

The FDIC, Following the OCC Last December, Issues Draft Principles for Climate-Related Financial Risk Management

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Comparison of the FDIC and OCC Principles

On March 30, 2022, the Federal Deposit Insurance Corporation (“FDIC”) released for public comment a draft of its Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions (“FDIC Principles”).¹ The FDIC Principles provide a “high-level framework” for the management of climate-related financial risks. The FDIC Principles would apply to FDIC-supervised institutions (FDIC-insured state non-member banks, state-licensed FDIC-insured branches of foreign banks that are subject to the provisions of Section 39 of the Federal Deposit Insurance Act, and state savings associations) with more than \$100 billion in total consolidated assets. Comments are due on June 03, 2022.

The FDIC Principles are nearly identical to those of the Office of the Comptroller of the Currency (“OCC”), which were released for comment on December 16, 2021 (“OCC Principles”).² The OCC Principles received extensive comments during their comment period, which concluded February 14, 2022. Alignment between the FDIC’s and OCC’s proposals is consistent with the bank regulators’ stated interest in interagency coordination and providing interagency guidance.³ Our Debevoise Update on the OCC Principles can be found [here](#).

As with the OCC, the FDIC has issued principles for the management of climate-related financial risks in general and in certain risk categories, addressing: governance; policies, procedures, and limits; strategic planning; risk management; data and reporting;

¹ 87 Fed. Reg. 19507, available [here](#).

² Principles for Climate-Related Financial Risk Management for Large Banks, OCC (Dec. 16, 2021), available [here](#). For a discussion of the OCC Principles, see Debevoise In Depth, “OCC and Basel Committee Issue Separate Proposed Principles for the Management of Climate-Related Financial Risks” (Jan. 05, 2022), available [here](#).

³ See Remarks by Acting Comptroller of the Currency Michael J. Hsu at the Institute of International Bankers, Annual Washington Conference, OCC (Mar. 07, 2022), available [here](#).

scenario analysis; and credit, liquidity, operational, legal and compliance, and other financial and non-financial risks.

The FDIC Principles' introductory section and questions diverge in limited respects from the OCC Principles. We describe here the key substantive differences between the FDIC Principles and the OCC Principles.

- **Financial Stability Risk.** In the introductory section of its principles, the FDIC places greater emphasis on, and describes in greater detail, the potential impacts of climate change risks on the safety and soundness of financial institutions and the stability of the financial system. The FDIC details examples of physical and transition risks and states that “[c]limate-related financial risks pose a clear and significant risk to the U.S. financial system and, if unmitigated, may pose a near-term threat to safe and sound banking and financial stability.”
- **Scenario Analysis.** The introductory section of the FDIC Principles states that the draft guidance is “intended to support the use of scenario analysis as an emerging and important approach for identifying, measuring, and managing climate-related risks,” further highlighting the emerging regulatory expectations regarding the use of scenario analysis in climate-related financial risk management.
- **Low-to-moderate Income (“LMI”) and Other Disadvantaged Communities.** The FDIC Principles indicate that “the manner in which financial institutions manage climate-related financial risks to address safety and soundness concerns should also seek to reduce or mitigate the impact that management of these risks may have on broader aspects of the economy, including the disproportionate impact of risk on LMI and other disadvantaged communities.”

Like the FDIC Principles, the OCC Principles note the potential for disproportionate impacts to LMI and other disadvantaged households and communities that could result from weaknesses in how banks manage their climate-related risks. Moreover, both sets of principles advise boards and management to consider, among other things, climate-related financial risk impacts to “LMI and other disadvantaged households and communities, including physical harm or access to bank products and services.” However, the OCC Principles do not expressly state, as the FDIC Principles do, that management should seek to reduce or mitigate potential impacts of climate-related risk on LMI and other disadvantaged communities.

- **Community Reinvestment Act.** In its Request for Comments, the FDIC asks whether agencies should modify existing regulations and guidance, such as those associated with the Community Reinvestment Act (“CRA”), to address the impact that climate-related financial risks may have on LMI and other disadvantaged

communities. We note that the CRA was listed first among the FDIC's priorities for 2022, so comments submitted in response to the FDIC Principles may also inform the FDIC's efforts to update the CRA regulations.⁴

- **New Question on Prescriptive Regulations or Guidance.** The FDIC added a new question regarding whether regulations or guidelines prescribing particular risk management practices would be helpful to financial institutions.

We have appended a comparison of the substantive text of the two sets of principles (see appendix).

Other Regulatory Developments

Other financial regulators have increasingly focused on climate-related financial risks in recent months.

- In response to the OCC Principles, the Board of Governors of the Federal Reserve ("Federal Reserve") 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."⁵ We anticipate that the Federal Reserve will release its own set of principles later in 2022.
- The Securities and Exchange Commission ("SEC") issued its proposed rule on the "Enhancement and Standardization of Climate-Related Disclosures for Investors" ("SEC Proposal") on March 21, 2022.⁶ The SEC Proposal would add new, often prescriptive climate-related disclosure requirements that address various climate-related risks to the registrant's business, operations, and financial condition, including disclosure of a registrant's greenhouse gas emissions. The SEC has requested comment by May 20, 2022 or 30 days after publication of the rule in the Federal Register, whichever is later. Our Debevoise Update on the SEC Proposal can be found [here](#).

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⁴ FDIC Press Release, "Acting Chairman Martin J. Gruenberg Announces FDIC Priorities for 2022," FDIC (Feb. 07, 2022), available [here](#).

⁵ 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](#).

⁶ For a discussion of the SEC Proposal, see Debevoise In Depth, "SEC Issues Long-Awaited Proposed Climate Change Disclosure Rule" (Mar. 24, 2022), available [here](#).

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Annex: Comparison of FDIC and OCC Proposed Principles on Climate-Related Financial Risk Management

The following redline compares the text of the Federal Deposit Insurance Corporation's ("FDIC") proposal, "Statement of Principles for Climate-Related Financial Risk Management for Large Financial Institutions," released on March 30, 2022, against the text of the Office of the Comptroller of the Currency's ("OCC") proposal, "Principles for Climate-Related Financial Risk Management for Large Financial Institutions," released on December 16, 2021. Text shown in double-underlined, blue font appears in the FDIC's, but not the OCC's, proposal. Text shown in strike-through, red font appears in the OCC's, but not the FDIC's, proposal.

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

I. Introduction

The ~~Office of the Comptroller of the Currency (OCC) has identified the~~ effects of climate change and the transition to a low carbon economy ~~as presenting emerging risks to banks and the~~ present emerging economic and financial risks that threaten the safety and soundness of financial institutions and the stability of the financial system.^{1,2}

Financial institutions are likely to be affected by both the physical risks and transition risks associated with climate change (referred to in these draft principles as climate-related financial risks). Physical risks generally refer to the harm to people and property arising from acute, climate-related events, such as hurricanes, wildfires, floods, and heatwaves, and chronic shifts in climate, including higher average temperatures, changes in precipitation patterns, sea level rise, and ocean acidification. Transition risks generally refer to stresses to certain financial institutions or sectors arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to limit climate change.

¹ In this issuance, the term "financial institution" or "institution" means insured state nonmember banks, state-licensed insured branches of foreign banks that are subject to the provisions of section 39 of the Federal Deposit Insurance Act, and state savings associations.

² ~~See e.g. Semiannual Risk Perspective at pp. 2-4 (Fall 2021), available at <https://www.occ.treas.gov/publications-and-resources/publications/semiannual-risk-perspective/files/pub-semiannual-risk-perspective-fall-2021.pdf>. For additional background, see generally ~~Report on Climate-Related Financial Risk~~, Financial Stability Oversight Council ~~(Oct. 21, 2021) (FSOC Climate Report)~~, Report on Climate Related Financial Risk (2021). Further, see Financial Stability Board, The Implications of Climate Change for Financial Stability (2020).~~

The economic and financial risks associated with physical risks reflect damages to property, infrastructure, and business disruptions, all of which have real effects to the value of property securing financial institutions' exposures and borrowers' ability to perform on their obligations.³ Regarding transition risks, certain companies or sectors may become less competitive over time as policies implemented to reduce carbon emissions or carbon-equivalents to mitigate the risks of climate change (e.g. carbon pricing), technological advances, and changes in investor and public preferences may all contribute to and accelerate a transition to a low-carbon economy, in each case potentially resulting in reduced profitability and ability to repay obligations for financial institutions' counterparties, as well as reductions in the value for certain assets that are less productive in a low-carbon environment.^{4,5} Transition risks may also increase litigation, liability, legal and regulatory compliance risks associated with climate-sensitive investments and businesses, or pose other risks to institutions based on shifts in market or consumer preferences. Additionally, the value of financial assets may be adversely affected as market participants reflect the future impacts of both physical and transition risks on financial performance.

From a financial stability perspective, climate-related financial risks have the potential to impact financial institutions and the economy through both macroeconomic and

³ For example, acute physical risks, such as flooding, hurricanes, wildfires, and droughts, may result in sudden, significant, and recurring damage to residential and commercial real estate properties securing exposures held by financial institutions or may otherwise disrupt the operations of their business clients. Further, longer-term gradual physical risks, such as rising average temperatures and sea levels may increase the risk to property values and drive migration patterns as individuals and businesses prioritize geographic areas less exposed to physical risks, which may produce detrimental impacts to household wealth, corporate profitability, local economies and municipalities in certain geographies. See [www.whitehouse.gov, Report on the impact of climate change on migration \(2021\)](https://www.whitehouse.gov/wp-content/uploads/2021/10/Report-on-the-Impact-of-Climate-Change-on-Migration.pdf), <https://www.whitehouse.gov/wp-content/uploads/2021/10/Report-on-the-Impact-of-Climate-Change-on-Migration.pdf>.

⁴ Reductions in carbon emissions are often considered through a "carbon equivalent amount," which measures the emissions of various greenhouse gases in terms of their equivalent amount of carbon dioxide with the same global warming potential. For example, see Equation A-1 in 40 CFR Part 98.

⁵ For example, it may become more costly or difficult for certain climate-sensitive investments and businesses to comply with climate policies. Further, delayed implementation of climate policies may result in a more abrupt transition for such climate-sensitive investments and businesses, increasing the risks and ultimate costs of transitioning to a more sustainable economy. Advancements in technology may also accelerate the development of low-carbon energy sources, while investor and public preferences and behavior may result in a shift towards more energy efficient assets and companies earlier than otherwise expected. See Network of Central Banks and Supervisors for Greening the Financial System, *NGFS Climate Scenarios for Central Banks and Supervisors (2020)*; IEA and IRENA, *Perspectives for the energy transition – Investment needs for a low-carbon energy system (2017)*.

microeconomic factors, such as reductions in economic growth and labor productivity, increased borrowing costs, and higher commodities prices, as well as directly to financial institutions themselves or through their counterparties.⁶ These factors contribute to the way in which climate-related financial risks can transmit to a significant number of financial institutions and raise financial stability concerns.

Climate-related financial risks pose a clear and significant risk to the U.S. financial system and, if unmitigated, may pose a near-term threat to safe and sound banking and financial stability. Weaknesses in how institutions identify, measure, monitor, and control the physical and transition risks associated with a changing climate could adversely affect a financial institution's safety and soundness, as well as the overall financial system. Adverse effects could include potentially disproportionate impact on the financially vulnerable, including low- to moderate-income (LMI) and other disadvantaged households and communities.³~~Many banks are considering these risks and would benefit from additional guidance as they develop capabilities, deploy resources, and make necessary investments to address-~~⁷With this, the manner in which financial institutions manage climate-related financial risks- to address safety and soundness concerns should also seek to reduce or mitigate the impact that management of these risks may have on broader aspects of the economy, including the disproportionate impact of risk on LMI and other disadvantaged communities.

The FDIC recognizes the need for comprehensive risk management guidelines that can be implemented consistently. These draft principles provide a high-level framework for the safe and sound management of exposures to climate-related financial risks, consistent with the ~~existing~~ risk management framework described in existing FDIC rules and guidance.~~The principles, and~~ are intended to support efforts by financial

⁶ For example, physical and transition risks also have the potential to produce "feedback loops" across the financial system and economy, which can amplify and reinforce the impacts of climate change through procyclical behavior, such as widespread reduction in bank lending and lead to declines in asset valuations and economic growth. Further, interconnections within the financial system can accelerate the spread of a climate-related financial shocks, leading to potential contagion effects if institutions experience shocks as a result of physical or transition risks. See, for example, Financial Stability Board, *The Implications of Climate Change for Financial Stability* (2020); Basel Committee on Banking Supervision, *Climate-related risk drivers and their transmission channels* (2021).

³ ~~For further information, see Staff Reports, Federal Reserve Bank of New York, *Understanding the Linkages between Climate Change and Inequality in the United States*, No. 991 (November 2021), available at <https://www.newyorkfed.org/research/staff-reports/sr991.html>.~~

⁷ For further information, see Staff Reports, Federal Reserve Bank of New York, *Understanding the Linkages between Climate Change and Inequality in the United States*, No. 991 (November 2021).

institutions to focus on [the](#) key aspects of climate risk management.⁸ The [draft](#) principles will help financial institution management make progress toward answering key questions on [climate](#) exposures and incorporating climate-related financial risks into financial institutions' risk management frameworks. [Additionally, the draft principles are intended to support the use of scenario analysis as an emerging and important approach for identifying, measuring, and managing climate-related risks, as well as risk assessment processes related to credit, liquidity, operational, legal and compliance, and other financial and nonfinancial risks. Some financial institutions, including many large financial institutions, are considering climate-related risks and would benefit from additional guidance as they develop capabilities, deploy resources, and make necessary investments to address climate-related financial risks.](#)

Although all financial institutions, regardless of size, may have material exposures to climate-related financial risks, these draft principles are targeted at the largest financial institutions, those with over \$100 billion in total consolidated assets.⁹ ~~The OCC is inviting public feedback on the principles for 60 days, until February 14, 2022.~~ [draft principles are an initial step to promote a consistent understanding of the effective management of climate-related financial risks.](#) The FDIC plans to elaborate on these [draft](#) principles in subsequent guidance that would distinguish roles and responsibilities of boards of directors (boards) and management, incorporate the feedback received on the [draft](#) principles, and consider lessons learned and best practices from the industry and other jurisdictions. In keeping with the FDIC's risk-based approach to supervision, the FDIC intends to appropriately tailor any resulting supervisory expectations to reflect differences in institutions' circumstances such as complexity of operations and business models. [Through this and any subsequent climate-related financial risk guidance, the FDIC will continue to encourage institutions to prudently meet the financial services needs of their communities.](#)

II. General Principles

A. Governance

An effective risk governance framework is essential to a financial institution's safe and sound operation. A financial institution's board and management should demonstrate an appropriate understanding of climate-related financial risk exposures and their

⁸ [The FDIC has established standards for safety and soundness, as required by section 39 of the Federal Deposit Insurance Act, in Part 364 of FDIC Rules and Regulations.](#)

⁹ [Generally, effective risk management practices should be appropriate to the size of the institution and the nature, scope, and risk of its activities. See, e.g., Appendix A to Part 364. For purposes of these draft principles, the FDIC generally believes that these standards are particularly salient for the largest financial institutions, those with over \\$100 billion in total consolidated assets.](#)

impact on risk appetite to facilitate oversight. Sound governance includes reviewing information necessary to oversee the financial institution, allocating appropriate resources, assigning climate-related financial risk responsibilities throughout the organization (*i.e.*, committees, reporting lines, and roles), and clearly communicating to staff regarding climate-related impacts to the institution's risk profile. Responsibility and accountability may be integrated within existing organizational structures or by establishing new structures for climate-related financial risks. Where dedicated units are established, the board and management should clearly define these units' responsibilities and interaction with existing governance structures.

The board should have adequate understanding and knowledge to assess the potential impact of climate-related risks on the financial institution and to address and oversee these risks within the institution's strategy and risk appetite, including an understanding of the potential ways in which these risks could evolve over various time horizons and scenarios. Relevant time horizons may include those that extend beyond the institution's typical strategic planning horizon. The board should actively oversee the financial institution's risk-taking activities and hold management accountable for adhering to the risk governance framework. Management is responsible for executing the financial institution's overall strategic plan. This responsibility includes effectively managing all risks, including climate-related financial risks, and their effects on the institution's financial condition. Management should also hold staff accountable for controlling risks within established lines of authority and responsibility. Additionally, management is responsible for regularly reporting to the board on the level and nature of risks to the institution, including climate-related financial risks.

B. Policies, Procedures, and Limits

Management should incorporate climate-related risks into policies, procedures, and limits to provide detailed guidance on the institution's approach to these risks in line with the strategy and risk appetite set by the board. Policies, procedures, and limits should be modified when necessary to reflect the distinctive characteristics of climate-related risks and changes to the institution's activities.

C. Strategic Planning

The board and management should consider material climate-related financial risk exposures when setting the institution's overall business strategy, risk appetite, and financial, capital, and operational plans. As part of forward-looking strategic planning, the board and management should address the potential impact of climate-related financial risk exposures on the institution's financial condition, operations (including geographic locations), and business objectives over various time horizons. The board and management should also consider climate-related financial risk impacts on

stakeholders' expectations, the institution's reputation, and LMI and other disadvantaged households and communities, including physical harm or access to bank products and services. The FDIC 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.

Any climate-related strategies, including any relevant corporate social responsibility objectives, should align with and support the institution's broader strategy, risk appetite, and risk management framework. In addition, where institutions engage in public communication of their climate-related strategies, boards and management should ensure that any public statements about an institution's climate related strategies and commitments are consistent with their internal strategies and risk appetite statements.

D. Risk-Management

Climate-related financial risks typically impact financial institutions through a range of traditional risk types. Management should oversee the development and implementation of processes to identify, measure, monitor, and control climate-related financial risk exposures within the institution's existing risk management framework. A financial institution should employ a comprehensive process to identify emerging and material risks stemming from the financial institution's business activities and associated exposures. The risk identification process should include input from stakeholders across the organization with relevant expertise (*e.g.*, business units, independent risk management, and legal). Risk identification includes assessment of climate-related financial risks across a range of plausible scenarios and under various time horizons.

As part of sound risk management, financial institutions should develop processes to measure and monitor material climate-related financial risks and to inform management about the materiality of those risks. Material climate-related financial risk exposures should be clearly defined, aligned with the financial institution'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.

Tools and approaches for measuring and monitoring exposure to climate-related risks include, among others, exposure analysis, heat maps, climate risk dashboards, and scenario analysis. These tools can be leveraged to assess a financial institution's exposure to both physical and transition risks in both the shorter and longer term. Outputs

should inform the risk identification process and the short- and long-term financial risks to a financial institution's business model from climate change.

E. Data, Risk ~~Measurement~~Management, and Reporting

Sound climate risk management depends on the availability of relevant, accurate, and timely data. Management should incorporate climate-related financial risk information into the a financial institution's internal reporting, monitoring, and escalation processes to facilitate timely and sound decision-making across the financial institution. 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. Data, risk measurement, modeling methodologies, and reporting continue to evolve at a rapid pace; management should monitor these developments and incorporate them into their climate risk management as warranted.

F. Scenario Analysis

Climate-related scenario analysis is emerging as an important approach for identifying, measuring, and managing climate-related risks. For the purposes of this guidance, climate-related scenario analysis refers to exercises used to conduct a forward-looking assessment of the potential impact on a financial institution of changes in the economy, financial system, or the distribution of physical hazards resulting from climate-related risks. These exercises differ from traditional stress testing exercises that typically assess the potential impacts of transitory shocks to near-term economic and financial conditions. An effective climate-related scenario analysis framework provides a comprehensive and forward-looking perspective that financial institutions can apply alongside existing risk management practices to evaluate the resiliency of a financial institution's strategy and risk management to the structural changes arising from climate-related risks.

Management should develop and implement climate-related scenario analysis frameworks in a manner commensurate to the financial institution's size, complexity, business activity, and risk profile. These frameworks should include clearly defined objectives that reflect the financial institution's overall climate risk management strategies. These objectives could include, for example, exploring the impacts of climate-related risks on the financial institution's strategy and business model, identifying and measuring vulnerability to relevant climate-related risk factors including physical and transition risks, and estimating climate-related exposures and potential losses across a range of plausible scenarios. In the near term, a climate-related scenario analysis framework can also assist the financial institution in identifying data and

methodological limitations and uncertainty in climate risk management and informing the adequacy of its climate risk management framework.

Climate-related scenario analyses should be subject to oversight, validation, and quality control standards that would be commensurate to their risk. Climate-related scenario analysis results should be clearly and regularly communicated to all relevant individuals within the financial institution, including an appropriate level of information necessary to effectively convey the assumptions, limitations, and uncertainty of results.

III. Management of Risk ~~Areas~~ Assessments

A risk assessment process is part of a sound risk governance framework, and it allows boards and management to identify emerging risks and to develop and implement appropriate strategies to mitigate those risks. Boards and management should consider and incorporate climate-related financial risks when identifying and mitigating all types of risk. These risk assessment principles describe how climate-related financial risks can be addressed in various risk categories. The FDIC will elaborate on these risk assessment principles in subsequent guidance.

A. 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. As part of concentration risk analysis, management should assess potential changes in correlations across exposures or asset classes. The board and management should determine credit risk appetite and lending limits related to these risks.

B. Liquidity Risk

~~Consistent with sound oversight and liquidity risk management, the~~ 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 practices and liquidity buffers.

C. Other Financial Risk

Management should monitor interest rate risk and other model inputs for greater volatility or less predictability due to climate-related financial risks. Where appropriate, management should include corresponding measures of conservatism in their risk measurements and controls. The board and management should monitor how climate-

related financial risks affect their financial institution's exposure to risk related to changing prices. While market participants are still researching how to measure climate price risk, the board and management should use the best measurement methodologies reasonably available to them and refine them over time.

D. Operational Risk

The board and management should consider how climate-related financial risk exposures may adversely impact a financial institution's operations, control environment, and operational resilience. Sound operational risk management includes incorporating an assessment across all business lines and operations, including third-party operations, and considering climate-related impacts on business continuity and the evolving legal and regulatory landscape.

E. 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 financial institution operates. This consideration includes possible changes to legal requirements for, or underwriting considerations related to, flood or disaster-related insurance. It also includes possible fair lending concerns if the financial institution's risk mitigation measures disproportionately affect communities or households on a prohibited basis such as race or ethnicity.

F. Other Non-Financial Risk

Consistent with sound oversight, the board and management should monitor how the execution of strategic decisions and the operating environment affect the financial institution's financial condition and operational resilience as discussed in the strategic planning section. The board and management should also consider the extent to which the financial institution'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.

IV. Paperwork Reduction Act

The Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3521) (PRA) states that no agency may conduct or sponsor, nor is the respondent required to respond to, an information collection unless it displays a currently valid Office of Management and Budget ("OMB") control number.

[These draft principles do not revise any existing, or create any new, information collections pursuant to the PRA. Therefore, the FDIC is not making a submission to OMB.](#)

V. Request for Comment

The FDIC welcomes feedback on all aspects of these draft principles, including on the following questions. Among other uses, the FDIC would consider responses in connection with developing any future guidance on climate-related financial risks.

A. Applicability

[Question 1. What additional ~~categories of banks \(i.e., based on factors, for example~~ asset size, location, and business model\) ~~to which, should inform financial institutions'~~ adoption of these principles ~~should apply~~?](#)

B. Tailoring

[Question 2.](#) How could future guidance assist a financial institution in developing its climate-related financial risk management practices commensurate to its size, complexity, risk profile, and scope of operations?

C. General

[Question 3.](#) What challenges do financial institutions face in incorporating these draft principles into their risk management systems? How should the FDIC further engage with financial institutions to understand those challenges?

[Question 4.](#) Would regulations or guidelines prescribing particular risk management practices be helpful to financial institutions as they adjust to doing business in a changing climate?

D. Current Risk Management Practices

[Question 5.](#) What specific tools or strategies have financial institutions used to successfully incorporate climate-related financial risks into their risk management frameworks?

[Question 6.](#) How do financial institutions determine when climate-related financial risks are material and warrant greater than routine attention by the board and management?

[Question 7.](#) What time horizon do financial institutions consider relevant when identifying and assessing the materiality of climate-related financial risks?

[Question 8.](#) What, if any, specific products, practices, and strategies—for example, insurance or derivatives contracts or other capital market instruments—do financial institutions use to hedge, transfer, or mitigate climate-related financial risks?

[Question 9.](#) What, if any, climate-related financial products or services—for example, “green bonds,” derivatives, dedicated investment funds, or other instruments that take climate-related considerations into account—do financial institutions offer to clients and customers?¹⁰ What risks, if any, do these products or services pose?

[Question 10.](#) How do financial institutions currently consider the impacts of climate-related financial risk mitigation strategies and financial products on households and communities, specifically LMI and other disadvantaged communities? [Should the agencies modify existing regulations and guidance, such as those associated with the Community Reinvestment Act, to address the impact climate-related financial risks may have on LMI and other disadvantaged communities?](#)

E. Data, Disclosures, and Reporting

[Question 11.](#) What, if any, specific climate-related data, metrics, tools, and models from borrowers and other counterparties do financial institutions need to identify, measure, monitor, and control their own climate-related financial risks? How do financial institutions currently obtain this information? What gaps and other concerns are there with respect to these data, metrics, tools, or models?

[Question 12.](#) How could existing regulatory reporting requirements be augmented to better capture financial institutions’ exposure to climate-related financial risks?

F. Scenario Analysis

[Question 13.](#) Scenario analysis is an important component of climate risk management that requires assumptions about plausible future states of the world. How do financial institutions use climate scenario models, analysis, or tools and what challenges do they face?

[Question 14.](#) What factors are most salient for the FDIC to consider when designing and executing scenario analysis exercises?

¹⁰ ~~“Green bonds” refer to fixed-income securities, the proceeds of which are earmarked for environmentally beneficial investment.~~