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February 11, 2022

Chief Counsel's Office
Office of the Comptroller of the Currency
400 7th St. SW, Suite 3E-218
Washington, DC 20219

Re: Docket ID OCC-2021-0023, *Principles for Climate-Related Financial Risk Management for Large Banks*

To Whom It May Concern:

On behalf of the Center for American Progress, I write to comment on the Comptroller of the Currency's (OCC) request for information titled *Principles for Climate-Related Financial Risk Management for Large Banks* (RFI).[1]

We greatly appreciate the OCC's leadership in developing this document and for providing the opportunity to comment. The OCC has rightly recognized the "effects of climate change and the transition to a low carbon economy as presenting emerging risks to banks and the financial system," and that "[w]eaknesses in how banks identify, measure, monitor, and control the potential physical and transition risks associated with a changing climate could adversely affect a bank's safety and soundness."

When building on the principles articulated in the RFI in subsequent guidance in the future, the OCC should:

- apply its principles to all banks;
- issue tailored guidance when appropriate;
- ensure examiners' interactions with banks on climate risks is tailored;
- confirm banks adhere to their public climate commitments;
- allow banks to only use carbon offsets that are substantiated to meet environmental commitments;
- ensure banks provide fair and equitable access to financial services;
- require large- and mid-size regional banks to engage in scenario analyses; and
- help banks collect adequate data to analyze their climate risks.

Scope of the principles

Although the OCC limits its principles for climate-related financial risk management to institutions "with over $100 billion in total consolidated assets," the principles themselves are sufficiently high-level to apply to all banks, regardless of size, location, and business model. For example, the OCC explains that "a bank's board and management should demonstrate an appropriate understanding of climate-related financial risk exposures and

[1] Comptroller of the Currency, "Principles for Climate-Related Financial Risk Management for Large Banks," December 16, 2021, available at https://www.occ.treas.gov/news-issuances/bulletins/2021/bulletin-2021-62a.pdf.

their impact on risk appetite to facilitate oversight," as well as that "a bank should employ a comprehensive
process to identify emerging and material risks stemming from the bank's business activities and
associated exposures." The OCC notes that "all banks, regardless of size, may have material exposures to climate-related financial risks," and the principles articulated apply just as much to a bank with $500 billion in assets as a bank with $50 billion or $5 billion.

While the OCC should apply the *principles* to all banks, it should differentiate in the *implementation* of these principles. Implementation will clearly differ based on factors the OCC listed (i.e., asset size, location, business model) and others.

Tailored guidance

As the OCC articulates new climate related principles and expectations for how banks will implement those principles, it should consider (on a document-by-document basis) whether or how those principles or expectations may be tailored to banks' business lines or sizes. The OCC should also consider whether banks with particular business lines or banks that operate in particular locations require tailored guidance. For example, banks with high concentrations of mortgage loans will have different risk profiles from banks with high concentrations of agricultural loans, and banks with high concentrations of mortgage loans in one area of the country will have different risk profiles from banks in others. The OCC should tailor its expectations for how banks will mitigate their risks faced, and it would be appropriate for the OCC to issue guidance specifying what those tailored expectations are.

Examiners' interactions with banks

Just as the OCC should tailor its written guidance, its examiners' interactions with banks should be similarly tailored. Some of the largest institutions are keenly aware of their climate risks and began taking steps to mitigate those risks even before the OCC issued its guidance.[2] For these institutions, examiners' climate-related responsibilities should be focused on, for example, ensuring that banks' managements have put forth policies and procedures based on the most recent science, and that staff comply with those policies and procedures. However, for smaller institutions that may not have the resources to begin adapting to the realities of climate change, examiners should have conversations with banks' boards and management so that they understand their institutions face climate-related risks and have basic information as to the range of possible responses.

Banks' public commitments

We strongly support the OCC's statement that, "where banks engage in public communication of their climate-related strategies, boards and management should ensure that any public statements about their banks' climate-related strategies and commitments are consistent with their internal strategies and risk appetite statements." Although the OCC cannot legally mandate that banks make specific public commitments regarding their loan portfolios, it should ensure that banks articulate measurable targets and take the steps necessary to adhere to those targets when commitments are made.

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[2] For example, six U.S. headquartered global systemically important banks have joined the Net-Zero Banking Alliance. See Net-Zero Banking Alliance, "Members," (last accessed February 7, 2022), available at https://www.unepfi.org/net-zero-banking/members/.

When a bank fails to adhere to its public commitments on climate change, it faces losses for both reputational and legal reasons. First, banks that make extensive climate commitments, such as commitments to be net zero by 2050, may lose customers if they fail to make significant progress on those commitments, as individuals who choose where to bank based on climate pledges may move their business away from institutions that fail to make progress on their commitments. Second, publicly traded banks that make climate commitments may face litigation under the securities laws for making materially false statements if they similarly fail to make significant progress on those commitments. To help banks avoid losses from these risks, the OCC should make clear that banks that make public climate commitments must develop and implement credible strategies for fulfilling those commitments.

Importantly, those strategies should not rely on carbon offsets, which are "tradable 'rights' or certificates linked to activities that lower the amount of carbon dioxide in the atmosphere."[3] Not only is there deep concern that many carbon offsets, as currently designed, do not work,[4] but regulators with jurisdiction over carbon markets may bring enforcement actions against sellers of offsets for fraud, severely limiting the supply and increasing the price of legitimate offsets.[5] To the extent banks wish to rely on carbon offsets to meet their commitments, the OCC should ensure that efforts are in place to substantiate that those offsets result in the removal of carbon from the atmosphere.

Fair and equitable access to financial services

The OCC's principles note that climate change "could include potentially disproportionate impact on the financially vulnerable, including low- to moderate-income (LMI) and other disadvantaged households and communities," and, accordingly, it is especially important that the OCC help ensure banks continue to provide services to these households and communities. Although there may be additional means of tackling this, the OCC should take two specific actions. First, it should issue guidance detailing how banks may continue extending credit to vulnerable communities in a safe and sound manner. The OCC should particularly focus on how banks may lend for the purchase and installation of residential solar panels, which are the types of high-dollar, long-term loans that bank examiners are traditionally reticent for banks to make.

Second, the OCC should work with the other federal banking agencies to update their Community Reinvestment Act (CRA) rules to ensure that credit flows to LMI and other disadvantaged communities to help reduce their fossil fuel emissions and to protect themselves from climate impacts. Currently, banking deserts–often in central cities and rural areas–are excluded from the benefits promised by the CRA because they are not in any institution's assessment area. The OCC should update its CRA regulations to ensure that banks with a nationwide presence direct investment into all underserved

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[3] *See e.g.*, Angelo Gurgel, "Carbon Offsets," MIT Climate Portal, September 11, 2020, available at https://climate.mit.edu/explainers/carbon-offsets.

[4] *See e.g.*, Lisa Song and Paula Moura, "An Even More Inconvenient Truth: Why Carbon Credits for Forest Preservation May Be Worse Than Nothing," ProPublica, May 22, 2019, available at https://features.propublica.org/brazil-carbon-offsets/inconvenient-truth-carbon-credits-dont-work-deforestation-redd-acre-cambodia/.

[5] Todd Phillips, "A Climate and Competition Agenda for the Commodity Futures Trading Commission," American Progress, February 1, 2022, available at https://www.americanprogress.org/article/a-climate-and-competition-agenda-for-the-commodity-futures-trading-commission/ ("The CFTC has jurisdiction over carbon offsets through its authority to address fraud and market manipulation in spot commodity markets…and it can hold offset issuers accountable if they promise carbon reductions that do not, or simply cannot, occur.").

communities, not only those surrounding physical branches. Further, the OCC should explore a climate resilience and environmental justice finance mandate for the CRA, which would give banks credit for providing loans for projects such as energy efficient and climate resilient affordable housing, installation of community solar energy projects, and others.[6]

Scenario analyses and data collection
When developing climate scenario analysis guidance, we encourage the OCC to keep in mind several key points.[7] First, we note that it is not necessary for the OCC's initial guidance or scenarios to be perfect. Scenario analysis is an evolving effort that will improve after each iteration. Rather, it is important for banks to begin conducting their analyses quickly in order to learn from them. We recommend the OCC utilize the scenarios for the National Climate Assessment as a basis for its initial scenarios,[8] as well as resources developed by other federal agencies, such as the Environmental Protection Agency's summaries of research investigating the sectoral impacts of climate change.[9]

Second, in addition to banks with assets above $100 billion, mid-size, regional banks should be required to undertake climate-related scenario analyses as well. Regional bank, with portfolios that may not be as diversified as those of larger banks, may experience higher rates of failure and branch closures as a consequence of natural disasters that affect only one part of the nation. Accordingly, safety and soundness concerns necessitate climate scenario analyses for mid-size institutions, though those analyses may not need to be as rigorous as the ones for larger banks so long as they help banks gain a better understanding of the climate risks they face.

Third, the OCC should ensure that banks collect or otherwise have access to the data necessary to understand their portfolios' and operations' climate risks and adapt accordingly. The OCC should provide guidance detailing best practices for collecting or otherwise obtaining climate-related data. The OCC should also engage with the Securities and Exchange Commission in its forthcoming climate change disclosure rule to help ensure that banks which hold debt or equity of public companies can use that information to understand their portfolio risks.[10]

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[6] *See generally* Michela Zonta and Caius Willingham, "A CRA To Meet the Challenge of Climate Change," American Progress, December 17, 2020, available at https://www.americanprogress.org/article/cra-meet-challenge-climate-change/.

[7] The OCC's principles describe "climate-related scenario analysis" as "exercises used to conduct a forward-looking assessment of the potential impact on a bank of changes in the economy, financial system, or the distribution of physical hazards resulting from climate-related risks."

[8] U.S. Global Change Research Program, "Scenarios for the National Climate Assessment," (last accessed February 7, 2022), available at https://scenarios.globalchange.gov/.

[9] U.S. Environmental Protection Agency, "Technical Documentation on The Framework for Evaluating Damages and Impacts (FrEDI)" at 15–16, October 2021, available at https://www.epa.gov/system/files/documents/2021-10/technical-documentation-on-the-framework-for-evaluating-damages-and-impacts_maintext.pdf.

[10] RIN: 3235-AM87, (last accessed February 7, 2022), available at https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202110&RIN=3235-AM87.

Thank you again for the opportunity to comment on the RFI.

Sincerely,

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