Remarks by

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Institute of International Bankers,

Annual Washington Conference

March 7, 2022

Good afternoon. It is a pleasure to be here and to speak to the Institute of International Bankers (IIB) at this year’s Annual Washington Conference. The IIB has a long history of bringing together senior government officials and industry leaders to address policy and business issues of importance to the international banking community in the United States. Today, I would like to focus on two priorities for the OCC: climate risk, and diversity and inclusion.

Before doing that, though, I want to briefly discuss the events in Ukraine and highlight two short-term imperatives and a longer-term challenge.

The first imperative relates to sanctions. It is critically important that all of your members’ Compliance Officers, BSA/AML Officers, and Sanctions Officers are aware of the Executive Orders and the U.S. Treasury’s Office of Foreign Assets Control (OFAC) designations regarding Russia-related sanctions. Those are necessary to taking appropriate actions to blocking and rejecting transactions and reporting to OFAC. Sanctions efficacy is a crucial element of the international community’s strategy to deter further Russian aggression and bring an end to the conflict. I encourage your members to work with their primary U.S. regulator and discuss specific questions on sanctions with OFAC.

The second imperative relates to cyber defense. Heightened vigilance is clearly warranted. In support of that, the Cybersecurity and Infrastructure Security Agency (CISA) is providing
information on its “Shields Up” website to promote awareness and mitigation of current cybersecurity threats. Your members should continue to check that site regularly for new advisories and resources to protect themselves from these risks. In addition, your members should be reminding their teams to be on the lookout for phishing attacks and to be extra careful about what they click on.

Stepping back, like many of you, I feel like we may now be living through a turning point in history. Russia’s unprovoked attack on a peaceful, democratic neighbor and the international community’s forceful financial response may have long-term impacts for all of us. Our collective hope is that the conflict in Ukraine ends immediately. The military outcome notwithstanding, in the longer term I believe we all need to be attentive to how trust in the international banking and financial system may change. It will, of course, differ by region, by client, and by activity—but I encourage your members to share their observations, experiences, and challenges with each other. Banking rests on trust. Safeguarding that trust internationally is going to take the collective effort of everyone in this room. Without that effort, I fear that the natural tendency going forward will be for that trust to retreat to national boundaries and steadily erode over time.

Let me now turn to the topics at hand today: climate risk management, and diversity and inclusion.

**Climate Change Risk Management**

Climate change is generating risk exposures for banks. Prudently risk managing those climate-related exposures is a safety and soundness imperative.

In December last year, the OCC requested feedback on draft principles\(^1\) designed to support

the identification and management of climate-related financial risks for large banks with more than
$100 billion in total consolidated assets. I would like to thank all parties that provided feedback.
We received a very robust response. OCC staff are reviewing the feedback and intend to work with
the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) on an interagency basis
to finalize the principles and develop more detailed guidance.

Consistent with the draft principles and our legal mandate, the OCC is laser-focused on the
safety and soundness aspects of climate change risks. Unlike regulators in some other jurisdictions,
we do not (yet) have a mandate to help meet carbon reduction targets. This means we cannot take
supervisory measures specifically designed to accelerate the transition to a carbon neutral
economy, such as limiting credit to fossil fuel companies. Rather, we are focused on large banks’
climate risk management capabilities: identifying, measuring, monitoring, and mitigating climate-
related exposures and risks. Weaknesses in risk management could adversely affect a bank’s safety
and soundness, as well as the overall financial system.

By now, all of you are familiar with the concepts of physical and transition risks. Physical
risks relate to banks’ exposures, direct and indirect, to the increased frequency, severity, and
volatility of extreme weather and long-term shifts in global weather patterns, including the
associated impacts on the value of financial assets and borrowers’ creditworthiness. Transition
risks relate to the adjustment to a low-carbon economy, including associated changes in
government policy and from technology and consumer and investor sentiment.

I get asked from time to time about the perceived arbitrariness and/or political nature of the
climate forecasts underpinning physical and transition risk outlooks. Embedded in those questions
is a lurking sense: “Isn’t climate risk first and foremost a political issue?” Some point to transition
risk, specifically exposure to changes in government policy, as a case in point. For us, the short
answer is no—the OCC does not view climate risk through a political lens or as a political priority. We do so through the lens of safety and soundness. The situation in Ukraine may provide a useful analogy.

Today, it is widely accepted that geopolitical risk is a safety and soundness risk that internationally active banks must manage. Countries may take actions that significantly affect their economies, the creditworthiness of borrowers, the prices of assets, and the liquidity and functioning of financial markets. Regardless of banks’ politics or their views of countries’ decisions, we expect safe and sound banks to identify, measure, monitor, and control exposures to such actions and outcomes. With regards to the current conflict, for instance, we would expect banks to be doing “what if?” scenario analyses of their direct and indirect exposures to Ukraine, Russia, and associated markets.

The same can be said for climate risk. Whether or not one agrees with the scientific community’s long-term climate forecasts, or with the range of potential climate-related policies that may be enacted to address greenhouse gas emissions, banks need to identify, measure, monitor, and control their exposures to those potential changes. Doing a “what if?” scenario analysis is bread-and-butter risk management for banks and can and should be applied to climate risks in the same, objective, dispassionate way that banks approach geopolitical risk.

The good news is that banks are not waiting for regulatory guidance and have begun to explore these issues on their own. For instance, some large banks are distinguishing “chronic” physical risk from “acute” physical risk. While the latter is typically deemed manageable—and often cited by climate risk skeptics as something that banks have been able to handle successfully for years—the former presents novel issues, requires different modes of analysis, and may generate more material exposures.
From a supervisory guidance perspective, the draft principles that the OCC released in December offer a starting point for consideration. Later this year we will finalize those principles and then develop more detailed guidance. Our plan is to do so on an interagency basis with the Federal Reserve and FDIC. After an appropriate transition period, we will then begin assessing large banks’ climate risk management capabilities.

This means that for midsize and community banks, it will be a number of years before OCC examiners conduct climate risk management examinations. My suggestion to those bankers has been simple: Use the time wisely. To the extent that midsize and community banks can develop thoughtful, tailored assessments of their climate risk profiles, they will help mitigate the risk of a “trickle down” of large bank climate risk management expectations in the future.

Diversity and Inclusion

I would now like to turn to the second topic and discuss the importance of diversity and inclusion in the banking industry and broader financial services sector. This is top of mind as we transition from Black History Month to Women’s History Month. There are two key questions, in particular, to consider.

The first is rooted in outcomes and safety and soundness: Are banks’ leadership ranks sufficiently diverse to handle the complexities and dynamic challenges of the day? Without diverse leadership, banks and their regulators may develop blind spots or suffer from groupthink. These blind spots can lead to the kinds of nasty surprises that threaten safety and soundness—and possibly the financial sector as a whole. There is a growing body of empirical evidence that companies that address these blind spots by having diverse boards of directors have stronger
earnings, more effective corporate governance, better reputations, and less litigation risk. In addition, a recent academic paper found that banks in districts with more diverse Reserve Bank boards had better Community Reinvestment Act performance. Diversity improves outcomes. It is helpful to remind ourselves of this.

The second question speaks more to trust and doing what is consistent with our values: Do banks and banking regulators fully reflect the communities we serve?

A study of 72 North American banks by Moody’s showed that women make up between 24 and 31 percent of those banks’ boards of directors. This data is consistent with our data on the large banks we supervise. At the OCC, in 2021, of our managers, only 41 percent were women and 30 percent were minorities. Hispanics, in particular, are under-represented, especially at senior levels of the agency. Like the industry, we continue to fall short in fully reflecting the communities we serve. And like many of you, I have made improving diversity and inclusion a top priority.

Today, while women and minorities are no longer explicitly excluded from professional clubs and from recruiting and promoting within our fields, significant implicit barriers remain. Most challenging are habits and modes of operating that seem innocuous. Take, for instance,

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5 OCC Data as of August 28, 2021.
networks and networking effects, which can be very powerful. They can pre-determine who gets hired or even considered for a position, as comfort and familiarity are strong forces and can reinforce the status quo. I still sometimes hear hiring managers say things like “I think this candidate would be a better cultural fit than the others.” This notion of “cultural fit” often leads to hiring and promoting people who look and sound like those already in power, resulting in a self-reinforcement and perpetuation of the status quo. Rather than focusing on “cultural fit,” leaders should view candidates in terms of what they can add to an organization’s culture. Growth can prevent stasis and promote adaptability. Candidates who can enrich an organization’s culture and bring a different perspective to bear should be viewed more favorably than those who will simply fit culturally.

Finally, I would like to say a quick word about inclusion. “Diversity and inclusion” is and should be a single idea—like “safety and soundness.” Inclusion means more than just giving someone a seat at the table. It means giving them a voice. It is not their responsibility to speak up, it is ours—the others at the table—to invite their input and listen and react. Without inclusion and a sense of belonging, diversity over time becomes a box to be checked, not a state to strive for or a value to be upheld.

Conclusion

War puts things in perspective. The issues of climate risk management and diversity and inclusion may to some seem quaint against the backdrop of war in Ukraine, but I see things differently. The geopolitical risks that banks are dealing with today are similar in some ways to the climate risks that banks will have to deal with tomorrow. Safety and soundness, not politics, demands prudent risk management of both. Improving diversity and inclusion can prevent blind spots and build trust, both of which are critically important to the business of banking, especially as we move
forward in these times of uncertainty.

Thank you for the opportunity to contribute to the conversations on climate risk management and on promoting diversity and inclusion. I look forward to hearing more ideas from the industry, from the members of the Institute of International Bankers, and from other stakeholders as we continue this work together.