CADWALADER

# Cabinet News and Views

Informed analysis for the financial services industry

## Federal Banking Agencies Finalize Interagency Climate-Related Risk Management Principles

By Daniel Meade
Partner | Financial Regulation

Last week, the Federal Reserve Board ("FRB"), Federal Deposit Insurance Corporation ("FDIC"), and Office of Comptroller of the Currency ("OCC") (together, the "Agencies") released a final interagency Principles for Climate-Related Financial Risk Management for Large Financial Institutions (the "Principles").

The final Principles are substantially similar to what each of the Agencies issued separately over the course of 2021 and 2022, as we discussed here. In response to comments, the final guidance includes changes from the proposal that include clarification that the guidance is applicable to large foreign banking organizations and the different roles of an institution's board of directors vs. management. Like the proposed guidance, the final Principles contain "high-level principles covering six areas: governance; policies, procedures, and limits; strategic planning; risk management; data, risk measurement, and reporting; and scenario analysis. Additionally, the final principles describe how climate-related financial risks can be addressed in the management of traditional risk areas." Consistent with the proposed guidance, the Principles are applicable to institutions supervised by the Agencies with $100 billion or more in total assets. The Agencies reiterated that they neither prohibit nor discourage large financial institutions from providing services to customers of any specific class or type generally permissible under law, just that they need to consider the "physical and transition risks."

The issuance of the Principles garnered dissent among FRB and FDIC Board members. At the FRB, Governors Waller and Bowman (both Republicans) dissented. Similarly, the two Republican members of the FDIC Boars, Vice Chair Hill and Director McKernan dissented. All four dissent statements have in common what Gov. Waller possibly most concisely stated: "I don't believe the risks posed by climate change are sufficiently unique or material to merit special treatment relative to other risks." While the Principles bear some similarity to the Basel Committee Principles, the politics of climate-related financial risks are different in the United States than they are in Europe, and the U.S. Agencies do make clear that the principles are about managing the risks presented by climate change, not managing climate change itself.