

February 14, 2020

Chief Counsel's Office
Office of the Comptroller of the Currency
Suite 3E-218
400 7th Street, SW
Washington, DC 20219
Via: Federal eRulemaking Portal at: <https://beta.regulations.gov/docket/OCC-2020-0042>

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

Dear Acting Comptroller Hsu,

On behalf of Public Citizen, a national public interest advocacy group, and more than 500,000 members and supporters, we welcome the opportunity to comment on the Office of the Comptroller of the Currency's (OCC) Principles for Climate-Related Financial Risk Management for Large Banks (the Principles). These principles are timely given the OCC's recent acknowledgment that climate change presents emerging risks to the safety and soundness of banks and to the financial system. Providing supervisory expectations for banks is a critical first step to advancing bank efforts to assess and address these risks.

The Principles provide a strong foundation for protecting large bank safety and soundness, as they identify unique characteristics of climate-related risks while also insisting that banks incorporate climate risk into their existing risk management plans.

We appreciate that the Principles recognize how climate risk management decisions have implications for a bank's broader community impacts. First, the Principles highlight how a bank's decisions to manage climate risk by increasing credit costs or decreasing credit availability have the potential to disparately harm communities of color and low-income communities. Second, they draw connections between a bank's publicly stated climate commitments, its internal management strategies, and its safety and soundness. In both of these areas, banks are already acting in ways that raise concerns.

The Principles should be strengthened by (1) acknowledging and addressing risks to smaller community and agricultural banks; (2) providing additional guidance on how banks should account for the unique aspects of climate-related financial risks, and additional detail on how to integrate those risks into broader risk

management structures; (3) indicating ways to ensure that banks' internal strategies align with their public commitments; and (4) ensuring fair access to financial services. The Principles should also be a first step in a broader regulatory program of protecting banks and the financial system from climate-related risks. The OCC should follow these Principles by exploring measures to make the banking system more resilient to the risks of climate change, including developing robust scenarios for scenario analysis at the insured depository level, incorporating climate-related risks into risk-weighted capital requirements, and considering measures such as a climate risk capital surcharge for the largest banks and concentration and portfolio limits for the riskiest assets.

To protect both bank safety and soundness and the communities those banks are supposed to serve, we encourage you to quickly finalize these Principles as guidelines for safety and soundness under 12 U.S.C. § 1831p-1. Once finalized, these guidelines should serve as a basis for the additional, detailed guidance discussed in the Principles, starting with guidance on fair lending and climate commitments.

I. Smaller banks also need supervisory oversight and support of their climate-related risk management

The focus on climate risk-related exposures of large banks—bank entities with over \$100 billion in total consolidated assets—only tangentially addresses the immediate and longer-term threats to the safety and soundness of community and agricultural banks, and, in turn, fair access to financial services by marginalized communities served by these banks. More than 80 percent of the institutions supervised by the Office of the Comptroller of the Currency (OCC) are community banks and federal savings associations.¹ Community banks are the only physical branches that serve more than one in five of the nation's 3,100 counties.

A recent analysis of bank exposure to physical risk notes that there “are already examples of climate-related disasters that have fundamentally impacted the safety and soundness of community banks and credit unions.”² These banks face heightened safety and soundness concerns:

Based on their local expertise, community banks tend to focus on a few key sectors, such as residential mortgages, commercial real estate (CRE), small business financing, and agricultural sector loans. Given this focus, community bank loan portfolios are more exposed to the physical risks of climate change considering the

¹ OCC, “[Community Banks](#)” (Access Feb 10, 2022)

² Ceres, [Financing a Net Zero Economy: The Consequences of Physical Climate Risk for Banks](#), (Sept. 8, 2021).

vulnerability of these sectors to acute weather events in the near term and transition risks in the medium to long term.³

The Commodity Futures Trading Commission’s Climate-Related Market Risk Advisory Subcommittee concluded that such climate-related “sub-systemic shocks” significantly threaten the financial health of community and agricultural banks.⁴ It additionally indicates that, when these threats materialize, small businesses, farmers, and households can be left without access to critical financial services—with particular damage to “areas that are already underserved by the financial system, which includes low-to-moderate income communities and historically marginalized communities.” It describes that such repeated sub-systemic shocks represent “a *systemic crisis in slow motion*.”

Made apparent by these and other reports is the reality that the more direct, immediate physical impacts of climate change to homeowners, local infrastructure, and local businesses distinguish climate risk from previous financial risks. Climate-related impacts can create significant credit and operational risks for banks within a region even in the absence of failures of large institutions and a systemic crisis tied to their interconnectedness. A focus only on exposures to large institutions will not address these risks.

Threats to the safety and soundness of community and agricultural banks and continued access of marginalized communities to financial services, raise novel challenges for developing effective risk management measures. Unlike large banks, community and agricultural banks cannot easily move or significantly shift portfolios; they exist primarily to serve local community needs. And taking such measures would only further disadvantage the local communities that rely on them. The OCC cannot simply ignore these risks.

The most effective and important risk management measures for these banks are building resilience and reducing the financing of greenhouse gas emissions across the banking system. The Principles should highlight this dimension in several provisions. Among the most important are the provisions directing banks to ensure that their public statements are consistent with their internal strategies and the provisions acknowledging the potential fair lending impacts of climate risk management. Other useful provisions include those encouraging large bank attention to transition risks, longer time horizons for considering their exposures, and possible limits on financing activities. Important, as well, is the provision indicating the OCC’s attention to best practices in other jurisdictions. Each of these provisions is discussed in the broader context of the OCC’s expectations for large banks below, but we encourage the OCC to highlight the importance of these provisions for protecting smaller banks as well.

³ *Id.*

⁴Climate-Related Market Risk Advisory Subcommittee, [Managing Risk in the U.S. Financial System](#), Commodity Futures Trading Commission (Sept. 2020).

II. Large banks need more detailed direction on how to address the unique characteristics of climate-related risks and integrate them into existing risk management processes.

The Principles reinforce that weaknesses in how banks identify, measure, monitor and control potential climate-related financial risk can threaten bank safety and soundness.⁵ To assure the safety and soundness of banks under its jurisdiction,⁶ the OCC can prescribe standards relating to internal controls, loan documentation, credit underwriting, and other operational and managerial standards, as well as for asset quality.⁷ Such standards may be prescribed by either regulation or guideline.⁸ Because they are not titled as a notice of proposed rulemaking or published in the Federal Register, it appears that the Principles are a proposed guideline. To appropriately set bank expectations and act in accordance with its mandate, we encourage the OCC to clarify that it is issuing these principles as a guideline under 12 U.S.C. § 1831p-1.

Overall, the Principles provide an important foundation for appropriately integrating climate-related financial risk into a bank's broader risk management structures. As appropriate for a threat to safety and soundness, the Principles make clear that banks must address climate risk management at every level of their business, from the board level on down. This approach reflects international best practices, as well as the magnitude of the threat that climate risk poses. The Principles also appropriately direct banks not to silo climate-related financial risks, but to make them a part of broader internal controls, including the bank's credit risk appetite and lending limits. This approach helps make sure that the breadth of potential climate risk impacts is incorporated into a bank's operations, instead of being siloed in a separate climate risk function with limited influence on risk taking.

The Principles also start to recognize the ways that climate-related financial risk differs from the other forms of risk that banks ordinarily seek to manage. As other regulators have discussed, the effects of climate-related financial risk will manifest in uncertain ways over a long time horizon.⁹ The Principles reflect this by encouraging banks to assess climate risk over a time horizon that may extend beyond a bank's typical strategic planning horizon, and by recommending scenario analysis and other tools for measuring such uncertain exposures.¹⁰ Climate-related financial risks are also highly correlated, in ways that may make

⁵ OCC, [Principles for Climate Related Financial Risk Management for Large Banks](#) (Principles), 1 (Dec. 16, 2021).

⁶ 12 U.S.C. §1.

⁷ 12 U.S.C. §1831p-1.

⁸ Id.

⁹ See, e.g., Bank of England Prudential Regulation Authority, "[Enhancing banks' and insurers' approaches to managing the financial risks from climate change](#)," Supervisory Statement, (April 2019).

¹⁰ Principles at 2

traditional hedging and insurance approaches to risk management ineffective.¹¹ The Principles recognize this by recommending that management assess potential changes in correlations across exposures or asset classes, and set credit risk appetite and lending limits in ways that reflect those potential correlations.¹²

From this foundation, the Principles can be strengthened by providing more detailed expectations for how banks address climate change. These additional expectations fall into two categories: additional guidance for how banks should account for the unique aspects of climate-related financial risks, and additional detail on how to integrate those risks into broader risk management structures.

A. Banks need more guidance on managing the unique characteristics of climate-related risks.

1. Banks must follow a precautionary approach rather than relying solely on hedging, insurance, and diversification.

A lesson of the 2008 financial crisis is that even large and sophisticated banks like Lehman Brothers or Wachovia could not engineer away threats that were too uncertain, too correlated, or too profitable. Hedging and insurance are always susceptible to tail risks and unexpected developments. Particularly for longer-term scenarios where global temperatures exceed 1.5°C, relying on these solutions may introduce new risks instead of mitigating first-order ones. Climate change will continue generating new and unpredictable risks that may turn diversification into correlation.

A bank's response cannot be to ignore uncertain or unpredictable risks until they can be appropriately modeled. Rather, the OCC should encourage banks to adopt a precautionary approach to climate-related financial risk. This is the approach to general climate risk favored by experts like the United Nations Framework Convention on Climate Change and the Intergovernmental Panel on Climate Change. It has also been endorsed as part of the White House's climate financial risk roadmap.¹³ It would be reasonable for the OCC to follow the lead of climate scientists and experts who have concluded that action cannot rely on precise quantification and assessment of the risks posed by climate change.

A precautionary approach means prioritizing reducing risk even where there is not full certainty about its magnitude or probability and in the absence of perfect scientific or economic data. Implementing this approach could mean taking on less risk than what models suggest is acceptable, on the assumption that those models do not accurately quantify the likelihood or magnitude of all relevant risk factors, and showing greater sensitivity to high-magnitude risks even when

¹¹ New York Department of Financial Services, [Guidance for New York Domestic Insurers on Managing the Financial Risks from Climate Change](#) at 15.

¹² Principles at 4

¹³ "[A Roadmap to Build a Climate Resilient Economy](#)", The White House, October 14, 2021 at 17.

models suggest they are remote. This latter strategy is particularly apt in the climate context. Climate models themselves under-forecast harms, largely because significant aspects of climate change cannot be modeled yet. The science is being updated constantly, and most updates darken the outlook.

When developing risk management procedures, precautionary approaches also entail not just avoiding unacceptable harms, but planning for resilience to inevitable failures. And they counsel banks to assume every part of the business is subject to climate risk, even in seemingly implausible lines of business. Global warming is still increasing and, even if it weren't, scientific knowledge is still developing.

2. Banks should reduce risks now, even if they are unlikely to manifest for many years.

A related challenge is the long time horizon under which many climate-related risks may manifest. As the OCC recognizes in the Principles, typical bank strategic plans consider the risks and opportunities of the next three to five years and may not be well suited for identifying or avoiding risks that may take 30 or 40 years to fully manifest. As the time horizon lengthens, it becomes more difficult to project how a bank's operations and the broader economic context will develop.

The OCC recommends that banks use scenario analysis to better assess risks outside of the standard time horizons. But improved assessment will help mitigate risk only if banks embed the findings into their risk models and management tools today. The uncertain and non-linear nature of climate harms means that adverse outcomes projected to occur in 20 or 30 years based on the best current climate science could manifest much sooner, or with much greater severity. In addition, long duration assets that appear entirely safe in a three to five year horizon may become extremely risky over two or three decades. Finally, bank assets can become path dependent, as even short-duration assets are typically refreshed with substantially similar ones. A failure to start reducing foreseeable risks now means that necessary future readjustments may be far sharper and more disruptive to a bank's business and to its customers. To better manage these risks, banks should be taking steps now to mitigate risks that they believe will not manifest for years instead of assuming that they can mitigate those risks in the future.

3. Banks should develop plans for protecting their safety and soundness from the zero emissions transition.

A particularly important example of the need to manage risk for long time horizons is how banks plan for the zero-emissions transition. Governments and most major banks have said that they are pursuing net-zero emissions by 2050 targets, in line with the Paris Climate Agreement. The most recent set of

commitments by Citi, which other major banks will likely follow, include commitments to make concrete reductions in financed fossil fuel emissions by 2030.¹⁴ But even Citi has not committed to ending financing for expanded fossil fuel activities.

This poses a contradiction: on the one hand, banks are projecting a world where emissions fall off sharply in order to keep global warming to within 1.5°C of pre-industrial temperatures. On the other, banks are continuing to fund new fossil fuel projects, which the International Energy Agency has concluded are incommensurate with that climate target. Such new projects, which are usually capital intensive and can feature long payback periods, may become stranded long before they have fully amortized their costs. Although banks may be able to decline to roll over a loan to a company before its assets reach this point, this risk management strategy likely relies on the company being able to find financing elsewhere to repay the loan principal. If the market for emissions-intensive assets shifts more quickly than expected, refinancing with another lender may be impossible, leaving the bank to choose between holding a rapidly degrading loan or a default.

To avoid the negative balance sheet effects of a sudden repricing, banks should develop and implement plans for responding to this transition. Such plans should reflect projections for when high-emissions activities and asset classes will be phased out, based on the latest government and private sector announcements. They should then develop a feasible pathway for reducing the bank's own exposure to such sectors in a way that mitigates the fire sale risk of a faster-than-expected transition. Because hedging and insurance may become less reliable tools to manage exposure as climate change worsens,¹⁵ banks should include plans for actually reducing their holdings of the riskiest assets in those plans.

B. Banks should better integrate climate-related financial risk into existing structures

1. The OCC should add standards for assessing asset quality to its guidance.

The OCC's mandate to prescribe standards for safety and soundness includes standards relating to asset quality.¹⁶ The FSOC's Report on Climate-Related Financial Risk repeatedly highlights the way that both the physical harms of climate change and the ongoing transition toward clean energy and away from greenhouse gas emissions may lead to sharp changes in the values of certain

¹⁴ Sierra Club, [Citigroup Surpasses Peers With Absolute Emissions Reduction Target for Energy Finance. Still Fails to Rule Out Support for Fossil Fuel Expansion](#), (Jan 19, 2022).

¹⁵ Lael Brainard, [Building Climate Scenario Analysis on the Foundations of Economic Research](#), Speech at the 2021 Federal Reserve Stress Testing Research Conference, Federal Reserve Bank of Boston, (Oct. 7, 2021).

¹⁶ 12 USC §1831p-1.

assets.¹⁷ Because of this risk, banks will need to incorporate climate-related risks into their assessment of numerous affected asset classes.

The Principles should provide some initial expectations for how banks will undertake such assessments. This would be in keeping with standard practice, as the OCC Comptroller's Handbook provides extensive guidance on assessing asset quality as part of a safety and soundness exam. It includes specific booklets on numerous asset classes that are subject to both physical and transition risks, including oil and gas lending, agricultural lending, and real estate lending. It also includes booklets on asset quality issues that may affect banks across asset classes, such as concentrations of credit and rating credit risk.

The OCC should immediately highlight that all of these asset classes are susceptible to climate-related risk and that climate risk is another vector for cross-asset class risks. As an example, reserve-based lending to oil and gas exploration companies is based on assumptions about the value of proven producing reserves, subject to semi-annual borrowing base redeterminations. The OCC should explicitly state that banks need to take transition risk into account in valuing those reserves and in making assumptions about how quickly the value of a producer's borrowing base may decline. It should recommend that banks incorporate similar climate considerations into their asset quality assessments across the board. The OCC should also announce its intention to revise individual booklets to reflect the specific approaches needed to manage climate-related risk.

2. The OCC should monitor climate-related risk data used for decision making.

The Principles direct banks to consider climate-related financial risks as part of their underwriting and monitoring of portfolios.¹⁸ For banks to do this effectively, they must require useful climate-related risk information from potential clients and have the capacity to assess that information's veracity and completeness. At a minimum, the information banks need should include information compliant with the Task Force on Climate-Related Financial Disclosures recommendations, including a company's metrics, targets, and transition plans.¹⁹ For instance, for underwriting credit, banks should review the direct and indirect emissions attributable to a company at present, as well as projections of how an extension of credit would affect those emissions. This will help a bank assess the transition risk it assumes from extending credit. Banks should also ask for a company's own transition plans and understand how it is preparing for a coming net-zero transition. That will help the bank better understand a potential client's vulnerability to transition risk.

¹⁷ Financial Stability Oversight Council, [Report on Climate-Related Financial Risk](#), 2021.

¹⁸ Principles at 4.

¹⁹ Task Force on Climate-Related Financial Disclosures, [Guidance on Metrics, Targets, and Transition Plans](#), 2021.

Banks may find it difficult to obtain such information from some clients and resist such a process. But a company's failure to generate this information is itself a red flag about its ability to effectively manage climate risk, and should raise concerns about the safety and soundness of a loan. If banks feel that the current state of available information is insufficient to appropriately assess climate-related risk, then they should work with the Securities and Exchange Commission to develop and adopt disclosure and audit rules that standardize and improve the transparency of such information for reporting companies, as well as to broaden the scope of companies that must report such information.

To help it assess how effectively banks are managing these risks, the OCC should also work with the Federal Financial Institutions Examination Council (FFIEC) to require disclosure of relevant climate risk-related information in the Reports of Condition and Income, colloquially known as "call reports," that banks periodically file. Call reports today capture certain climate-related risk data, such as agricultural, automobile, and real estate assets, but they do not provide details on the geographic distribution of loans or exposure to the fossil fuel industry. The report should add a series of line items to each applicable schedule about loans for fossil fuel exploration, production and fossil electricity generation, as well as securities backed by these assets and derivatives referencing them. As with real estate lending on the current call report, these loans should be broken out by duration, with detailed information about allowances for losses on loans with terms of three or more years, which are particularly exposed to transition risk. The call reports should also add additional information about exposure of existing loan types to physical risks, such as separate line items for loans and asset-backed securities secured by real estate in flood zones or high wildfire risk areas.

It should not be any additional burden on banks to disclose this information, even if it does not align precisely with other reporting frameworks, such as the one under consideration at the Securities and Exchange Commission. Information about bank exposures to high-risk assets should already be part of management information systems and risk monitoring reports. If banks struggle to gather this information, then the OCC should be deeply concerned. It is likely that these banks will also struggle to monitor and mitigate risks properly.

III. To be aligned with common types of public climate commitments, banks' internal management strategies must follow climate science.

We applaud the Principles for addressing banks' climate commitments. Recently, seven US banks with insured depositories overseen by the OCC have made specific commitments to "net-zero" emissions as part of the bank-led Net-zero Banking Alliance (NZBA) initiative under the Glasgow Financial Alliance for Net

Zero (GFANZ).²⁰ Other banks have made similar public commitments through other venues. For members of the NZBA, commitments include reducing the emissions financed via their lending or investment activity, as well as direct emissions from operations.

A number of watchdog groups have raised questions about the sincerity of these commitments, pointing out that banks with insured depositories under the OCC's jurisdiction are among the largest fossil fuel funders in the world.²¹ This disconnect should raise serious concerns for bank regulators. It suggests that public management statements about a bank's strategic direction are not reflected in its operational decision-making and internal controls. If the failure occurs in such a public, high stakes arena, it should create doubts about how effectively management can transmit other strategic direction and risk management initiatives throughout the business. Such doubts indicate serious risks to a bank's safety and soundness.

The Principles' direction that banks must align their internal management strategies and public climate commitments demonstrates the OCC's understanding of this connection. Along with positive reputational benefits, transitioning from financed emissions is a way to manage climate risk.²² Where banks cannot or do not bring their internal practices in line with their commitments, that failure should serve as an early warning sign that the bank may not be able to implement other climate risk management imperatives into its operations. Like climate risk management, climate commitments are a developing field. Although a number of standard setters like the NZBA are working to align criteria across banks, there is still no single definition or standard for what a commitment means. To help banks understand how the OCC will evaluate the alignment of their public commitments and internal management strategies, the OCC should quickly follow these Principles with additional guidance on this topic. Among the most significant questions this guidance should address are (1) reliance on offsets; (2) limits on new fossil fuel development and phasing out of fossil fuels; and (3) measurable near-term targets.

1. Banks should not rely on offsets to achieve their net zero commitments.

Some bank climate commitments rely, either implicitly or explicitly, on financing reductions of carbon in the atmosphere in addition to reducing the level of emissions financed by the bank.²³ As implemented, these reductions are intended to cancel out existing emissions, instead of ending them. This is the "net" in net zero commitments. Such approaches are referred to as offsets.

²⁰ Center for American Progress, "[The Net Zero-Banking Alliance](#)," (Nov. 4, 2021).

²¹ Rainforest Action Network et al., [Banking on Climate Chaos: Fossil Fuel Finance Report 2021](#).

²² NYDFS Guidance, *supra* note 10.

²³ Anne Finucane, "[Carbon Offsets Can Help in the Transition to Net Zero](#)," Bank of America Newsroom (Jun. 8, 2021).

Significant concerns exist about the efficacy of relying on nature-based offsets, such as forests and wetlands, as sinks of greenhouse gasses. These include the exaggeration of the level of additional carbon emissions actually avoided for preservation of existing forests, the limits on the level of emissions that can reasonably be sequestered via the creation of new natural carbon sinks, and the challenges of protecting natural sinks from human and natural impacts in ways that keep the emissions from being returned to the atmosphere at a later date.

- *Exaggeration of additional emissions reductions:* Many carbon offset deals pay for the manager of a forest to continue what they are already doing, creating a challenge for assessing the “additionality” of an offset. For instance, in 2019, the Albany Water Board sold carbon credits generated by “preserving” forestland in the city’s watersheds.²⁴ It calculated the purported level of avoided emissions by using as a baseline the amount of carbon that would be emitted if the land were industrially managed. But the Albany Water Board does not harvest timber, and had not previously indicated any intention of selling the land. Any emissions avoided as a result of this deal were purely hypothetical. At best, the carbon credits had no impact on emissions; at worst, they were used to justify *increased* emissions. Such baseline accounting is typical of large dealers in carbon offsets and acceptable to many offset standard setters.²⁵ Banks relying on this kind of offset are performing an accounting trick, not reducing carbon emissions. These offsets should not be permitted, and a bank’s attempt to rely on them should raise questions regarding management’s competence to meet any of its commitments or, alternatively, its willingness to use other accounting tricks to create the appearance of meeting them.
- *Limits on sequestration:* Another approach to carbon offsets is afforestation or, more plainly, planting trees. This superficially appealing idea rapidly runs into challenges of scale. As of 2021, global climate pledges already set a near term goal of using afforestation to sequester 2 gigatons of CO₂ emissions annually.²⁶ Meeting those commitments would require ecosystem restoration of 678 million hectares—twice the land area of the country of India.²⁷ That level of afforestation is not plausible for one year, much less annually, and attempts to pursue it on that scale would likely trigger negative consequences for Indigenous peoples and local

²⁴ Dr. Charles D. Canham, “[Rethinking forest carbon offsets](#),” Cary Institute of Ecosystem Studies, (May 19, 2021).

²⁵ Ben Elgin, “[JPMorgan, Disney, Blackrock Buy Nature Conservancy's Useless Carbon Offsets](#),” Bloomberg, (Dec 9, 2020).

²⁶ Doreen Stabinsky, [Chasing Carbon Unicorns: The Deception of Carbon Markets and Net Zero](#), Friends of the Earth International (Feb. 2021).

²⁷ *Id.*

- communities residing on the land targeted for afforestation. Reliance on afforestation for offsets at any scale is simply implausible, and should raise questions about management’s ability to assess the feasibility of a project.
- *Protecting carbon sinks:* Even assuming that some nature-based projects actually sequester carbon emissions relative to a reasonable baseline, there is still a challenge of maintaining them over time. Unfortunately, the increasing physical impacts of climate change create a new set of hazards. The increasing frequency of wildfires in 2020 and 2021 has burned a number of projects designed to sequester carbon in Oregon.²⁸ Some offset projects have “buffer pools” of unused emissions, but the growing frequency of wildfires will only increase the risk that those pools will be exceeded, rendering their contribution to a net-zero pledge null.

In addition to these nature-based offsets, there are efforts to develop or deploy carbon removal technologies, such as carbon capture, utilization and storage (CCUS), and direct air capture (DAC). Both technologies are largely unproven with existing demonstration projects exhibiting challenges. For instance, a hydrogen plant that Shell touted as using a carbon capture system actually emitted 50% more greenhouse gasses than it sequestered during the period of its operation.²⁹ Meanwhile, the cost to capture carbon dioxide at the world’s largest direct air capture plant is four to eight times higher than what is needed to turn a profit.³⁰ The plant’s operator does not expect direct air capture to be cost competitive until the late 2030s at the earliest. Assuming for the sake of argument that this projection is accurate, the technology will be far too late to play a significant role in meeting science-based emissions targets. Given these challenges, banks relying on these technologies in their net zero plans should have to demonstrate specific, committed projects that are fully proven to reduce carbon safely and permanently at scale, and appropriately incorporate the cost of both funding and adequately monitoring those commitments into their profitability forecasts. No projects currently meet these criteria, and there may be none for decades, if ever. Given the current state of development, reliance on this technology to generate meaningful emissions reductions as part of a net-zero commitment should be viewed with extreme skepticism.

As a result of these concerns, and the current scarcity of offsets that meet quality standards, offsets are becoming increasingly disfavored among those seeking to reduce emissions in the financial sector and beyond. GFANZ Chair Mark Carney has indicated that use of such “carbon offsets” should be a “last resort” to cover residual emissions that remain at the conclusion of an extensive process to reduce absolute emissions to zero. Similarly, the European Commission and Parliament recently provisionally agreed on the need to prioritize emissions

²⁸ Debra Kahn, [Wildfires rage and a tool to combat climate change goes up in smoke](#), POLITICO (July 27, 2021).

²⁹ Global Witness, [Hydrogen’s Hidden Emissions](#) (Jan 20, 2022).

³⁰ *Id.*

reductions over emissions removals. The clear global standard is that claims of alignment with science-based targets should be based almost entirely on reducing financed emissions. The OCC should provide guidance on how it will assess the emissions removal component of climate commitments that reflects the challenges in employing them recognized by other regulators and standard setters.

2. *Any science-based climate commitment must include a bar on financing new fossil fuel projects.*

The International Energy Agency's Net Zero Emissions Scenario and related Roadmap for the Global Energy Sector say that, to limit global temperature rise to 1.5°C and meet Paris Agreement goals, new fossil fuel development cannot be permitted. But, as discussed above, U.S. banks, including JPMorgan Chase, Citi, Wells Fargo, and Bank of America are the most significant financiers of fossil fuels globally and have continued to fund both new and existing development despite voicing their support for the Paris Agreement. Only Citi has made commitments to reduce the absolute volume of financed emissions from energy sources, but even its commitment lacks any plan to cease funding for new fossil fuel development. This means these banks are not aligning their management plans with their climate commitments, and cannot do so as long as they do not exclude fossil fuel expansion from their business. The OCC should, as part of its guidance, explain how it will assess the alignment of continued support for fossil fuel expansion and other high emissions sectors, with net-zero climate commitments.

3. *Climate commitments must include short and medium-term targets.*

Most banks' climate commitments promise net-zero financed emissions by 2050. Few, however, give any intermediate timelines or metrics for how they will achieve them. Given the transition risk faced by high-emissions assets, this is not a safe and sound practice. Banks that expect to do the bulk of their emissions reductions in the late 2030s and 2040s may find a limited market for those assets, especially if other banks have the same idea. Such a situation could require writedowns of asset values that would threaten a bank's solvency. Measurable, near-term, sector-specific targets for absolute financed emissions are centrally important to monitoring whether a bank has a credible plan to meet its climate commitments and is executing the plan effectively. Cit's recent climate commitments reflect this reality, with significant emissions drawdowns by 2030, although it fails to meet another reality, the need to end new development. The OCC should provide guidance on what a safe and sound emissions reduction pathway looks like, and the specific milestones that will help examiners assess whether a bank can credibly align its business with climate commitments in a safe and sound fashion.

IV. The OCC should issue additional guidelines to protect vulnerable communities from the disparate impact of climate-related risk management.

The guidance also addresses two key ways climate risk threatens fair access to financial services. The first threat to fair access, as described above, is through impacts to the safety and soundness of local banks. As indicated above, 92% of banks in the US are local banks. They are more vulnerable to climate risk than larger banks due to the financial needs they meet, but are also critically important for rural communities and marginalized communities. Along with addressing the threats that the climate crisis poses to individual bank safety and soundness for all banks, the OCC could also focus on limiting bank mergers and strengthening the Community Reinvestment Act as tools for extending credit in underserved areas.

The second threat to access is through measures taken by banks to reduce their own exposures to climate-related credit and other financial risks. As the impacts of climate change become more severe, they exacerbate long-standing issues of environmental racism. Environmental racism is when communities of color suffer disproportionate exposure to toxins and other environmental threats.³¹ It is the product of choices over decades by governments and corporations across a range of decision-making areas, from land use permissions to lax law enforcement for polluters. For similar reasons, climate change will disproportionately hurt communities of color and low-income communities. For instance, communities of color comprise a majority of the two million Americans who reside within a mile of locations vulnerable to increasing flooding.³² Due to decades of disinvestments and the resulting low tax base, these communities lack the drainage and sewer infrastructure necessary to withstand more frequent flooding—and also lack the resources to build it. Other effects of outdated housing and infrastructure will also expose already vulnerable communities disproportionately to increasing severity and frequency of extreme weather and heat.³³

As banks recognize the negative impacts of the climate crisis on their business, these structural disadvantages are increasingly reflected in the practice of “bluelining,”³⁴ or identifying areas as at higher environmental risk and raising costs or avoiding underwriting in those areas. A bank’s seemingly risk-based analysis will follow the same or similar boundaries as those established by

³¹ Michela Zonta and Zoe Willingham, *A CRA To Meet the Challenge of Climate Change: Advancing the Fight Against Environmental Racism*, Center for American Progress, (December 2020,) <https://www.americanprogress.org/issues/economy/reports/2020/12/17/493886/cra-meet-challenge-climate-change>

³² *Id.*

³³ Johanna Bozuwa and Thomas Hanna, “Building Community Wealth Through Community Resilience” 14 *Comm. Dev. Innov. Rev.* 1, 87 (Oct. 2019)

³⁴ Abraham Lustgarten, “[How the Climate Crisis Will Shape Migration in America](#),” *The New York Times* (Sept. 15, 2021).

previous redlining decisions that have created and perpetuated racial and economic inequality in the United States. This bluelining itself will further entrench inequality and racial disparities. Areas free of the negative effects of bluelining can use their existing tax base to invest in climate adaptation, which will allow them to retain access to credit, while the loss of insurance in bluelined areas will lower property values, degrade the tax base, and make it harder for those communities to invest in necessary adaptation.

Potentially harmful bank measures are likely to include closing branches in ‘hot-spot’ areas, increasing costs related to financing in these areas or limiting the availability of credit, and pursuing other measures that could reduce access to services. Such concerns may be particularly exacerbated in certain lines of business, like mortgage lending, if insurer withdrawals occur at the same time.³⁵

The proposed guidance recognizes this threat, indicating, as part of its “Management Risk Areas” principle, that bank boards and management should consider how risk mitigation measures disproportionately impact communities on the basis of race, ethnicity, or another prohibited basis.

While the guidance’s attention to disproportionate impacts is welcome, banks may find that it pushes them in multiple directions. That is, while the guidance directs banks to do what they can to reduce their exposures, it also notes that some key measures are not acceptable due to disproportionate impacts to marginalized communities. The OCC should move quickly to issue additional guidance on how banks can continue to extend credit to vulnerable communities while acting in a safe and sound manner. For instance, the OCC could encourage banks to reduce risk elsewhere, such as lending that is particularly vulnerable to transition risk, while preserving access to credit for low- and middle-income communities. This approach will allow a bank to manage risk and bolster its resilience without unduly restricting credit for marginalized communities.

This guidance should be particularly attentive to the needs of smaller banks, who may feel that climate risk management would render large swathes of their business unsafe. The OCC’s expanded guidance on fair access should reinforce the important role that these local and community banks can serve in expanding access to credit. It should explicitly tell these banks how they can incorporate climate risk data into their existing local knowledge without drawing concerns about unsafe and unsound practices. And it should make it clear that examiners will assess the risk associated with lending in support of climate resilience and adaptation for underserved communities with more leniency, as long as it follows well-designed policies and procedures.

To help small banks further, the OCC should look for ways to offer standardized climate data and modeling tools to these banks. With a growing attention to climate risk, providers are raising prices or increasingly being absorbed by large

³⁵ Brainard, *supra* note XX.

financial institutions.³⁶ The OCC, in conjunction with Federal Reserve Banks and the FDIC, could help provide needed data and modeling to banks that lack the resources to develop or purchase it, helping keep them safe.

V. The OCC should continue seeking alignment with other jurisdictions.

The Principles state that the OCC aims to consider best practices from other jurisdictions that are advancing efforts and measures that might have significance for the US. We encourage the OCC to use these efforts as a guidepost on where to go from here. Such efforts include, for example, plans by the European Central Bank (ECB) and European Commission to require banks to develop “Paris-compatible transition plans” that will “steer their business towards a smooth transition to carbon neutrality.”³⁷ UN Secretary-General Antonio Guterres is establishing an expert panel “to propose clear standards to measure and analyze net-zero commitments from non-state actors,” as the GFANZ begins to “start moving transition plans to a rules-based (regulatory) footing.”³⁸ Moreover, the ECB, China’s central bank, and other central banks are actively exploring the need for other supervisory measures to respond to climate risk, including the need for increased attention to capital requirements.³⁹

Conclusion

The Principles are an important step in protecting the safety and soundness of the American banking system from the threat of climate change. But they can only have this effect if they are quickly finalized as guidelines, and used as a departure point for issuing more detailed, tailored guidance applicable to all of the banks under the OCC’s jurisdiction. We look forward to working with you on these next steps.

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

Thank you,
Public Citizen

³⁶ Andrew Freedman, [Why big financial firms are scooping up climate modeling companies](#), Axios (Jan. 7, 2022).

³⁷ Frank Elderson, “[Overcoming the Tragedy of the Horizon: requiring banks to translate 2050 targets into milestones](#),” Financial Markets Authority’s Supervisory Conference, (Oct. 20, 2021).

³⁸ Antonio Guterres, [Statement at COP 26](#), (Nov. 1, 2021).

³⁹ Frances Schwartzkopff, A Warming Planet is About to Revolutionize How Banks Define Risk, Bloomberg (May 27, 2021).