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Climate Risk Regulation: The Community Bank Perspective

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Risk: Are Financial 5 H J X O D W R U V 3 R O L W L F D O Climate risk regulation is an emerging threat to the business model of community banks and the customers they serve.

Regulatory Initiatives. ICBA is strongly concerned by increasing calls for banks to be subject to mandatory climate

the regulators issue additional regulation and guidance on climate risks including using scenario analysis, where appropriate, as a tool for assessing climate-related financial risks. In response, the OCC, FDIC and Fed Reserve proposed a set of principles to support the identification and management of climate-related financial risks for large national banks with $100 billion or more in assets. The New York Department of Financial Services finalized a similar framework that does not contain any

mitigate risks from severe weather events. Their longstanding and tried-and-tested underwriting and insurance practices sufficiently address climate-related financial risks, as evidenced by the absence of community bank failures following severe weather events. Since the early 19th century, community banks have prepared for, responded to, and survived myriad natural disasters, including catastrophic hurricanes, tornadoes, flooding, droughts, wildfires, and wind events. As stewards of their local communities, community banks are best positioned to monitor the overall risk of their geographically limited loan portfolios and investment practices and should not be subject to overly burdensome, duplicative, or unnecessary new regulations aimed at controlling remote or speculative climate-related financial risks. Subjecting community banks to any type of mandatory climate risk regulation, scenario analysis, or enhanced climate disclosure requirements is not only unnecessary but also a costly exercise that may cause many small businesses that operate Z L W K L Q F R P P X Q L W \ E D Q N I R R W S U L Q W V W R ICBA supports independent decision making at community banks which should not be forced to serve or deny services to certain industries or businesses based on their carbon emissions.

ICBA Opposes Community Bank-Adverse Climate Change Regulation. ICBA will resist efforts by lawmakers and regulators to impose or to incorporate as part of their supervision and examination of community banks: (1) hard concentration limits on any type of legal lending, including lending to fossil fuel or other carbon intensive industries; (2) community bank stress testing or scenario analysis based on remote, highly speculative, or unquantifiable climate change assumptions; (3) mandatory climate change disclosure requirements by community banks and their customers; and (4) increased capital requirements based on climate risks. Mandatory climate change disclosures would be particularly burdensome and unnecessary to community banks and would be viewed similarly to