Acting Comptroller of the Currency Michael J. Hsu
Statement in Support of the Finalization of Interagency Principles on Climate-Related Financial Risk Management for Large Banks
FDIC Board Meeting
October 24, 2023

I strongly support the finalization of the interagency principles on climate related financial risk management for large banks. Adopting these principles promotes safety and soundness by highlighting the risk management capabilities that large banks need to develop as the world changes. As Acting Comptroller of the Currency, I am especially proud of the OCC for taking the initiative and being the first U.S. federal banking agency to propose for public comment principles for large banks nearly two years ago.

It is important to highlight that these Principles are focused exclusively on risk management. They are needed because the increased frequency and severity of extreme weather events impact individuals, businesses, and communities. As with all risks, large banks need to be ready and to have effective risk management capabilities.

At the same time, these Principles recognize and respect that industrial policy and climate policy are outside of the scope of bank safety and soundness. The Principles do not tell bankers what customers or businesses they may or may not bank. Rather, they clarify how large banks can maintain effective risk management and keep their balance sheets sound and continue to be a source of strength to their customers and communities through a range of scenarios.

One challenge with emerging risks is that before these risks fully manifest themselves, such as through a bank failure or a full-blown financial crisis, this absence of significant harm can lead to complacency. Prior to the collapse of Long Term Capital Management in 1998, the idea that a bank's safety and soundness could be put at risk by a derivatives counterparty was farfetched to most. We should not wait for disaster to strike before we act. Prudence demands that we adapt as risks emerge, as we have done, for instance, with cyber risk – where regulators have laid out expectations regarding cyber risk management practices, even in the absence of a cyber-induced bank failure.

These examples reinforce what we all know: risk, no matter what you call it, needs to be managed. We have learned through hard-earned experience that it is better to address risks as they emerge, rather than after they've caused damage. This philosophy underpins prudent risk management, safety and soundness, and these Principles.

I want to thank the staff of all three agencies for finalizing these Principles and maintaining a strong safety and soundness focus throughout the process.