ICBA
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Climate Risk Regulation: The Community Bank Perspective

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing: "Beyond Scope: How the SEC's Climate Rule Threatens American Markets." ICBA opposes the recently finalized SEC rule to mandate climate disclosures for publicly held banks. The new SEC rule and related efforts by other agencies to use the financial system to curb carbon emissions are an emerging threat to the business model of community banks and the customers they serve.

Community banks are committed to ensuring their local communities and environments flourish. However, the unprecedented costs and potential liabilities associated with the SEC final rule threaten to lead many SEC filers to delist their stock and terminate their securities registration. Community banks that are not publicly held will be discouraged from joining the public capital markets. Thus, the final rule will limit the ability of community banks to raise necessary capital to support lending in their communities and further discourage the formation of new community banks.

Unlike climate-related financial risk management frameworks recently finalized by federal banking regulators, the SEC — whose authority to regulate climate remains in question — has provided no meaningful exemption for all community banks. This is particularly concerning for community banks that are categorized as large accelerated filers or accelerated filers and thereby subject to some of the most onerous provisions of the final rule despite their small asset size.

Additional Regulatory Initiatives. The Financial Stability Oversight Council (FSOC) concluded in a recent report that climate change is an "emerging threat to the financial stability of the United States" and recommended that the agencies issue additional regulation and guidance on climate risks using scenario analysis, where appropriate, as a tool for assessing climate- related financial risks. In response, the OCC, FDIC and Federal Reserve finalized 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 exemptions for community banks.

Regulation is Unnecessary and Burdensome. Community banks have decades of experience managing concentration risks and are experts at knowing when and how to reduce their loan concentrations and

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 is also a costly exercise that may cause many small businesses that operate within community bank footprints to be "choked off" from the financial system. 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 or incur significant burden disclosing climate data.

ICBA Opposes Community Bank-Adverse Climate Risk 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 assumptions; (3) mandatory climate disclosure requirements by community banks and their customers; and (4) increased capital requirements based on climate risks. Mandatory climate disclosures would be particularly burdensome and unnecessary to community banks and would be viewed similarly to "Operation Chokepoint"—i.e., an attempt to discourage banks from doing business with certain legal but disfavored industries, such as carbon-intensive industries.

Regulators Need Community Bank Feedback. ICBA urges the SEC, in conjunction with the banking agencies and FSOC, to conduct a series of outreach meetings with community bankers prior to instituting any supervisory guidance on climate risks. The purpose of these outreach meetings would be to gather evidence on how community banks are successfully managing climate risks and how burdensome additional climate risk supervision and disclosures would be for the community banking industry.

Closing

Thank you for convening today's hearing. We appreciate this committee's oversight of the SEC's climate rule and other harmful bank regulatory climate risk initiatives and hope that you will continue to be active in this area.