February 14, 2022

Via electronic mail

Ms. Grovetta N. Gardineer
Senior Deputy Comptroller for Bank Supervision Policy
The Office of the Comptroller of the Currency (OCC)
400 7th St. SW
Washington, DC 20219

Re: IIF Public Comment on OCC Request for Feedback on 'Principles for Climate-Related Financial Risk Management for Large Banks'

Dear Ms. Gardineer:

The Institute of International Finance (IIF) and its members, which broadly represent the global financial services industry, appreciate the opportunity to provide public comments to the Office of the Comptroller of the Currency (OCC) on its Request for Feedback on '*Principles for Climate-Related Financial Risk Management for Large Banks*' (hereafter 'the consultation'). The IIF is the global association of the financial industry, with more than 450 members from over 70 countries, including commercial and investment banks, asset managers, insurance companies, ratings agencies, market infrastructure providers, and professional services firms.

We agree with the OCC that the way banks identify, measure, monitor, and control potential climate-related financial risks could affect their safety and soundness, and the overall stability of the financial system. As such, **we appreciate the OCC's initiative to articulate a high-level framework for the safe and sound management of exposures to climate-related financial risks, and its principles-based approach to this important topic**. Supervisory engagement, risk management, disclosure, and scenario analysis exercises are likely to be an effective toolkit for the banking industry to measure, manage, and take steps to mitigate climate-related risks.[1]

As summarized in recent analysis by the Network for Greening the Financial System (NGFS)[2] and entities such as the Financial Stability Board (FSB),[3] numerous jurisdictional authorities have already moved ahead to develop and implement prudential responses to climate-related risks and opportunities that face the banking, and broader financial, sector. **It is encouraging that many authorities across the world are seeking to move swiftly on these extremely important and pressing topics; however, an uncoordinated and rapid proliferation of new policies–given significant uncertainties and knowledge gaps–could create a fragmented, and potentially less effective, policy landscape.** Steps towards greater policy and supervisory coordination are particularly important with respect to risk management approaches of major cross-border banking institutions, many of which are currently facing a multitude of differing supervisory expectations and requirements focused on aspects of

[1] IIF, "Prudential Pathways: Industry Perspectives on Supervisory and Regulatory Approaches to Climate-related and Environmental Risks," January 2021.
[2] NGFS, "Progress Report on the Guide for Supervisors," October 2021.
[3] FSB, "Stocktake of financial authorities' experience in including physical and transition climate risks as part of their financial stability monitoring," July 2020.

climate-related risks. To convey views on approaches for achieving greater coordination, the IIF has recently submitted a public comment letter to the **Basel Committee on Banking Supervision's (BCBS) consultation on *"Principles for the effective management and supervision of climate-related financial risks,"*** which is available here. In that letter, the IIF welcomes the development of global principles to support supervisory cooperation and collaboration.

Climate risk is a global issue that warrants a coordinated and harmonized approach across jurisdictions, including in supervisory principles and standards with respect to climate risk management. As the OCC is a BCBS member and recognizing the similarities of approach between the BCBS and OCC draft principles, we appreciate the steps the OCC has taken to contribute to greater international coordination of supervisory approaches. The IIF's detailed comments on the BCBS consultative document may also be relevant to the OCC consultation given the many similarities between the two.

It would also be beneficial for the OCC to work with its domestic counterparts at the other relevant U.S. federal banking agencies to develop a streamlined, data-driven, and coherent approach to the prudential regulation and supervision of climate-related financial risks in the United States. We note that this suggestion was also made by the U.S. Financial Stability Oversight Council (FSOC) in its important October 2021 report[4] and acknowledge that the OCC has committed to work with its interagency peers on this topic.[5]

While common general principles are helpful, it is important that they are applied by supervisors in a way that is proportionate, or 'risk-based' as the OCC refers to its approach to supervision (page 2 of the consultation). Such an approach should be accommodating enough to recognize that a variety of practices can be appropriate to manage risk and that firms' current risk management frameworks, which vary, can be leveraged to do so. It is important that principles addressed to banks are used and referenced by supervisors in a proportionate way, recognizing banks' different starting positions, business models and geographical footprints as well as general risk profiles, which affect the materiality of certain climate risk drivers as sources of microprudential risk.

The OCC draft principles are currently directed at national banks, federal savings associations, and federal branches or agencies of foreign banking organizations (FBO) with over $100 billion in total consolidated assets. As described above, a range of factors will affect the materiality of transition and physical risk drivers for a given bank. In the same vein, to apply its principles to foreign subsidiaries and branches in a proportionate way, the OCC should consider the characteristics and potential climate-related risk exposure of the local entity rather than defaulting to a certain treatment based on overall group assets. As previous work on tailoring U.S. prudential requirements for FBOs has shown, different thresholds and metrics are often needed to appropriately capture foreign banks in line with the intended spirit of the principles or rules.

[4] FSOC, "Report on Climate-related Financial Risk," October 2021.
[5] E.g., OCC News Release 2021-138, "OCC Seeks Feedback on Principles for Climate-Related Financial Risk Management for Large Banks," December 16, 2021.

IIF members agree with the OCC's assessment that climate-related scenario analysis exercises differ from traditional stress testing exercises, and have asked the BCBS to consider making this distinction clearer in their principles. We also agree that a near-term objective of climate scenario analysis can be to assist banks in *"identifying data and methodological limitations and uncertainty in climate risk management and informing the adequacy of its climate risk management framework"* (page 4 of the consultation). Due to the nascent stage of climate scenario analysis as a discipline, the significant current limitations in terms of data and methodologies, and the necessary simplifying assumptions employed to feasibly undertake exercises under these conditions, firm-conducted (and supervisor-conducted) climate scenario analysis exercises should be differentiated from other prudential activities or applications.

Specifically, **IIF members believe that it would not be appropriate at this stage to quantitatively incorporate climate-related risks into capital or liquidity adequacy assessments** since the foundations are not in place with respect to technical knowledge, conceptual foundations, data, and modelling.[6] We, therefore, appreciate the generally cautious approach the OCC appears to be taking on these topics in the draft principles, although the references to assessing liquidity buffers (page 5 of the consultation) may be pre-emptive at this time.

Lastly, the proposed OCC principles—as well as similar principles that have been issued by other jurisdictions and those recently proposed by the BCBS—in some respects reflect a set of 'end-point' expectations in terms of banks' practices. However, it is important that near-term supervisory expectations recognize that:

a) **Financial institutions are working to overcome several challenges at present which influence the maturity of their approaches with respect to climate-related risk drivers—many of which the OCC acknowledges in their report.** These include: securing relevant and high-quality data; choosing and developing appropriate methodologies and metrics; and integrating and mainstreaming new data and metrics into decision-making. Working within the constraints of these challenges, and working to overcome them, will require a multi-year effort as banks try to identify and assess climate-related risks and build a better understanding of how they relate to financial impacts across different risk stripes (credit, market, liquidity, etc.).

b) **Rapid increases in the scope and volume of regulation and supervisory expectations, which are underway in many jurisdictions, can redirect banks' resources from internal analysis and capacity building.** For example, numerous supervisory authorities are currently piloting supervisory climate scenario analysis exercises, with significant variation in terms of their objectives, methodologies, time horizons, firms, and risks in scope. Global banks may be subject to differing exercises across jurisdictions, which require significant resources to engage with, at the same time as they are working quickly to develop their capabilities to identify, measure, and mitigate climate-related financial risks.

It would therefore be helpful and reasonable for supervisors to take an explicitly proportionate, phased, and incremental approach to the introduction of new

[6] IIF, "Navigating Climate Headwinds: Navigating Climate Headwinds: Reference Approaches for Scenario-based Climate Risk Measurement by Banks and Supervisors," July 2021.

expectations with respect to climate-related risks. In this regard, we appreciate that the OCC *"recognizes that the 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"* (page 3 of the consultation). Further reflection of the developing nature of this area and the current technical challenges to certain aspects of risk management could be embedded in the OCC's final principles. For example, recognizing that banks may start with a more qualitative approach to risk assessment until they have better data and more experience with key risk indicators and metrics, before taking steps to fully integrate risk quantification.

Thank you for your consideration of these comments. On behalf of the IIF membership, we hope that these global industry perspectives will contribute to your efforts. We recognize that the OCC plans to elaborate on its principles in subsequent guidance based on feedback it has received, and consider lessons learned and best practices from the industry and other jurisdictions. We would be very happy to discuss any of our comments further or to assist in any way, including providing perspectives on approaches taken in other jurisdictions. We invite you to contact Sonja Gibbs (sgibbs@iif.com) or Andres Portilla (aportilla@iif.com) should you have questions or comments.

Yours Sincerely,

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