ABA POSITION PAPER

Climate Change and Banking

February 9, 2022

ABA POSITION

In light of efforts by investors and by policy-makers at Federal, state, and local levels to respond to climate change, ABA and its members understand that climate-related financial risk– and broader environmental policy goals – have implications for banks, their counterparties and the communities that banks serve. The banking industry plays a critical role in providing financing and liquidity to individuals, companies, and communities as they react to ongoing and foreseeable changes in environmental and market factors. To avoid economic disruption and harm, banks should not be used as proxies to effectuate environmental or other social policy goals. Moreover, every effort should be made to prevent or minimize economic dislocation from policy and market changes, and to recognize the unique challenges facing vulnerable populations.

ABA has developed, in consultation with our members, the following principles to guide our advocacy:

- Banks should be free to lend to, invest in, and generally do business with any entity or activity that is legal, without government interference.

- Prudential regulation of banks should not be a substitute or proxy for efforts to carry out broader social policy or to regulate specific businesses and industries.

- Prudential regulations should support orderly transitions in local economies and allow banks to finance the new technologies necessary for a lower-carbon economy.

ABA staff analysis does not provide, nor is it intended to substitute for, professional legal advice.

- Regulation and supervisory expectations must be plausible, market-based and appropriately scaled to bank capabilities and the economic realities of the communities they serve.

- Capital and liquidity requirements should not be tied to regulatorily-driven scenario analysis or climate related financial stress testing, which are still in early developmental stages.

- Any disclosure requirements should be focused on what is necessary to inform business and risk management decisions.

- US financial regulators must work together closely, and with international bodies, to ensure consistent definitions, standards and avoid conflicting or overlapping requirements.

Questions? Contact Joe Pigg jpigg@aba.com for more information.