February 14, 2022

Michael J. Hsu
Acting Comptroller of the Currency
400 7th St. SW
Washington, DC 20219

Re: Docket ID OCC-2021-0023, OCC Principles for Climate-Related Financial Risk

Dear Acting Comptroller Hsu,

On behalf of the 82 undersigned organizations and our millions of members and supporters, we welcome the opportunity to comment on the Office of the Comptroller of the Currency's (OCC's) Principles for Climate-Related Financial Risk Management for Large Banks. We support this important step toward advancing banks' efforts to assess and address climate-related risk, and we urge the OCC to strengthen and finalize the draft as soon as possible.

Climate change poses significant risks to the safety and soundness of banks, the financial system, and communities. We support the OCC's recommendations for big banks to take a whole-of-business approach to mitigating climate risk, to consider longer time horizons for assessing and addressing climate risk, and to develop climate-related data and scenario analysis modeling. Two elements of particular importance include directing banks to align their internal strategies with their public climate commitments, and recognizing fair lending implications and the adverse effect that risk-management measures could have on low-income and other disadvantaged households and communities.

Ensuring transparency and alignment of climate commitments and strategies

We welcome the provision directing banks to ensure that their internal strategies are consistent with their public climate commitments. Public statements, like recent commitments made by banks to create and execute "net-zero" transition plans, are a reflection of management's strategic vision for the company and an important part of climate risk management. To be consistent with its public commitments, a bank's corresponding actions and internal strategies must be grounded in climate science and technological realities. Recently, nine US banks have made commitments to "net-zero" emissions by 2050, consistent with the Paris Agreement's goal of limiting global average temperature rise to 1.5°C, as members of the bank-led Net-Zero Banking Alliance (NZBA) initiative under the Glasgow Financial Alliance for Net Zero (GFANZ).

However, these banks are falling short of establishing strategies to meet these commitments and are still engaging in actions inconsistent with them. Many continue to finance new fossil fuel and other high-emitting projects or companies expanding their high-emitting activities. These activities are not compatible with reaching net-zero emissions by 2050 or limiting global temperature rise to 1.5°C. This conduct raises questions about whether bank managers desire to follow through on these commitments–and are failing to do so–or are merely seeking public relations wins.

The OCC should clarify banks' understanding of how the agency will consider the relationship between transition plans and internal strategies. Among the most significant parameters to expand on are (1) aligning financing for activities, projects, and companies that drive greenhouse gas pollution with the bank's own commitments; (2) providing measurable near term targets based firmly in climate science and technological realities; (3) and accurately accounting for the challenges posed by offsets.

Robust transition plans are important not only to ensure that banks' internal strategies are consistent with public statements, but also because planning for a transition away from greenhouse gas emissions is important for the safety and soundness of all banks, large and small, and for fair access of marginalized communities to financial services. While some banks, such as Amalgamated Bank, have aligned their climate commitments to science and understand the need to reduce risks for both it and the financial system, other banks need additional guidance from the OCC.

Linking Emissions Reductions Targets and Financing Activity

Fossil fuel expansion is not compatible with any science-based limit on global temperature rise or with meeting public commitments for net-zero financed emissions by 2050. Key tenets of the International Energy Agency's roadmap for achieving net-zero emissions by 2050 include "no investment in new fossil fuel supply projects" and "no further final investment decisions for new unabated coal plants." Yet 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 increase their funding despite voicing their support for the Paris Agreement and committing to net zero by 2050. Citi recently committed to a 29% reduction in absolute emissions from its energy sector financing by 2030, yet the bank failed to provide a plan to stop funding fossil fuel expansion to align with its net-zero pledge. More troublingly, major banks such as JPMorgan Chase, Morgan Stanley, and Goldman Sachs have set interim targets based on convoluted financed emissions intensity metrics that are difficult to compare and do not conform with the reduction in absolute emissions that is necessary to achieve net zero by 2050. These contradictions raise serious questions about the sincerity of banks' climate commitments or, alternatively, the soundness of their management processes and controls.

To meaningfully align their business with their commitments, banks need to follow a science based approach to meeting absolute emissions reduction targets.

Measurable Targets

The OCC should make clear that banks committing to net zero by 2050 must have in place, and must implement, credible internal strategies that meet the imperatives of climate science, technological realities, and safety and soundness. A credible plan in line with public commitments includes short- and medium-term targets and metrics. Such milestones are critical not just to meeting the commitments, but also to avoiding a fire sale from banks trying to meet their commitments at the last minute. A credible plan should include milestones such as a 50% reduction in absolute financed emissions by 2030.

Offsets

Some banks may seek to rely heavily on purported "offsets" of carbon emissions from forests, wetlands, and carbon removal technologies to achieve net-zero carbon emissions. But offsets have deep limitations such that they cannot be relied on to play more than a trivial role in any credible net-zero plan. The limitations include difficulties quantifying or verifying avoided or reduced emissions, questions about the effectiveness and permanence of natural sinks that may be threatened by human or natural impacts, concerns about the reliability and legal norm compliance of promised reductions due to violations of Indigenous rights and treaties, the lack of technologies that are credible and dependable, and the potential for fraud. For these reasons, standard setters are increasingly treating offsets only as a last resort to negate residual emissions that remain after financial institutions have directly reduced financed emissions as near to zero as is possible.

Ensuring fair access to financial services

We welcome the OCC's recognition of potential fair lending concerns as banks mitigate climate related risks. The OCC should address two key ways climate risk threatens fair access to financial services. The first is through impacts to the safety and soundness of local banks. Eighty percent of institutions supervised by the OCC are smaller banks, particularly regional, community, and agricultural banks. Some are more vulnerable to climate risk than larger banks due to the financial needs they meet, and they are also critically important for rural communities and marginalized communities. One in five counties depends on community banks for access to a physical bank branch.

The second threat is through measures taken by large banks to reduce their own exposures to credit and other financial risks. Such bank measures are likely to include closing branches in "hot-spot" areas impacted by climate-related extreme weather events, increasing costs related to financing in these areas, and pursuing other measures that could reduce access to services.

The guidance's attention to disproportionate impacts is welcome. Banks may find that it pushes them in multiple directions. While the guidance directs banks to reduce their exposures, it also notes that some responses may be unacceptable due to disproportionate impacts to marginalized communities. The OCC should move quickly to issue additional guidance on how banks can improve on equitably providing credit to vulnerable communities while acting in a safe and sound manner. As part of this guidance, it should require that banks identify, measure, monitor, and address potential and occurring disproportionate impacts on marginalized communities, such as communities of color and low-moderate-income communities. Banks should have a system for tracking their actions to avoid or address disproportionate impacts and documenting their progress on addressing those impacts. It should also recognize that orderly reductions in financed emissions would most meaningfully reduce safety and soundness risks for all banks, large and small, as well as the risk of impaired access to financial services for all communities.

Conclusion

These draft principles are a historic step in the right direction. They are also a starting point that should be followed by additional guidance. The U.S. lags behind much of the world on mitigating climate-related risk. We encourage the OCC to follow the lead of global peers at the European Central Bank (ECB), Canada's Office of the Superintendent of Financial Institutions, and other regulators who are actively exploring the need for additional supervisory measures to respond to climate risk, including the need for increased attention to capital and liquidity requirements at the largest, most complex institutions.

We look forward to continuing to engage with you on these issues.

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

Sincerely,

Public Citizen
Accelerate Neighborhood Climate Action
Action Center on Race and the Economy
Alianza Americas
Alliance for Regional Cooperation
Amazon Watch
Americans for Financial Reform Education Fund
Animals Are Sentient Beings, Inc.
Beyond Extreme Energy
Businesses for a Livable Climate
California Reinvestment Coalition
Call to Action Colorado
Capitol Heights Presbyterian
CatholicNetwork US
Center for Economic Justice
Center for International Environmental Law
Central Jersey Coalition Against Endless War
Climate Action Rhode Island-350
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CO Businesses for a Livable Climate
Community for Sustainable Energy
Connecticut Citizen Action Group
Consumer Federation of America
Divest Oregon: Reinvest in a Fossil-Free Future
Earth Action, Inc.
Elders Climate Action
Evergreen Action
Extinction Rebellion San Francisco Bay Area
FracTracker Alliance
FreshWater Accountability Project
Greater New Orleans Housing Alliance
Honor the Earth
I-70 Citizens Advisory Group
Inclusive Louisiana

Indivisible Ambassadors
Institute for Agriculture and Trade Policy
Jesuit Community Colegio Centro America
League of Conservation Voters
Littleton Business Alliance
Louisiana Bucket Brigade
Mayfair Park Neighborhood Association Board
Mental Health & Inclusion Ministries
Mid-Ohio Valley Climate Action
Montbello Neighborhood Improvement Association
New Mexico Climate Justice
North Range Concerned Citizens
Positive Money US
Rainforest Action Network
RapidShift Network
Revolving Door Project
Rise St. James
Save EPA
Sierra Club
Small Business Alliance
SoCal 350 Climate Action
Southwest Organization for Sustainability
Stand.earth
Strangers No Longer
Sunrise Project
System Change Not Climate Change
Terra Advocati
Texas Campaign for the Environment
U.S. PIRG
Unite North Metro Denver
Wall of Women
Western Slope Businesses for a Livable Climate
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Womxn from the Mountain
Working for Racial Equity
Youth Emergency Auxiliary Service Sierra Leone (YEAS-SL)
Zero Hour
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