OCC and Basel Committee Issue Separate Proposed Principles for the Management of Climate-Related Financial Risks

January 5, 2022

On December 16, 2021, the Office of the Comptroller of the Currency (the "OCC") released for public comment its draft principles for the management of climate-related financial risk by OCC-supervised banking organizations with more than $100 billion in total consolidated assets (the "OCC Principles").[1] The OCC Principles are intended to "provide a high-level framework" for climate risk management and also serve as a basis for more detailed guidance that the OCC plans to issue in 2022. The comment period for the OCC Principles ends on February 14, 2022.

The OCC Principles align fairly closely with principles the Basel Committee on Banking Supervision (the "Basel Committee") proposed one month earlier, on November 16, 2021 (the "Basel Committee Principles," and together with the OCC Principles, the "Principles").[2] The comment period for the Basel Committee Principles ends on February 16, 2022.

As federal banking agencies continue to develop their responses to climate change-related risk, the Principles offer insight into the likely trajectory of U.S. supervisory expectations, as well as highlight areas that continue to pose challenges for regulators (*e.g.*, scenario analysis, stress testing). This client update (1) offers ten key takeaways for banking organizations; (2) summarizes recent U.S. and international efforts leading up to the Principles, as well as developments expected in the near term; and (3) distills, in a table included in the Annex, the key features of the risk management frameworks contemplated in the Principles, highlighting the Principles' similarities and differences.

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1 Office of the Comptroller of the Currency, Principles for Climate-Related Financial Risk Management for Large Banks (Dec. 16, 2021), *available* here.

2 Basel Committee on Banking Supervision, Consultative Document: Principles for the Effective Management and Supervision of Climate-Related Financial Risks (Nov. 16, 2021), *available* here.

Key Takeaways from the Principles

We outline below 10 key takeaways from the Principles.

1. The Principles Outline Key Features of a Framework for Climate-Related Risk Management. The Principles describe key features of a framework, as well as specific considerations, for the management of climate-related financial risks. The Principles build on prior work of U.S. regulators and international organizations and, for the most part, align closely with one another. Both Principles address: corporate governance; policies, procedures and limits; strategic planning; risk appetite, risk management and audit; data aggregation and reporting; scenario analysis; credit risk; liquidity risk; market risk; operational risk; legal/compliance risk; and other nonfinancial risk. We provide key excerpts from the Principles in the Annex.

2. The Principles Suggest a Risk-Based Approach to Risk Management. The OCC and the Basel Committee, in their respective Principles, suggest that supervisory expectations regarding the management of climate-related financial risks should be appropriately calibrated based on the size, complexity and risk profile of a banking organization. For example, in describing plans to issue more elaborate guidance in the future, the OCC states, "[i]n keeping with the OCC's risk-based approach to supervision, the OCC intends to appropriately tailor any resulting supervisory expectations to reflect differences in banks' circumstances such as complexity of operations and business models." One of the questions the OCC poses to the public asks how future guidance could "assist a bank in developing its climate-related financial risk management practices commensurate to its size, complexity, risk profile, and scope of operations." Similarly, the Basel Committee advises that its proposed principles "are intended to be applied on a proportionate basis depending on the size, complexity and risk profile of the bank."

3. The Principles Suggest Climate-Related Risk May Be Incorporated into Existing Risk Management Frameworks. The Principles suggest that banking organizations may incorporate responses to climate-related financial risks into their existing risk management frameworks, rather than develop stand-alone risk management frameworks. The OCC Principles state, for example, that "[r]esponsibility and accountability may be integrated within existing organizational structures or by establishing new structures."

4. The Principles Acknowledge Climate-Related Risk Data and Measurement Methodologies Are Evolving. Throughout both documents, the Principles acknowledge that the data and methodologies for assessing risk will continue to evolve over time. The Principles therefore note that the management of climate-related financial risks will require an ongoing, iterative process and monitoring by

management. For example, the OCC Principles stated 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."

5. The OCC Contemplates Issuing More Detailed Guidance Based on Feedback to the OCC Principles. The OCC intends to issue more detailed guidance in the future that will "distinguish roles and responsibilities of boards of directors (boards) and management, incorporate the feedback received on the principles, and consider lessons learned and best practices from the industry and other jurisdictions." The OCC Principles include a list of 13 targeted questions about not only the OCC Principles, but also a bank's risk management practices, use of scenario analysis, and data, disclosure and reporting practices.[3] The Basel Committee Principles, on the other hand, include three questions seeking general feedback about the proposal.

6. The Principles Address Scenario Analysis; the Basel Committee Principles Also Address Stress Testing. The Basel Committee Principles advise banks to use both climate stress testing and scenario analysis to manage climate-related financial risks, as well as to incorporate such risks into their capital and liquidity adequacy assessment processes. The OCC Principles encourage the use of scenario analysis, but are relatively silent regarding stress testing; stress testing is referenced only to distinguish it from scenario analysis. The Federal Reserve Board ("FRB") has separately signaled the importance of scenario analysis, and it is reportedly working on developing scenario analysis models with banks.[4]

7. The Principles Contemplate Active and Knowledgeable Board. The Principles emphasize the importance of the board, in addition to management, having an "adequate understanding" and knowledge of climate-related financial risk exposures and their potential impact on a bank. The Basel Committee Principles indicate that that "[w]here necessary, banks should build capacity and upskill the board and senior management on climate-related topics, such as through internal workshops." The OCC Principles advise that the board should understand the "potential ways in which [climate-related] risks could evolve over various time horizons and scenarios" and "actively oversee the bank's risk-taking activities and hold management accountable for adhering to the risk governance framework." The OCC Principles are consistent with, although much less specific than, remarks made by Acting

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[3] We note that, although the OCC is initially focusing on climate risk management by large banks, the OCC Principles should still be indicative of the general priorities and concerns of the federal financial regulators with respect to all banks. The federal financial regulators may later develop similar supervisory guidance for smaller banks. The OCC Principles note that smaller banks also may face climate-related financial risks.

[4] *See* Pete Schroeder, "Wall Street Sees First Fed Climate Change Review in 2023," REUTERS (Nov. 17, 2021), *available* here.

Comptroller of the Currency Michael Hsu's in his November 2021 speech, in which he urged boards of large banks to ask senior management probing questions to help improve climate risk management practices at their banks.[5] Subsequent guidance may provide additional details regarding the roles of bank boards and senior management.

8. The OCC Principles Address Potential Impacts to Low-to-Moderate Income Communities and Public Communications on Climate Risk Strategies. In contrast to the Basel Committee Principles, the OCC Principles consider potential disparate impacts to low-to-moderate income ("LMI") and other disadvantaged households and communities caused by climate-related risks and mitigation efforts. Specifically, the OCC Principles recommend that banks consider, in their strategic planning, the potential impact of climate-related risks to financially vulnerable communities.[6] In addition, unlike the Basel Committee Principles, the OCC Principles state that banks should avoid overstating or otherwise misrepresenting their climate-related strategies in communications with the public.

9. The Principles Address Liquidity Risk Management Practices. Both sets of Principles advise banks to assess whether climate-related financial risks could affect liquidity buffers and to incorporate those risks into their liquidity risk management systems or liquidity buffers, as appropriate. As the Principles are intended to be high-level, we do not expect the final guidance from the OCC and the Basel Committee regarding liquidity risk to depart substantially from the draft recommendations. However, the Principles may foreshadow future regulation or heightened expectations with respect to liquidity risk management and capital planning.

10. The Principles Likely Will Inform Future Action by Other U.S. Financial Regulators. We expect the Principles to inform subsequent guidance and supervisory approaches of the other U.S. financial regulators. The federal banking agencies are members of the Basel Committee and as such, their views are likely reflected in the Basel Committee Principles, and their regulations may later be assessed by the Basel Committee for consistency with the Basel Committee Principles. The Principles discuss regulatory and supervisory areas of particular interest to the FRB, including scenario analysis and stress testing. The FRB has stated that it will consider the comments to the OCC Principles in developing "an interagency set of supervisory

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[5] Michael J. Hsu, Acting Comptroller, "Five Climate Questions Every Bank Board Should Ask" (Nov. 8, 2021), *available* here.

[6] The OCC Principles cite a staff paper from the Federal Reserve Bank of New York ("FRBNY"), which discusses the linkages between climate change and inequality in the United States. *See* Ruchi Avtar et al., Understanding the Linkages Between Climate Change and Inequality in the United States, FEDERAL RESERVE BANK OF NEW YORK STAFF REPORTS (Nov. 2021), *available* here.

expectations for the management of climate-related financial risks with a focus on large banks."[7]

Recent Developments

U.S. Developments

In recent months, the OCC and other federal financial regulators have increasingly focused on climate-related financial risks. The OCC Principles, which represent an important milestone in these efforts, build on international projects, including those by the Basel Committee, as well as previous work by the OCC, other federal banking agencies, and the Financial Stability Oversight Council ("FSOC"), of which the agencies are members.[8] Below we describe recent efforts by U.S. federal agencies to address climate-related financial risks and provide supervisory guidance for banks.

- Acting Comptroller Hsu's Remarks regarding the Role of a Bank Board. The release of the OCC Principles follows a speech Acting Comptroller Hsu delivered on November 8, 2021, in which he emphasized that climate change "poses significant risks to the financial system" and urged boards of directors of large banks to ask senior management the following five questions in order to "promote and accelerate improvements in climate risk management practices at their banks":
  - What is our overall exposure to climate change?
  - Which counterparties, sectors, or locales warrant our heightened attention and focus?
  - How exposed are we to a carbon tax?
  - How vulnerable are our data centers and other critical services to extreme weather?
  - What can we do to position ourselves to seize opportunities from climate change?[9]

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7 Rachel Koning Beals and Greg Robb, "OCC Takes Step Toward Pressure on Large Banks to Reveal Climate-Change Risks," MARKETWATCH (Dec. 16, 2021), *available* here.

8 *See, e.g.*, Office of the Comptroller of the Currency, Semiannual Risk Perspective (Dec. 6, 2021), *available* here.

9 Hsu, *supra* note 5.

Acting Comptroller Hsu explained that answering these questions would require management to develop a framework and a strong understanding of the impacts that physical and transition risks may have on the bank's portfolio.

- FSOC Climate Report. The OCC Principles build on the recommendations in FSOC's "Report on Climate-Related Financial Risk" (the "FSOC Climate Report"), released in October 2021.[10] The FSOC Climate Report (1) reviews current efforts by member institutions to incorporate climate-related financial risk into their regulatory and supervisory activities; (2) highlights associated data and methodological challenges; (3) discusses the role of disclosure; (4) addresses implications of these risks on financial stability; and (5) issues recommendations for itself, its members and other regulatory bodies. Notably, the FSOC Climate Report emphasizes the need for member agencies to develop "scenario analysis" tools to measure and predict risks across financial institutions arising from climate change; scenario analysis is also covered in the OCC Principles.

  On December 17, 2021, FSOC members approved the establishment of a staff-level Climate-related Financial Risk Committee, as recommended in the FSOC Climate Report.

- Federal Reserve Bank of New York Staff Reports. In November 2021, the Federal Reserve Bank of New York ("FRBNY") published two staff reports focused on climate-related financial risks. One report (the "FRBNY Inequality Report") discusses the linkages between climate change and inequality in the United States, specifically exploring the potentially disparate impacts of both physical and transition risks across location, income, race and age.[11] The FRBNY Inequality Report also highlights the possibility that measures to adapt to climate change and mitigate the direct impact of physical risks may inadvertently increase inequality. The OCC Principles cite to the report and reference climate change impacts on disadvantaged communities in both its policy recommendations and questions for public comment. The other report ("FRBNY Disaster Report") explores the effects of weather disasters over the last quarter century on U.S. banks' performance.[12] In concluding that the effects were "insignificant or small" and that banks have historically been successfully managing climate-related risks in conducting their activities, the FRBNY Disaster Report recommends that policymakers direct more attention to potential transition risks than to physical disaster risks. We note that, although the

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[10] *See* our previous Debevoise in Depth, FSOC and Federal Banking Agencies Move on Climate Change (Oct. 26, 2021), *available* here. *See also* Financial Stability Oversight Council, Report on Climate-Related Financial Risk (Oct. 2021), *available* here.

[11] Ruchi Avtar et al., *supra* note 6.

[12] Kristian S. Blickle et al., How Bad Are Weather Disasters for Banks? FEDERAL RESERVE BANK OF NEW YORK STAFF REPORTS (Nov. 2021), *available* here.

staff reports reflect the views of the authors, and not necessarily those of the FRBNY or the FRB, the findings of staff reports may inform future policy decisions.

In addition to the developments discussed above, there are several ongoing projects led by U.S. federal financial regulators, as climate-related financial risks continue to be a key area of focus. Examples of such projects include the following:

- FRB Scenario Analysis Models. In response to the OCC Principles, the FRB stated that it will review the comments submitted in response to the OCC Principles as part of interagency coordination relating to climate-related risk, noting that "[a] consistent approach across bank regulatory agencies will best support the effective management of these risks."[13] While the FRB has not publicly announced a timeline for similar potential supervisory guidance, the FRB has reportedly begun working with banks to develop scenario analysis models, the results of which could be publicly released in 2023.[14]

- Securities and Exchange Commission Disclosure Requirements. In March 2021, the Securities and Exchange Commission (the "SEC") requested public input on issues relating to climate change disclosures.[15] SEC Chairman Gary Gensler has indicated that the SEC is working on a formal notice of proposed rulemaking on the topic,[16] which is anticipated to be issued in early 2022.[17] This rulemaking will build on the SEC's 2010 "Commission Guidance Regarding Disclosure Related to Climate Change," which provided initial clarification about how the SEC's existing disclosure requirements under the SEC's Regulation S-K apply to climate change matters.[18] We anticipate that the rulemaking will incorporate the comments received in response to the SEC's request for information in March, as well as draw from international standards, especially the Task Force on Climate Disclosures ("TCFD") recommendations.[19] We note that the SEC's examination priorities for 2021 also included an increased focus on climate-related risks.[20]

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13 Beals and Robb, *supra* note 7.

14 *See* Schroeder, *supra* note 4.

15 *See* Allison Lee, Acting Chair, Public Input Welcomed on Climate Change Disclosures (Mar. 15, 2021), *available* here.

16 *See* Gary Gensler, Chair, Prepared Remarks before the Principles for Responsible Investment 'Climate and Global Financial Markets' Webinar (Jul. 28, 2021), *available* here.

17 *See* Gary Gensler, Chair, Testimony before the United States Senate Committee on Banking, Housing, and Urban Affairs (Sept. 14, 2021), *available* here.

18 *See* 75 FR 6289 (2010).

19 *See* Task Force on Climate-Related Financial Disclosures, Recommendations of the Task Force on Climate-related Financial Disclosures (June 2017), *available* here.

20 *See* Securities and Exchange Commission, Press Release: SEC Division of Examinations Announces 2021 Examination Priorities (Mar. 3, 2021), *available* here.

International Developments

The Basel Committee Principles build on several prior projects by international standard-setting bodies, including previous work by the Basel Committee. Below we describe some of those projects.

- Basel Committee Efforts. Prior to publishing the Basel Committee Principles, the Basel Committee established the Task Force on Climate-related Financial Risks in February 2020 to address high-level issues about climate-related financial risks in the context of global financial stability.[21] Additionally, in April 2021, the Basel Committee published two final reports studying climate-related risk drivers and measurement methodologies, including the challenges of measurement. One of these reports synthesizes existing literature to identify climate risk drivers and describe their transmission channels to banks and banking systems.[22] Its companion report provides an overview of issues related to climate-related financial risk measurement and methodologies, including the strengths and weaknesses of the main types of measurement approaches, as well as an assessment of gaps and challenges in their execution and implementation.[23] The Basel Committee Principles follow up on these two reports by proposing specific policy recommendations relating to risk measurement and management (as do the OCC Principles).

- Financial Stability Board's Task Force on Climate-Related Financial Disclosures. The TCFD, formed in 2015, began publishing voluntary disclosure recommendations for companies in 2017, which are regarded by U.S. regulators as the most well-developed of the industry disclosure standards.[24] While the Principles do not address financial disclosures specifically, financial disclosure recommendations, such as those by the TCFD, may inform organizational strategy and prioritization around climate change. The TCFD recommends climate-related financial disclosures in four thematic areas: (1) governance, (2) strategy, (3) risk management and (4) metrics and targets.[25] The Principles address all four thematic areas and complement the TCFD disclosure recommendations.

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21 *See, e.g.*, Basel Committee on Banking Supervision, Press Release: Basel Committee Meets to Review Vulnerabilities and Emerging Risks, Advance Supervisory Initiatives and Promote Basel III Implementation (Feb. 27, 2020), *available* here.

22 Basel Committee on Banking Supervision, Climate-Related Risk Drivers and Their Transmission Channels (Apr. 2021), *available* here.

23 Basel Committee on Banking Supervision, Climate-Related Financial Risks – Measurement Methodologies (Apr. 2021), *available* here.

24 The TCFD recommendations were highlighted in the FSOC's October 2021 report on climate-related risk. *See* Financial Stability Oversight Council, *supra* note 10.

25 Taskforce on Climate-Related Financial Disclosure, *supra* note 19.

A number of other international standard-setting bodies have recently announced or completed projects to contribute to the existing work on measuring, managing and mitigating climate-related financial risks. There is particularly heightened public focus around these issues, especially against the backdrop of the 2021 United Nations Climate Change Conference (COP 26) in Glasgow, which concluded on November 13, 2021. Examples of other notable projects by international standard-setting bodies include the following:

- International Sustainability Standards Board Reporting Standards. In November 2021, the International Financial Reporting Standards (the "IFRS") Foundation, which sets global accounting standards, announced that it would establish the International Sustainability Standards Board ("ISSB") to develop standards on sustainability reporting.[26] The ISSB will build on existing initiatives and frameworks, including the TCFD, and will likely become the disclosure standard in many jurisdictions.

- International Organization of Securities Commissions Recommendations on Sustainability-Related Practices. In November 2021, the International Organization of Securities Commissions ("IOSCO") Task Force on Sustainable Finance released a report titled "Recommendations on Sustainability-Related Practices."[27] It provides high-level recommendations that agencies conduct work relating to (1) asset management disclosure and practices, (2) disclosure for sustainability-related products, (3) supervision and enforcement, (4) developing consistent terminology and (5) improving financial and investor education. As noted above, the SEC, a key IOSCO member, has identified climate-related risks as an area of particular focus and is expected to follow the IOSCO recommendations.

- FSB Roadmap for Addressing Climate-Related Risks. The FSB Roadmap for Addressing Climate-Related Risks (the "FSB Roadmap"), published in July 2021, summarizes relevant initiatives at standard-setting bodies and organizations relating to (1) firm-level disclosures, (2) data, (3) vulnerabilities analysis and (4) regulatory and supervisory tools.[28] The FSB Roadmap focuses on the information needs of, and actions by, financial supervisory authorities to promote financial resilience to climate-related financial risks. The FSB Roadmap is helpful in understanding issues

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[26] *See* IFRS Foundation Trustees, IFRS Foundation Announces International Sustainability Standards Board, Consolidation with CDSB and VRF, and Publication of Prototype Disclosure Requirements (Nov. 3, 2021), *available* here.

[27] The Board of the IOSCO, Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management (Nov. 2021), *available* here.

[28] Financial Stability Board, FSB Roadmap for Addressing Climate-Related Financial Risks (July 7, 2021), *available* here.

of concern to FSB member jurisdictions, including the United States, and other ongoing efforts relating to climate-related risk.

Annex: Comparison of Principles[29]

Topics	OCC Principles	Basel Committee Principles
Corporate Governance	"A bank's board and management should demonstrate an appropriate understanding of climate-related financial risk exposures and their impact on risk appetite to facilitate oversight. … Responsibility and accountability may be integrated within existing organizational structures or by establishing new structures for climate-related financial risks." (General Principles: Governance)	"The board and senior management should clearly assign climate-related responsibilities to members and committees and exercise effective oversight of climate-related financial risks. The board and senior management should identify responsibilities for climate-related risk management throughout the organizational structure." (Principle 2)
Policies, Procedures, and Limits	"Management should incorporate climate-related risks into policies, procedures, and limits to provide detailed guidance on the bank's approach to these risks in line with the strategy and risk appetite set by the board." (General Principles: Policies, Procedures, and Limits)	"Banks should adopt appropriate policies, procedures and controls to be implemented across the entire organization to ensure effective management of climate-related financial risks." (Principle 3)
Strategic Planning	"The board and management should consider material climate-related financial risk exposures when setting the bank's overall business strategy. … The board and management should also consider climate-related financial risk impacts on stakeholders' expectations, the bank's reputation, and LMI and other disadvantaged households and communities, including physical harm or access to bank products and services. … [W]here 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." (General Principles: Strategic Planning)	"Banks should consider material climate-related financial risks that could manifest over various time horizons and incorporate these risks into their overall business strategies and risk management frameworks." (Principle 1)

[29] The Basel Committee Principles, but not the OCC Principles, also include guidance for financial regulators. This chart focuses on the guidance for banks and does not include excerpts from the Basel Committee's supervisory principles.

Topics	OCC Principles	Basel Committee Principles
Risk Appetite, Risk Management, Audit	"Management should oversee the development and implementation of processes to identify, measure, monitor, and control climate-related financial risk exposures within the bank's existing risk management framework. … Material climate-related financial risk exposures should be clearly defined, aligned with the bank's risk appetite, and supported by appropriate metrics (e.g., risk limits and key risk indicators) and escalation processes. Boards and management should also incorporate climate-related risks into their internal control frameworks, including internal audit." (General Principles: Risk Management)	"Banks should incorporate climate-related financial risks into their internal control frameworks across the three lines of defence. … [T]he internal audit function[] should carry out regular reviews of the overall internal control framework and systems in the light of changes in methodology, business and risk profile, as well as in the quality of underlying data." (Principle 4) "Banks should identify, monitor and manage all climate-related financial risks that could materially impair their financial condition, including their capital resources and liquidity positions. Banks should ensure that their risk appetite and risk management frameworks consider all material climate-related financial risks to which they are exposed and establish a reliable approach to identifying, measuring, monitoring and managing those risks." (Principle 6)
Data Aggregation and Reporting	"Management should incorporate climate-related financial risk information into the bank's internal reporting, monitoring, and escalation processes to facilitate timely and sound decision-making across the bank. Effective risk data aggregation and reporting capabilities allow management to capture and report material and emerging climate-related financial risk exposures, segmented or stratified by physical and transition risks, based upon the complexity and types of exposures." (General Principles: Data, Risk Measurement, and Reporting)	"Risk data aggregation capabilities and internal risk reporting practices should account for climate-related financial risks. Banks should seek to ensure that their internal reporting systems are capable of monitoring material climate-related financial risks and producing timely information to ensure effective board and senior management decision-making." (Principle 7)
Scenario Analysis/ Stress Testing	"Climate-related scenario analysis …differ[s] from traditional stress testing exercises that typically assess the potential impacts of transitory shocks to near-term economic and financial conditions. … Management should develop and implement climate-related scenario analysis frameworks in a manner commensurate to the bank's size, complexity, business activity, and risk profile." (General Principles: Scenario Analysis)	"Banks should identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes." (Principle 5) "Where appropriate, banks should make use of scenario analysis, including stress testing, to assess the resilience of their business models and strategies to a range of plausible climate-related pathways and determine the impact of climate-related risk drivers on their overall risk profile." (Principle 12)

Topics	OCC Principles	Basel Committee Principles
Credit Risk	"The board and management should consider climate-related financial risks as part of the underwriting and ongoing monitoring of portfolios. Effective credit risk management practices could include monitoring climate-related credit risks through sectoral, geographic, and single-name concentration analyses, including credit risk concentrations stemming from physical and transition risks." (Management of Risk Areas: Liquidity Risk)	"Banks should understand the impact of climate-related risk drivers on their credit risk profiles and ensure credit risk management systems and processes consider material climate-related financial risks." (Principle 8)
Liquidity Risk	"Consistent with sound oversight and liquidity risk management, the board and management should assess whether climate-related financial risks could affect liquidity buffers and, if so, incorporate those risks into their liquidity risk management and liquidity buffers." (Management of Risk Areas: Liquidity Risk)	"Banks should understand the impact of climate-related risk drivers on their liquidity risk profiles and ensure that liquidity risk management systems and processes consider material climate-related financial risks." (Principle 10)
Market Risk	"Management should monitor interest rate risk and other model inputs for greater volatility or less predictability due to climate-related financial risks. … The board and management should monitor how climate-related financial risks affect the bank's exposure to risk related to changing prices." (Management of Risk Areas: Other Financial Risk)	"Banks should understand the impact of climate-related risk drivers on their market risk positions and ensure that market risk management systems and processes consider material climate-related financial risks." (Principle 9)
Operational Risk	"The board and management should consider how climate-related financial risk exposures may adversely impact a bank's operations, control environment, and operational resilience. … Sound operational risk management includes incorporating an assessment across all business lines and operations." (Management of Risk Areas: Operational Risk)	"Banks should understand the impact of climate-related risk drivers on their operational risk and ensure that risk management systems and processes consider material climate-related risks." (Principle 11)
Legal/Compliance Risk	"The board and management should consider how climate-related financial risks and risk mitigation measures affect the legal and regulatory landscape in which the bank operates. This consideration includes … possible fair lending concerns if the bank's risk mitigation measures disproportionately affect communities or households on a prohibited basis such as race or ethnicity." (Management of Risk Areas: Legal/Compliance Risk)	"Banks should also understand the impact of climate-related risk drivers on other risks and put in place adequate measures to account for these risks where material. This includes climate-related risk drivers that might lead to increasing strategic, reputational, and regulatory compliance risk, as well as liability costs associated with climate-sensitive investments and businesses." (Principle 11)

Topics	OCC Principles	Basel Committee Principles
Other Nonfinancial Risk	“[T]he board and management should monitor how the execution of strategic decisions and the operating environment affect the bank’s financial condition and operational resilience. … The board and management should also consider the extent to which the bank’s activities may increase the risk of negative financial impact from reputational damage, liability, or litigation, and implement adequate measures to account for these risks where material.” (Management of Risk Areas: Other Nonfinancial Risk)	“Banks should also understand the impact of climate-related risk drivers on other risks and put in place adequate measures to account for these risks where material. This includes climate-related risk drivers that might lead to increasing strategic, reputational, and regulatory compliance risk, as well as liability costs associated with climate-sensitive investments and businesses.” (Principle 11)

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