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TESTIMONY OF

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before the

COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND MONETARY POLICY

UNITED STATES HOUSE OF REPRESENTATIVES

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Statement Required by 12 U.S.C. § 250:

The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.

Chairman Barr, Ranking Member Foster, and members of the Subcommittee, thank you for the opportunity to testify about the Office of the Comptroller of the Currency's (OCC) activities relating to climate-related financial risk. The OCC was created 160 years ago by President Abraham Lincoln as an independent bureau of the Department of the Treasury. The agency's mission is to ensure that national banks and federal savings associations operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations. As the Senior Deputy Comptroller for Large Bank Supervision, I direct the OCC's supervision of the country's largest national banks, which collectively hold more than \$10 trillion in consolidated assets, to ensure that they operate in conformity with the agency's mission.

Since his appointment in 2021, one of Acting Comptroller Michael Hsu's four priorities for the agency has been "*Acting on Climate Risk*" due to the increased frequency, severity, and volatility of weather events, which affect the value of financial assets, borrowers' creditworthiness, and the associated risks banks may take onto their balance sheets. The resulting climate-related financial risks have the potential to affect the safety and soundness of banks through physical and transition risks, which affect various sectors of the economy and may impact access to financial services and fair treatment of consumers.

The OCC does not and will not tell bankers what customers or legal businesses they may or may not bank. Rather, we are committed to staying focused on banks' risk management of climate-related financial risks. The OCC's focus on and supervision of climate-related financial risk is firmly rooted in our mandate to ensure that national banks and federal savings associations operate in a safe and sound manner. The OCC has approached climate-related financial risk the same way the agency approaches any emerging risk area – to work with our regulated

institutions to determine if they have appropriate processes and procedures in place to address the risk.

Two categories of climate risk may present safety and soundness implications for banks, physical and transition risks. Physical risks include the increased frequency, severity and volatility of weather events and the associated impact on the value of financial assets and borrowers' creditworthiness. Transition risks relate to adjustments to a low-carbon economy and include associated policy changes from Congress and other authorities, technology changes, and litigation. The OCC's role is to ensure that national banks and federal savings associations understand their climate-related financial risks and develop comprehensive risk management frameworks and capabilities to identify, measure, monitor and control those risks.

Office of Climate Risk

Last year, the agency established an Office of Climate Risk (OCR) and appointed Dr. Nina Chen as the Chief Climate Risk Officer to lead the unit. The OCR provides a central focus for the agency's climate-related financial risk efforts related to supervision, policy and external engagement. The Office is responsible for coordinating the OCC's activities relating to climate-related financial risks and supervision including:

- working with my team in Large Bank Supervision to develop and review examination strategy and guidance regarding climate-related financial risks for banks with over \$100 billion in total consolidated assets,
- developing initial training and curricula for OCC staff on climate-related financial risk supervision, and

- promoting interagency collaboration and knowledge sharing on climate-related financial risk issues.

Draft Climate-Related Financial Risk Management Principles

In December 2021, the OCC issued for public comment [draft principles](#) designed to support the identification and management of climate-related financial risks at OCC-regulated institutions with more than \$100 billion in total consolidated assets. The agency’s focus on large banks – which have already begun to monitor this emerging risk – is intentional because their exposures to climate-related financial risks may be material.

The draft principles provide large banks with a high-level framework for the safe and sound management of exposures to climate-related financial risks. The document describes general principles relating to bank governance; policies, procedures and limits; strategic planning; risk management; data, and other areas, and provides considerations for how climate-related financial risks can be addressed in the traditional risk categories including credit, liquidity, operational risk and others. The agency invited feedback on all aspects of the draft principles and we are continuing to consider the comments received. We are working with our interagency colleagues to determine the next steps in this area.

Observations of Large Banks’ Management of Climate-Related Financial Risks

Starting in 2022, the OCC began reviewing information at our largest banks with over \$100 billion in total consolidated assets to understand their climate-related financial risk management programs. On their own initiative, large banks have begun incorporating climate-related financial risks in their risk management frameworks and policies. Our initial observations

from our reviews are described more fully in our recently issued *Semiannual Risk Perspective Report*¹ and have confirmed this fact.

Large bank management is in varying stages of incorporating climate-related financial risks in their strategic planning processes and understanding the impacts of these risks on large banks' financial condition and operations over different time horizons. Large banks are making progress to include climate-related financial risks in their risk appetite statements. Some large banks are developing or have incorporated qualitative statements, while a few others are developing or have incorporated quantitative metrics. Large banks are in varying stages of developing processes to measure and monitor the potential exposures to physical and transition risks. The large banks are using a combination of internal data and external data from various sources to identify, measure, monitor, and control the risks.

Some large banks with more mature processes have taken it upon themselves to conduct forward-looking scenario analysis to better understand and measure climate-related financial risks. For those large banks that have conducted climate scenario analysis, our understanding is that the output they glean is primarily used for informational purposes as they learn more about the results and monitor the quality of the data before using it for business decision purposes. Most large banks engage in industry efforts to share information and learn about leading practices. Our reviews of the banks with over \$100 billion in total consolidated assets is conducted to better understand the banks' climate-related financial risk management programs.

¹ See: *OCC's Semiannual Risk Perspective for Spring 2023*, issued on June 14, 2023 and available at: [OCC Report Identifies Key Risks Facing Federal Banking System | OCC](#)

Community Banks

Community banks are very familiar with the impacts of weather events upon their customers and businesses in the local communities they serve. These banks have long managed the risks that localized weather events present. As mentioned, the OCC is focused on climate-related financial risk management at banks of \$100 billion or more and does not intend for these same efforts to trickle down to community banks. However, Acting Comptroller Hsu has suggested that midsize and community bankers be mindful of these risks and develop thoughtful, tailored assessments of their climate-related financial risk profiles to ensure they manage them appropriately.

The Acting Comptroller has made a concerted effort to meet with community bankers to discuss climate-related financial risks. He has traveled across the country, including visits to Topeka, Kansas and Midland, Texas, to listen to and hear from community bankers directly about their experiences with physical and transition climate-related financial risks. The OCC is committed to continued dialogue and constructive engagement with all stakeholders, including community bankers, as we build and apply our climate-related financial risk management expertise.

Interagency Work

The OCC continues its interagency collaboration efforts to address climate-related financial risks. The OCC actively collaborates with other member agencies on the Financial Stability Oversight Council's (FSOC) Climate-Related Financial Risk Committee (CFRC). The OCC is also involved in the Basel Committee on Banking Supervision Task Force on Climate-

Related Financial Risks and the Network of Central Banks and Supervisors for Greening the Financial System to ensure awareness of and keep an open dialogue with our fellow regulators.

Conclusion

The OCC remains committed to assessing climate-related financial risks at banks over \$100 billion in consolidated assets from a risk management perspective. This approach is consistent with how the agency responds to emerging risks to the banking industry and to ensure that the national banks and federal savings associations that we supervise continue to remain safe and sound, provide fair access to credit, and treat customers fairly.