



## Mutual Alert

### **OCC Acting Comptroller Hsu Discusses Macro Climate Framework**

AMB has previously alerted members to the growing attention regulators and Biden Administration officials are paying to climate change. Although none of the regulators have released a concrete climate plan or framework, OCC Acting Comptroller Hsu stated that a general framework would be released before the end of the year, with specifics coming in 2022. In a [November 8th speech](#), Hsu also laid out a macro framework, containing five questions senior management and bank boards should be considering. These questions include:

- “What is our overall exposure to climate change?”
  - This question is designed to start the conversation and should lead to the eventual development of internal processes, metrics, and analytics to measure overall risk and exposure. Hsu recommends the implementation of scenario testing and analyses as a means of exploring exposure.
- “Which counterparties, sectors, or locales warrant heightened attention and focus?”
  - To better understand climate based risks, it is necessary to divide risks into two groups, physical risks, and transition risks. Physical risks refer to weather incidents, or geographical factors; while transition risks refer to operating changes as a result of new policies or regulations, and shifting customer and investor priorities.
- “How exposed are we to a carbon tax?”
  - Although the likelihood of a federal carbon tax is extremely low, especially in the short term, it is always best to contingency plan. However, state-issued carbon or climate taxes are gaining momentum (although no state has implemented one as of this alert), and thus some AMB members may be more exposed than others.
- “How vulnerable are our data centers and other critical infrastructure to physical risks?”

- Similar to overall discussion of risk, this is more focused on physical risk to bank property and infrastructure. With the increasing use of third-party vendors, it is important to analyze whether or not these vendors are exposed to significant physical risk.
- “What can we do to position ourselves to seize opportunities from climate change?”
  - Although climate change poses significant risks and will impose significant costs on many banks, there are also opportunities for diversification and acquisition of non-traditional customers. Emerging green industries and businesses with a focus on sustainability could be productive and profitable partners, while also helping reshape local communities.

Although the initial questions and framework are general, these questions and a general internal review of climate-related risks are mostly an unnecessary burden on smaller mutuals. Nonetheless, mutuals need to make a threshold determination whether certain business lines or sector products implicate a heavy carbon footprint.

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