

DATE: October 24, 2023
MEMORANDUM TO: Board of Directors
FROM: Doreen R. Eberley, Director
Division of Risk Management Supervision
SUBJECT: Interagency Guidance on Principles for Climate-Related Financial Risk Management for Large Financial Institutions

Summary: Staff is presenting for the approval of the Federal Deposit Insurance Corporation (FDIC) Board of Directors (FDIC Board) the attached interagency guidance on Principles for Climate-Related Financial Risk Management for Large Financial Institutions (Principles). The Principles provide a high-level framework for the safe and sound management of exposures to climate-related financial risks. Although all financial institutions, regardless of size, may have material exposures to climate-related financial risks, these Principles are intended for the largest financial institutions, those with over \$100 billion in total consolidated assets. The Principles are intended to support efforts by large financial institutions to focus on key aspects of climate-related financial risk management. If approved, the Principles would be jointly issued by the FDIC, the Board of Governors of the Federal Reserve System (Board), and the Office of the Comptroller of the Currency, Treasury (OCC) (collectively, the agencies).

Recommendation: Staff requests that the FDIC Board approve the attached interagency guidance on Principles for Climate-Related Financial Risk Management for Large Financial Institutions and authorize its publication in the *Federal Register*.

Concur:

Harrel M. Pettway

General Counsel

Principles for Climate-Related Financial Risk Management for Large Financial Institutions

I. Background

The financial impacts that result from the economic effects of climate change and the transition to a lower carbon economy pose an emerging risk to the safety and soundness of financial institutions¹ and the financial stability of the United States. Financial institutions are likely to be affected by both the physical risks and transition risks associated with climate change (collectively, climate-related financial risks).²

Physical and transition risks associated with climate change could affect households, communities, businesses, and governments – damaging property, impeding business activity, affecting income, and altering the value of assets and liabilities. These risks may be propagated throughout the economy and financial system. As a result, the financial sector may experience credit and market risks associated with loss of income, defaults and changes in the values of assets, liquidity risks associated with changing demand for liquidity, operational risks associated with disruptions to infrastructure or other channels, or legal risks.³

¹ In this issuance, the term “financial institution” or “institution” includes national banks, Federal savings associations, U.S. branches and agencies of foreign banks, state nonmember banks, state savings associations, state member banks, bank holding companies, savings and loan holding companies, intermediate holding companies, foreign banking organizations with respect to their U.S. operations, and non-bank systemically important financial institutions (SIFIs) supervised by the Board.

² 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. Transition risks refer to stresses to institutions or sectors arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes that would be part of a transition to a lower carbon economy.

³ *Report on Climate-Related Financial Risk*, Financial Stability Oversight Council, page 13 (Oct. 21, 2021) (“FSOC Climate Report”), available at <https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf>.

Weaknesses in how a financial institution identifies, measures, monitors, and controls the physical and transition risks associated with a changing climate could adversely affect a financial institution's safety and soundness. The adverse effects of climate change could also include a potentially disproportionate impact on the financially vulnerable, including low-and-moderate-income and other underserved consumers and communities.⁴

Accordingly, the agencies issued separate but substantively similar proposals that each provided a high-level framework for the safe and sound management of exposures to climate-related financial risks, consistent with the risk management framework described in the agencies' existing rules and guidance.⁵ Although all financial institutions, regardless of size, may have material exposures to climate-related financial risks, the OCC Draft Principles, FDIC Draft Principles, and Board Draft Principles (collectively, Draft Principles) were intended to support key climate-related financial risk management efforts by the largest financial institutions, those with over \$100 billion in total consolidated assets.

Staffs of the agencies seek to promote consistency in their climate-related financial risk guidance. Accordingly, following the issuance of the Draft Principles and collective review of comments received on each of the Draft Principles, FDIC staff is presenting for the approval of the FDIC Board the attached interagency guidance on Principles for Climate-Related Financial Risk Management for Large Financial Institutions.

⁴ For further information, see Staff Reports, Federal Reserve Bank of New York, *Understanding the Linkages between Climate Change and Inequality in the United States*, No. 991 (Nov. 2021), available at https://www.newyorkfed.org/research/staff_reports/sr991.html.

⁵ On December 16, 2021, the OCC issued draft Principles for Climate-Related Financial Risk Management for Large Banks (OCC draft principles); OCC Bulletin 2021-62, Risk Management. On March 30, 2022, the FDIC issued a Request for Comment on a Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions (FDIC draft principles); 87 FR 19507 (April 4, 2022). On December 2, 2022, the Board issued draft Principles for Climate-Related Financial Risk Management for Large Financial Institutions (Board draft principles); 87 FR 75267 (December 8, 2022).

II. Discussion of Public Comments

The agencies received numerous comments, which provided a wide range of comments that both supported and opposed the finalization of the Draft Principles. Many commenters viewed the Draft Principles as an important step to support large financial institutions in managing climate-related financial risks. Other commenters asserted that financial institutions already effectively manage climate-related financial risks or do not face material climate-related financial risks. Most unique commenters offered suggestions for changes to the Draft Principles or requested additional guidance in specific areas of the principles.

Comments received on the Draft Principles were considered in the development of the Principles and will assist the agencies as they consider whether and how to provide additional guidance in the future. Where appropriate, the agencies have clarified or adjusted the Draft Principles in response to commenters. Notably, the agencies did not incorporate suggestions for changes to the Draft Principles that would extend the Principles to matters beyond the agencies' statutory mandates relating to safety and soundness. The agencies encourage financial institutions to take a risk-based approach in assessing the climate-related financial risks associated with their customer relationships and to take into account the financial institution's ability to manage the risk.

III. Summary of Principles

The Principles provide a high-level framework for the safe and sound management of exposures to climate-related financial risks, consistent with the risk management frameworks described in the agencies' existing rules and guidance, and are intended to support efforts by

financial institutions to focus on key aspects of climate-related financial risk management in a manner consistent with safe and sound practices. The Principles provide general climate-related financial risk management principles with respect to a financial institution's governance; policies, procedures, and limits; strategic planning; risk management; data, risk measurement, and reporting; and scenario analysis. Additionally, the Principles describe how climate-related financial risks can be addressed in the management of risk areas, such as credit, liquidity, operational risk, legal and compliance risks, and other financial and nonfinancial risks. The Principles are intended to explain and supplement existing risk management standards and guidance.

Although all financial institutions, regardless of size, may have material exposures to climate-related financial risks, these Principles are intended for the largest financial institutions, those with over \$100 billion in total consolidated assets. Effective risk management practices should be appropriate to the size of the financial institution and the nature, scope, and risk of its activities. The agencies understand that expertise in climate risk and the incorporation of climate-related financial risks into risk management frameworks remain under development in many large financial institutions and will continue to evolve over time. The Principles are intended to provide guidance to large financial institutions as they develop strategies, deploy resources, and build capacity to identify, measure, monitor and control for climate-related financial risks.

The Principles are intended to promote a consistent understanding of the effective management of climate-related financial risks. The agencies may consider providing additional resources or guidance, as appropriate, to support financial institutions in prudently managing these risks while continuing to meet the financial services needs of their communities.

If approved, the Principles would be issued jointly by the FDIC, Board, and OCC in the *Federal Register*.

IV. **Conclusion**

FDIC staff requests that the FDIC Board approve the attached interagency guidance on Principles for Climate-Related Financial Risk Management for Large Financial Institutions and authorize its publication in the *Federal Register*.

Staff contacts:

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