying the results of climate-related scenario analysis, management should convey the “uncertainty of results.” Proposal, “Scenario Analysis” Principle.

not anticipate that gaps in a bank’s practices would result in an informal or formal enforcement action except in very unusual circumstances; and

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

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

*A. Observations and Considerations*

Banks should employ a risk-based approach in managing climate-related financial risk and implement practices that are commensurate with the extent of their exposure, as well as their size, complexity, business activities and overall risk profile, consistent with OCC expectations for banks’ enterprise risk management and management of other significant categories of risk.<sup>7</sup> As clients evaluate and pursue transitions to lower-carbon strategies, banks’ climate-related financial risk management strategy should enable them to support clients’ transitions while protecting the safety and soundness of the banks.

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

However, the Proposal does not encourage banks to scale their climate-related financial risk management responses based on the extent of their exposures, sizes, activities or

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<sup>7</sup> See, e.g., OCC Bulletin 2013-29, *Third-Party Relationships: Risk Management Guidance* (advising banks to adopt “risk management processes that are commensurate with the level of risk and complexity of its third-party relationships and the bank’s organizational structures”); 12 CFR 30, app. D.II.C.1–2 (advising front line units to “[a]ssess, on an ongoing basis, the material risks associated with its activities and use such risk assessments as the basis for fulfilling its responsibilities” and directing independent risk management to “[i]dentify and communicate to the board of directors or the board’s risk committee: (i) Material risks and significant instances where independent risk management’s assessment of risk differs from the Chief Executive Officer.”)

other factors. In contrast the OCC’s Heightened Standards promotes proportionality expressly, advising a bank to design a risk governance framework that is “commensurate with the size, complexity, and risk profile of the covered bank ....”<sup>8</sup>

### *B. Recommendations*<sup>9</sup>

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

- State that banks should employ a risk-based approach that considers materiality in managing climate-related financial risk, consistent with how banks determine materiality and manage other risks; and
- Clarify that banks should design and implement climate-related financial risk management practices and processes that are commensurate with the extent of their exposures to climate-related financial risk, in addition to their size, complexity, business activities and overall risk profile.<sup>10</sup>

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

#### *A. Observations and Considerations*

The Proposal states that “[a]s part of forward-looking strategic planning, the board and management should address the potential impact of climate-related financial risk exposures on the bank’s financial condition, operations (including geographic locations),

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<sup>8</sup> 12 CFR 30, app. D.II.C.2, “Role and Responsibilities of Independent Risk Management.”

<sup>9</sup> This section is, in part, responsive to Question 3 posed by the OCC: “What challenges do banks face in incorporating these principles into their risk management systems?”

<sup>10</sup> We recognize that size and complexity of banking organizations can be correlated with their potential to pose systemic risk. That said, there may be instances in which larger banks are less vulnerable to losses resulting from climate disaster. Notably, a recent report released by Federal Reserve Bank of New York staff revealed that, in the case of extreme weather events over the last quarter century, “losses at larger (multi-county) banks [were] barely affected and their income increase[d] significantly with exposure,” whereas local banks, which do not benefit from diversification across multiple geographies, experienced more negative stability effects from extreme disasters. Kristian S. Blickle et. al., Federal Reserve Bank of New York, *How Bad Are Weather Disasters for Banks?*, at 3 (Nov. 2021).



and business objectives over various time horizons.”<sup>11</sup> The Proposal also notes that relevant time horizons for understanding “the potential ways in which these risks could evolve ... may include those that extend beyond the bank’s typical strategic planning horizon.”<sup>12</sup>

The RMA Consortium appreciates the importance of banks’ exploring potential climate-related financial risk impacts over various time horizons, including time horizons that extend beyond those typically used in financial risk assessments. As the Basel Committee on Banking Supervision (“BCBS”) explains in its report on measurement methodologies for climate-related financial risks, “[c]onventional capital planning horizons have tended towards two- to three-year forecasts ... , while strategic planning at banks has tended towards three- to five-year periods .... Conversely, many physical climate risks are expected to increase in materiality over a much longer horizon.”<sup>13</sup>

For example, the Heightened Standards requires large banks to develop three-year strategic plans, and the OCC’s Director’s Book advises banks to develop three to five year strategic plans.<sup>14</sup> As the OCC explained in the preamble to the Federal Register release of the Heightened Standards, “a three-year plan is necessary for covered banks to predict changes that could affect the bank’s financial position.”<sup>15</sup> The RMA Consortium would ask the OCC, as part of its ongoing work to develop a supervisory response to climate-related financial risks, to consider the expectation in the Proposal that, “[a]s part of forward-looking strategic planning,” a bank “should address the potential impact of climate-related financial risk exposures on the bank’s financial condition, operations ... and business objectives over various time horizons,” in light of the OCC’s appropriate outstanding guidance on strategic planning horizons and the fact that climate-related financial risks can manifest over much longer time horizons.

Similar to the OCC’s outstanding guidance, the Federal Reserve Board (“Federal Reserve”) requires nine-quarter projection periods for its Comprehensive Capital Analysis and Review (“CCAR”) program because it “believes that a firm should be able to make informed projections of its financial and capital position for a two-year calendar period.”<sup>16</sup> The CCAR predecessor program, Supervisory Capital Assessment Program,

<sup>11</sup> Proposal, “Strategic Planning” principle.

<sup>12</sup> Proposal, “Governance” principle.

<sup>13</sup> See Basel Committee on Banking Supervision, *Climate-Related Financial Risks – Measurement Methodologies* (Apr. 2021), at 20–21, <https://www.bis.org/bcbs/publ/d518.pdf>.

<sup>14</sup> OCC, *Director’s Book: Role of Directors for National Banks and Federal Savings Associations* (Nov. 2020), at 14–15, <https://www.occ.gov/publications-and-resources/publications/banker-education/files/directors-book.html>.

<sup>15</sup> See 12 CFR 30, app. D.II.D, “Strategic Plan.”

<sup>16</sup> Annual Company-Run Stress Test Requirements for Banking Organizations With Total Consolidated Assets Over \$10 Billion Other Than Covered Companies, 77 Fed. Reg. 62396, 62401 (Oct. 12, 2012).

also used a two-year time horizon. The Federal Reserve explained that this choice of time horizon reflected a tradeoff between capturing the full extent of potential changes that might be incurred in the long-term and a reasonable ability to project with some degree of confidence many changes that are likely to occur within two years.<sup>17</sup> As the BCBS further explains, “[a]s the measurement horizon becomes further removed from the present, the assumptions about the future operating environment will become increasingly dominant as a driver of measurement outputs, leading to greater modelling uncertainty.”<sup>18</sup>

Separately, the RMA Consortium believes, over time, there are benefits to banks assessing potential climate-related financial risk impacts over the same time horizons to facilitate industry-wide benchmarking, but that it would be inappropriate for the OCC to specify the time horizons banks should consider until measurement and forecasting capabilities mature.

*B. Recommendations:*<sup>19</sup>

We recommend the final guidance:

- Retain the flexibility implicit in the Proposal for banks to explore potential climate-related financial risk impacts over various time horizons selected by banks; and
- Indicate that the OCC anticipates there being benefits to its specifying time horizons banks should consider to facilitate industry-wide benchmarking and support supervisory efforts.

**IV. The final guidance should align with other U.S. bank regulators’ approaches to climate scenario analysis so that banking organizations subject to supervision by multiple banking regulators are subject to consistent requirements.**

*A. Observations and Considerations*

Multi-tiered banking organizations benefit from a consistent set of standards and guidelines from banking regulators. We appreciate that in the press release announcing the Proposal, Acting Comptroller of the Currency Michael J. Hsu stated the OCC plans to

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<sup>17</sup> Federal Reserve, The Supervisory Capital Assessment Program: Design and Implementation (Apr. 24, 2009), at 3, <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20090424a1.pdf>.

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

<sup>19</sup> This section is, in part, responsive to Question 6 posed by the OCC: “What time horizons do banks consider relevant when identifying and assessing the materiality of climate-related financial risks?”

“work[] with [the OCC’s] interagency peers to develop more detailed guidance [in 2022].”<sup>20</sup> Similarly, the Federal Reserve has said that it will review the comments submitted in response to the Proposal as part of interagency coordination relating to climate-related financial risks, noting that “[a] consistent approach across bank regulatory agencies will best support the effective management of these risks.”<sup>21</sup>

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

### *B. Recommendations*<sup>25</sup>

The final guidance should:

- Retain the Proposal’s focus on scenario analysis rather than traditional stress testing, consistent with the Federal Reserve’s approach and FSOC’s recommendations; and
- Outline expectations for scenario analysis frameworks and exercises—including with respect to time horizons, assumptions regarding “plausible future states,”

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<sup>20</sup> OCC, News Release 2021-138: OCC Seeks Feedback on Principles for Climate-Related Financial Risk Management for Large Banks (Dec. 16, 2021), <https://occ.treas.gov/news-issuances/news-releases/2021/nr-occ-2021-138.html>.

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

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

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

<sup>24</sup> FSOC Report, *supra* note 1, at 90 (“Scenario analysis is similar to, but distinct from, stress testing as deployed by financial regulators, such as the supervisory Dodd-Frank Act Stress Tests of the Federal Reserve Board, OCC, and FDIC and the Comprehensive Capital Analysis and Review (CCAR) performed by the Federal Reserve Board on the largest banking organizations.”).

<sup>25</sup> This section is, in part, responsive to Question 13 posed by the OCC, “What factors are most salient for the OCC to consider when designing and executing scenario analysis exercises?”

requirements regarding which portfolios are stressed, and use of third-party scenarios—that are consistent with those the Federal Reserve ultimately issues.

**V. The final guidance should clarify that board of director responsibilities are consistent with previous OCC guidance on risk governance.**

*A. Observations and Considerations*

The RMA Consortium appreciates the OCC’s plan to distinguish the roles and responsibilities of the board and management with respect to climate-related financial risk oversight in the final guidance.

The OCC has articulated detailed expectations for the board’s oversight of a bank’s risks and risk management in the Heightened Standards and Director’s Book.<sup>26</sup> Aspects of the Proposal appear to draw from these sources in describing the board’s and management’s roles and responsibilities. For example, the Heightened Standards contains the same directive to the board as found in the “Governance Principle” of the Proposal that the board should “actively oversee the bank’s risk-taking activities and hold management accountable for adhering to the risk governance framework.”<sup>27</sup>

However, the Heightened Standards includes more detail regarding expectations for how boards are to fulfill their oversight responsibility, stating that “the board of directors may rely on assessments and reports prepared by independent risk management and internal audit to support the board’s ability to question, challenge, and when necessary, oppose recommendations and decisions made by management . . . .”<sup>28</sup> The RMA Consortium notes that banks carefully review the articulation of board responsibilities in regulatory guidance in shaping their risk governance; distinctions in the descriptions of board responsibilities across guidance can introduce confusion as to whether a regulator intends to alter the board’s responsibilities. As such, the RMA Consortium believes that, as to board responsibilities, the final guidance should reference the OCC’s outstanding guidance on risk governance or articulate the responsibilities, both in wording and context, consistent with such guidance.

*B. Recommendations*

The final guidance should clarify that board of director responsibilities are consistent with previous OCC guidance. Specifically, the final guidance should:

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<sup>26</sup> See 12 CFR 30, app. D; OCC, Director’s Book: Role of Directors for National Banks and Federal Savings Associations (Nov. 2020), <https://www.occ.gov/publications-and-resources/publications/banker-education/files/directors-book.html>.

<sup>27</sup> 12 CFR 30, app. D.III.B, “Standards for Board of Directors, Provide Active Oversight of Management.”

<sup>28</sup> *Id.*

- Clarify that it does not represent an adjustment in longstanding OCC expectations regarding the board’s role and responsibilities, including as they relate to management’s role and responsibilities; and
- If stated other than through cross-reference to such guidance, the articulation of board responsibilities in the final guidance should cross-reference to or replicate to the extent appropriate the descriptions of relevant board of director responsibilities in previous guidance.

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

*A. Observations and Considerations*

The RMA Consortium agrees with the OCC’s statement in the Proposal that climate change could have disproportionate impacts on the financially vulnerable, including LMI and other disadvantaged households and communities and that it is important for banks to consider the implications on such stakeholders. The RMA Consortium encourages the OCC to collaborate with peer banking agencies, federal housing agencies and government sponsored enterprises to identify appropriate mechanisms for banks to employ to respond to the potential impacts to these communities. For example, banks potentially could leverage their Community Reinvestment Act (“CRA”) programs. As part of the planned interagency modernization of regulations implementing the CRA, it may be appropriate to enable banks to receive CRA credit for financing climate resiliency activities that revitalize or stabilize LMI and other disadvantaged communities.<sup>29</sup> Our member institutions welcome discussion on this important issue.

With respect to public statements, the Proposal calls for banks to “ensure that any public statements about their banks’ climate-related strategies and commitments are consistent with their internal strategies and risk appetite statements.”<sup>30</sup> We encourage the OCC to clarify the wording of the expectation regarding public statements by stating that the OCC’s focus in this area is for banks to make full and accurate disclosures regarding climate risk plans, strategies or actions.

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<sup>29</sup> In 2021, the New York Department of Financial Services incorporated such climate-based credit incentives into the New York State Community Reinvestment Act. *See* New York State Department of Financial Services, CRA Consideration for Activities that Contribute to Climate Mitigation and Adaptation (Feb. 9, 2021), [https://www.dfs.ny.gov/industry\\_guidance/industry\\_letters/il20210209\\_cra\\_consideration](https://www.dfs.ny.gov/industry_guidance/industry_letters/il20210209_cra_consideration).

<sup>30</sup> Proposal, “Strategic Planning” Principle.

## *B. Recommendations*

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

- In order to effectively address disproportionate impacts, the RMA Consortium encourages the OCC to collaborate with relevant agencies to identify appropriate mechanisms for banks to employ to respond to potential climate-related financial risk impacts on LMI and other disadvantaged households and communities, including by leveraging the planned interagency modernization of regulations implementing the CRA.
- The final guidance should align expectations regarding banks' public communications with the U.S. securities disclosure regime, which requires accuracy in public statements. We further request that expectations regarding public communications and disclosures align with any future rules and guidance specifically related to climate disclosures issued by the Securities and Exchange Commission.<sup>31</sup>

## **VII. The final guidance should harmonize with bank regulatory frameworks for climate-related financial risk management in foreign jurisdictions.**

### *A. Observations and Considerations*

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

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<sup>31</sup> See, Acting Chair Allison Herren Lee, Public Input Welcomed on Climate Change Disclosures (March 15, 2021), <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures?source=email>.

*B. Recommendations*

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

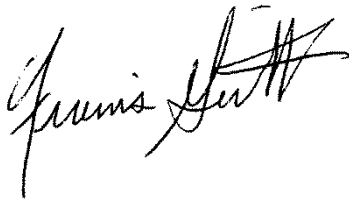
- The OCC should seek to coordinate among cross-jurisdictional authorities and aim for consistency in high-level industry standards across jurisdictions where appropriate with the goal of creating “interoperable” climate-related financial risk management guidance and principles. In this way, the efforts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

**VIII. Conclusion**

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

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Sincerely,



Fran Garritt  
Director  
Risk Management Association