



June 26, 2023

Melane Conyers-Ausbrooks
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia
22314-3428

RE: Request for Information and Comment on Climate-Related Financial Risk NCUA-2023-0045

Dear Secretary Conyers-Ausbrooks:

Western Energy Alliance is struck by the magnitude of the questions posed to the public in the Request for Information on climate-related financial risk and the implications arising should the National Credit Union Administration (NCUA) seek to aggressively regulate it. Should NCUA move forward with a rule, it would be contributing to the very policies that pose the greatest climate-related risks to today's credit unions and their customers within a relevant time horizon by introducing transition risks aimed at devaluing and defunding oil and natural gas assets, making the very energy that enables economic activity more expensive. We appreciate the opportunity to comment, yet must begin by asking the fundamental question of whether NCUA has a congressional mandate to regulate in the sphere of climate-related financial risk at all. We strongly object to any NCUA climate change regulation aimed at eliminating the use of oil and natural gas, particularly in the absence of an alternative that does everything that oil and natural gas do and in the absence of statutory authority.

Western Energy Alliance represents 200 companies engaged in all aspects of environmentally responsible exploration and production of oil and natural gas across the West. The Alliance represents independents, the majority of which are small businesses with an average of fourteen employees.

Our Interests in the Rule

Western Energy Alliance is providing comments to this rule as an interested stakeholder. As a trade association for the upstream petroleum industry, we do not engage directly in the financial sector as managers of federally insured credit unions (FICU). Rather, our members are affected indirectly by the rule but materially when financial institutions such as FICUs discriminate against our industry when making decisions about whom to bank in line with a narrow political agenda that views the elimination of oil and natural gas as a legitimate way to address climate change. The fact that our products are used in just about every facet of modern life speaks to their intrinsic value, and hence, the folly of rating FCUIs as at higher risk because they provide banking services to oil and natural gas companies.

Further, as recent research has shown, the returns on oil and natural gas investments relative to those in other sectors show their positive contribution to reducing portfolio risk for investors and fund beneficiaries.¹ Oil and natural gas provide about 70% of total American energy consumption.² Oil and natural gas will remain primary energy sources for many decades, with the latest Energy Information Administration (EIA) projections showing petroleum “remains the most-consumed fuel” through 2050.³ Assessing FICUs a higher risk because of their exposure to the oil and natural gas industry is simply not supported by objective reality. Should NCUA follow this RFI with a proposed rule that puts a thumb on the scale against banking the industry, it would contribute to increased financial risks for FICUs.

We have observed how Environmental Social and Governance (ESG) and climate change advocacy has negatively affected the industry’s access to banking services over the last several years as proponents consider only a narrow view of ESG and climate change while ignoring all the benefits we provide, including the role of natural gas in reducing U.S. greenhouse gas (GHG) emissions. We urge NCUA to incorporate into any rulemaking a more comprehensive consideration of our industry’s positive role in ESG and reducing GHG emissions.

When American production of oil and natural gas is discouraged through federal regulation, the result is increased importation of oil from OPEC and other countries, a counterproductive result given that American oil and natural gas are produced in a sustainable manner under strict environmental controls almost completely lacking in most oil-producing countries.

Oil and natural gas provide a net benefit to the environment. Countries like the United States with greater access to reliable, affordable energy not only have higher standards of living but enjoy cleaner environments and healthier populations. Increased use of natural gas electricity generation leads to lower levels of air pollution and reduced GHG emissions.

Natural gas, as acknowledged by EIA and the International Energy Agency (IEA), is the number one reason the United States has reduced more GHG emissions than any other country over more than a decade.⁴ Fuel switching from coal to natural gas in the electricity sector has reduced more GHG emissions than have wind and solar energy combined. Natural gas has delivered 61% of the reductions, removing 4,404 million metric tons of carbon dioxide (MMT) since 2005, whereas wind, solar, and other non-carbon energy sources have reduced GHG emissions by 2,798 MMT or 39%.⁵ Intermittent wind and solar energy are not possible without backup, with natural gas electricity being the best backup source. NCUA should recognize that the balance of benefits from oil and natural gas heavily outweigh the impacts.

Below are our responses to the questions NCUA poses in the RFI.

¹ [Fossil Fuel Divestment: A Costly and Ineffective Investment Strategy](#), Prof. Daniel R. Fischel commissioned by the Independent Petroleum Association of America, Feb. 10, 2015.

² [U.S. primary energy consumption by energy source, 2019](#), U.S. Energy Information Administration (EIA), as updated May 7, 2020.

³ [Annual Energy Outlook 2021](#), EIA, February 2021.

⁴ [Global CO2 Emissions in 2019](#), IEA, Paris, February 2020.

⁵ [U.S. Energy-Related Carbon Dioxide Emissions, 2021](#), EIA, December 2022.

Physical Risk

1. Climate-related events, including floods, sea level rise, hurricanes, winds, wildfires, and drought, may affect credit union operations (for example, office buildings, supply chain); commercial and residential real estate; agricultural, commercial, and industrial lending; and small business lending. What climate-related physical risks, if any, are affecting the industry? How might physical risks and the impact of these risks on credit unions and their members change over time?

Right from the beginning in the preamble, NCUA displays a disproportionate focus on the impact of climate change on credit unions in particular and the U.S. economy and financial sector in general. NCUA is assuming risks to credit unions from floods, hurricanes, winds, etc. are all related to climate change rather than simply weather, thereby overstating the impact of climate change. A Federal Reserve Study that asks *How Bad Are Weather Disasters for Banks?* answers the question quite simply as “Not very.”⁶

Further, costs to the economy from natural disasters are going down along with number of deaths, suggesting that the financial risk to FICUs should not be elevated as a primary concern over other, more immediate risks. The failings of Silicon Valley Bank and Credit Suisse show that when financial institutions focus on far-ranging climate change and ESG risks rather than proximate and fundamental financial risks, they actually increase the risks to themselves and their depositors. NCUA should refrain from regulation that would cause FICUs to make the same mistakes of Credit Suisse, which was spending inordinate time and resources on its climate action plan and other ESG factors instead of managing the basics of financial governance.⁷

Just months before its near collapse and despite recognizing that “In a challenging year, where energy security and inflationary concerns intensified in many parts of the world...”, Credit Suisse didn’t focus its attention on managing those real-world, proximate financial risks but persisted with inordinate attention on climate change, as shown in its TCFD report: “...we continued to focus on supporting our clients in their transition toward a more sustainable future. Across our lending activities we enacted additional climate goals, and enhanced several of our climate-related disclosures.”⁸ Not long afterwards, it admitted to “material weaknesses” in its internal controls over financial reporting.⁹ NCUA should be cautious about likewise diverting FICUs attention from material financial factors to tangential climate change risks.

As to NCUA’s assertions of climate risk to FICUs (from RFI, p. 25029):

“Climate change is accelerating and the number—and cost—of climate-related natural disasters is rising. The economic effects of these events are clear. Each year, natural disasters like hurricanes, wildfires,

⁶ [How Bad Are Weather Disasters for Banks?](#), Kristian S. Blicke et al., Federal Reserve Bank of New York, November 2021. From the abstract: “We find that weather disasters over the last quarter century had insignificant or small effects on U.S. banks’ performance.”

⁷ [Credit Suisse publishes Climate Action Plan for its investment areas](#), Credit Suisse press release, January 12, 2022.

⁸ [Task Force on Climate-related Financial Disclosures Report 2022](#),

⁹ [Annual Report 2022](#), Credit Suisse, March 14, 2022.

droughts, and floods impose a substantial financial toll on households and businesses alike. The physical effects of climate change along with associated transition costs pose significant risks to the U.S. economy and the U.S. financial system.”

NCUA would do well to look at actual data on weather-related risks. The trend of weather-related damages from 1990 to 2020 declined from 0.26% of global GDP to 0.18%. Global average mortality and economic loss rates from weather events have dropped 6.5 times and nearly 5 times, respectively.¹⁰ In the 1920s, almost half a million people died on average each year from storms, floods, droughts, wildfires, and extreme temperatures. Over the next ten decades, global annual deaths from these causes declined 96%, to 14,000 in 2020 even as the global population has quadrupled.¹¹

Bjorn Lomborg’s study of the IPCC literature reveals that IPCC finds no trend in global hurricane frequency and has low confidence in attribution of changes to human activity, while the United States has not seen an increase in landfalling hurricanes since 1900. Global costs from extreme weather have declined 26% over the last 28 years.¹² This is not to say that there is no risk to FICUs, but that the elevation of weather risks over many other risks FICUs face through an NCUA climate rule could expose FICUs to more risk of a more immediate and proximate nature.

Data on natural disasters show steadily decreasing deaths over more than a century,¹³ and economic impacts as a percentage of GDP are also on a long-term decline.¹⁴ Wildfires are within historic norms and where they have been more extreme, such as in California, they have been shown to be affected much more by the proximate cause of poor forest management than climate change.¹⁵ Effects of sea level rise have been low and projections that claim our coastal cities will be flooded completely ignore basic mitigation strategies that have been employed by the Dutch for over a millennium. NCUA should not elevate climate risks projected far into the future over financial risks that FICUs more immediately face.

2. What risk management strategies could institutions implement to prepare for or minimize the effects of physical risk? Is there anything regulators should do to help institutions address physical risks?

¹⁰ [“Empirical evidence of declining global vulnerability to climate-related hazards”](#), Giuseppe Formetta, et. al., *Science Direct*, Vol. 57, July 2019.

¹¹ [“We’re Safer from Climate Disasters than Ever Before”](#), Bjorn Lomborg, *The Wall Street Journal*, Nov. 3, 2021.

¹² [“Welfare in the 21st century: Increasing development, reducing inequality, the impact of climate change, and the cost of climate policies”](#), Bjorn Lomborg, *ScienceDirect*, Volume 156, July 2020.

¹³ [Our World in Data](#), see chart Decadal average: Number of deaths from natural disasters.

¹⁴ [Testimony to the Committee on Banking, House and Urban Affairs](#), Dr. Roger Pielke, Jr., University of Colorado, Boulder, July 20, 2021.

¹⁵ [“Global Trends in Wildfire and Its Impacts: Perceptions Versus Realities in a Changing World”](#), Stefan H. Doerr and Cristina Santin, *Philosophical Transactions of the Royal Society of London*, Series B, Biological Sciences 371, no. 1696, 2016.

This question raises the issue of NCUA's *ability* to help FICUs address physical weather-related risks. NCUA is a financial regulator, not an environmental regulator with expertise in climate modeling and risk analysis. NCUA does not have the expertise or administrative ability to assess the veracity, or lack thereof, of any FICU-specific speculative analysis regarding climate-related risk. The current state of the science on climate change modeling and analysis is one of highly divergent and uncertain economic models projecting the economic impact of climate change. Climate models show huge variations in projections with a wide divergence in the ability of models to account for past warming and the degree of warming that is anthropogenic, let alone future warming. NCUA has neither the expertise nor the remit to assess climate risk in any meaningful and material way.

Further, judging by the breadth of the questions NCUA is asking in the RFI, the information contemplated for FICUs to report would require armies of new consultants, auditors, and accountants collecting information unlikely to be material to credit unions. NCUA's time would be better spent on its core mission of "protect[ing] the system of cooperative credit and its member-owners through effective chartering, supervision, regulation, and insurance." Financially strong FICUs focused on their core banking mission rather than speculative climate change risk analysis are much better placed to help the U.S. economy grow in order to provide the resources necessary for the appropriate scientific, environmental, and energy regulatory agencies to conduct climate change research, develop alternative sources of energy, and adapt to climate change. Assisting with the growth of the economic resources our country needs to address climate change is a much more worthy endeavor than requiring FICUs to attempt to analyze speculative climate change risk information.

3. What impact are physical risks expected to have on credit union members, particularly financially vulnerable populations, including lower-income communities, communities of color, Native American, and other under-resourced communities? What steps could credit unions take to mitigate physical risks to ensure continued lending to these populations?

We applaud NCUA's expressed concern to ensure that disadvantaged and environmental justice (EJ) communities have fair access to banking and that FICUs do their part in that regard. We encourage NCUA to take a more holistic approach to the EJ issue than the question seems to indicate. The dominant EJ public dialogue has been focused rather narrowly and does not comprehensively address a broad range of factors that are necessary for improving the welfare of disadvantaged, low-income and other EJ communities.

The oil and natural gas industry has provided a positive contribution to environmental justice for over a century and a half. By enabling the internal combustion engine and other machinery that freed humans from lifetimes of menial labor and toil, oil, natural gas, and coal should be credited with the first huge EJ achievement in world history.

American oil and natural gas provide an overwhelming benefit to humanity as the foundation of human health, safety and welfare. Oil and natural gas not only keep people warm in the winter and cool in the summer, get them to school and work to better their lives, and power all facets of the economy, but put food on the table, medicines in the cabinet, and deliver clean drinking water to the tap. Without the energy and products we provide, modern life is not possible and EJ unattainable.

Providing more oil and natural gas to the world will bring those benefits to the billion people without sufficient energy and help lift them out of poverty. Encouraging more American oil and natural gas production will help lower prices for consumers and ensure all communities have access to the energy that provides so many benefits to them. Conversely, stigmatizing American oil and natural gas production would only lead to energy imports from overseas and decreased access to affordable energy for low-income and disadvantaged communities, which would decrease EJ by reducing access to the basic necessities of life.

Transition Risk

4. Transition risks from climate change can come from government policy changes, including changes to zoning laws; other federal, state and local laws and regulations; technological changes; and consumer and market demand. What climate-related transition risks are affecting or could affect credit unions in the various areas of business activities, including, but not limited to, operations, real estate lending, commercial lending, and small business lending?

In this question, NCUA is conflating political and regulatory risks, which are indeed transition risks from climate change, albeit introduced artificially by the federal government itself, with normal risks that FICUs and other financial institutions already manage, namely changes in technology, consumer preferences, and market demand. NCUA should recognize that transition risks could be artificially introduced by NCUA should it proceed with rulemaking on climate change, rather than continuing as it should focused on these traditional risks that companies have faced in the past and will continue to face into the future.

In fact, NCUA seems to be on a path of elevating one risk, that from climate change, above the many risks that businesses face. Should NCUA move forward with a rule, it would be contributing to the very climate policies themselves that pose the transition risks to FICUs and the businesses they finance by devaluing and defunding oil and natural gas assets, making the very energy that enables economic activity more expensive or ultimately, nonexistent.

Normal Market Risks

There are many sources of market risk such as changing consumer tastes and technological change that cause companies to change their business models or even force them out of business. NCUA seems to be going down a path of focusing on one particular source of risk, climate change, which is arguably not the biggest risk most companies face, but especially not within a reasonable investment horizon.

Climate change activists and regulators following their lead tend to concern themselves with making oil and natural gas obsolete. Currently, there is no alternative energy source that does everything oil and natural gas do. Should an alternative be discovered at some point in the future, it is highly unlikely that oil and natural gas would become quickly obsolete, since transitioning 70% of global energy supply would be a slow process, allowing investors to shift their assets appropriately.

Conversely, the possibility of quick obsolescence in other businesses happens fairly frequently. Just ask Blockbuster how quickly technology can render a company obsolete. Yet climate change activism is hyper-focused on one scenario of obsolescence of fossil fuels. Oil and natural gas entail vast distributed infrastructure systems and pervade every aspect of society and the economy. Were they subject to the whims of consumer sentiment and easily replaceable by wind and solar, that would have happened long ago, given the trillions governments have invested in wind and solar and the public's and politicians' supposed preference for them. It is highly unlikely that this vast infrastructure could be rendered useless in such a short timeframe that investors do not have time to adapt.

The slow transformations that will be necessary to some as-yet-undiscovered replacement do not require FICUs and the companies they serve to focus inordinate time and reporting today on hypothetical risks. When breakthrough discoveries are made, investors are able to analyze them on the macro level and decide how to respond accordingly for the sector that is affected. Investors make those assessments as they follow broad issues and changes in society and technology overall, not because each individual company did scenario planning, was clairvoyant in anticipating the changes, and reported what-if scenarios for years leading up to them.

Certainly, companies do become obsolete. For example, investors long ago recognized that Kmart was failing to stay up with technology and consumer preferences. It was obvious as Kmart bled investors and capital over many years until arriving at its current state. Investors did not wake up suddenly earlier this year to discover Kmart was down from 2,000 to three stores nationwide.¹⁶

Just as investors started to divest from Blockbuster when streaming services became viable and consumers were making the switch, so will investors adjust their behavior when that hypothetical replacement is found. In the meantime, EIA projects oil and natural gas consumption to grow globally through 2050.¹⁷ It is likely much longer but EIA projections only go through 2050.

Financial regulation is not intended to foresee all potential technological transfers: regulation is meant to ensure that financial information is reported accurately and transparently. Blockbuster was not compelled to report on the possibilities of other technologies that could replace it any more than should oil and natural gas companies peer into their crystal balls about some as-yet-undiscovered technology that will replace them.

Political Risks

On the other hand, the political risks—from government policy and federal, state and local laws and regulations—are really only those that should be included under NCUA's question on "transition risks", as technological, consumer preference, and market changes are traditional sources of risk, regardless of climate change. NCUA should not pursue a rule that would require companies to analyze risks from hypothetical policies aimed at transitioning off oil and natural gas and to an ill-defined net-zero future. Doing so would require companies to anticipate and publicly speculate

¹⁶ "[Kmart down to last 3 stores](#)," *Axios*, April 11, 2022.

¹⁷ "[Annual Energy Outlook 2023](#)," EIA, March 16, 2023.

about controversial policies that have not been passed by Congress, regulations that have not been developed, and the results of elections that have not been held. How are companies to assess the uncertainty arising from the political system itself and the actors in it? Regulators should not hold companies responsible for guessing at and speaking out about the vicissitudes of the government and the often messy democratic process.

Companies cannot provide meaningful information by attempting to anticipate the whims of the voters, the vacillations of politicians, and the outcomes of rulemakings that have yet to be made. Boston University professor Madison Condon's paper *Market Myopia's Climate Bubble* has been influential on this subject:

"No amount of regulatory or corporate governance intervention can give shareholders and managers the ability to foresee the future—the outcomes of national elections, for example, are both largely uncertain and hugely influential in determining the strength of future climate policy."¹⁸

The Biden Administration has made it clear that it is using its myriad regulatory levers to upend the current financial system and put oil and natural gas and other politically disfavored industries at substantial disadvantage or even out of business.¹⁹ In this regard, it is the government itself that is the source of the risk, not anything inherent in a sober assessment of climate risks. By advancing policies, however unrealistic or costly, to eliminate fossil fuels or to increase the regulatory burden on them, the government is the very source of the risk that regulators purport to address.

The Government Accountability Office (GAO) has shown how climate change energy transition policies would cause U.S. public pension plans to be 6% lower in 2050 than without such policies:

"In 2016, a consulting firm knowledgeable about climate risks estimated that **the total value of assets in an average U.S. public pension portfolio could be 6 percent lower by 2050 than under a business-as-usual scenario due largely to transition risks associated with climate change...** These data resulted from an analysis of projected returns from 2015 to 2050 for a model public pension plan under a scenario where global warming is limited to 2 degrees Celsius above pre-industrial levels by 2100 and compared to a business-as-usual scenario where efforts to mitigate climate change remain fragmented and warming reaches 4 degrees Celsius by 2100. The climate scenarios estimate the effects of both transition and physical risks from climate change. **The study noted that the worst physical impacts from climate change are not expected**

¹⁸ "[Market Myopia's Climate Bubble](#)," Madison Condon, *SSRN*, May 15, 2021, p. 6.

¹⁹ For example, President Biden's original nominees as [Comptroller of the Currency](#) *has said* of oil, gas and coal companies, "We want them to go bankrupt if we want to tackle climate change." The original nominee as Vice Chair of the Federal Reserve, Sarah Bloom Raskin, had [written and spoken extensively](#) on using financial regulatory levers to decapitalize fossil fuels. While both have since withdrawn their nominations, they indicate the administration's intentions.

for decades (2100 and later) and therefore beyond the study’s time horizon for effects on investment returns.”²⁰ (emphasis added)

Note from the emphasis added to the GAO quote above, that the study showing 6% lower returns specifically didn’t attempt to assess the *actual* physical impacts from climate change, since those happen in 2100 or later, *beyond the time horizon for effects on investment returns*. NCUA would do well to heed GAO’s sound advice and not implement regulation meant to address an impact relevant 80 years hence to turn-of-the-century investors, well beyond the horizon for today’s and even tomorrow’s FICUs and their customers.

The 6% climate change *policy* risk represents a higher loss by 2050 than the 3% economic impact that IPCC projects out to the end of the century, far beyond the timelines that should be the purview of NCUA and FICUs today.²¹ With climate change financial regulation and other policies, the government itself is the source of large risk to investors and lower returns. Surely NCUA would want to guard against contributing to that 6% decline.

Besides the government itself introducing inherent political/transition risks from climate change, the actors in the political process also create risks. Climate change activists have become adept at developing financially savvy campaigns to create the very political/transition risks to businesses we are speaking of. The climate change disclosure movement is not merely a disinterested participant in solving the “problem” of reducing climate risk but an active contributor to raising political risks themselves.

By advocating for policies, however unrealistic, to get rid of oil and natural gas or to increase the regulatory burden on them, they are the very source of the transition risks they purport to address. These activists seek to deny the industry access to banking and lending through agencies such as NCUA and by pressuring financial institutions to divest, thereby seeking to strand the very assets they purport to be so worried about on behalf of investors. It is unlikely they have the best interests of investors or FICUs and their members in mind as much as a particular political agenda. NCUA should not involve itself in such efforts aimed at defunding the industry that supplies over 70% of the world’s energy needs.

5. What risk management strategies could credit unions implement to prepare for or minimize the effects of transition risk? Is there anything regulators can do to help credit unions address transition risk?

Objective quantification and measurement of a company’s climate change risks is virtually impossible. Climate risk assessments typically depend on multiple assumptions fraught with uncertainties, and are of little financial value to investors.²² Even though she is advocating for

²⁰ [‘Retirement Savings: Federal Workers’ Portfolios Should Be Evaluated For Possible Financial Risks Related to Climate Change’](#), GAO, GAO-21-327, 2021, page 11, citing to a [Mercer and Center for International Environmental Law](#) study in footnote 19.

²¹ [“DICE 2013R: Introduction and User’s Manual,”](#) William Nordhaus et al., Yale University, Department of Economics, October 2013.

²² Condon, May 2021.

mandatory disclosure and quantification of climate change risks, Dr. Condon is honest about the myriad challenges:

“Evaluating climate risk involves forecasting macroeconomic energy demand, guessing on the success of carbon regulation and future technologies, modeling the relationship between atmospheric gas concentrations and global temperatures, predicting how temperature rise will change the earth’s climate systems, and calculating how those changes impact physical economic assets. The task requires skills beyond that of a typical financial analyst, colossal amounts of data, and models that have only begun to be built. Each step of estimation adds layers of uncertainty to risk projections. In some cases, particularly those longer-term and macroeconomic, the estimation of the economic impact of climate change may be dwarfed by this uncertainty.”

In short, the complexity and uncertainty of assessing climate risk and the misalignment of climate change time horizons with those of today’s investors renders the elevation of climate change risks above traditional risk-return market factors inappropriate and overtly political.

The questions implies that NCUA may be moving toward focusing FICUs on climate change risks that are either exaggerated compared to other risks or outside the purview of regulation. Information from the peer-reviewed science compiled by the IPCC shows a relatively modest financial risk from climate change, whereas the climate *policy* risk may be greater.

A recent study that examined, “Scenarios set out under the UN Climate Panel (IPCC) show human welfare will likely increase to 450% of today’s welfare over the 21st century. Climate damages will reduce this welfare increase to 434%.”²³ That amounts to a 3.6% reduction in total GDP out to 2100 in a world that is much wealthier than today’s world.

Additionally, the predictions from the integrated assessment models, the central one being the William Nordhaus’ Dynamic Integrated Climate and Economy Model, for which he won the Nobel Prize in Economics in 2018, estimates that global GDP in 2100 would vary about 3%, a small amount considering how much richer society will be in 2100.²⁴ Such a relatively small economic impact out well beyond a time horizon that is operative for today’s investors is well beyond NCUA’s statutory concern. On the other hand, the increased costs of all goods and services from excess climate change regulation would cause very near-term economic harm to Americans today, who are overall 434% less wealthy than their future brethren.

6. What effects are transition risks expected to have on credit union members, particularly financially

²³ [“Welfare in the 21st century: Increasing development, reducing inequality, the impact of climate change, and the cost of climate policies”](#), Bjorn Lomborg, *ScienceDirect*, Volume 156, July 2020.

²⁴ [Nordhaus](#), October 2013.

vulnerable populations, including lower-income communities, communities of color, Native American, and other under-resourced communities? What steps could credit unions take to mitigate transition risks to ensure continued lending to these populations?

As discussed in response to questions 4 and 5 above, transition risks caused by government policies may be higher than actual physical climate change impacts, especially in the time-horizon of today's credit union members. Government regulation is a large contributor to transition risks that raise costs for credit union members as savers and investors as well as general consumers. The negative impacts of higher energy prices and of higher prices of all goods and services affected by high energy prices disproportionately impact financially vulnerable populations and under-resourced communities. Rather than asking what steps credit unions can take to mitigate transition risks, NCUA should ask itself that question. NCUA should desist from being the source of higher transition costs by not pursuing climate change regulation for FICUs.

Operations

7. What adjustments should credit unions make to their operations (including relationships with supply chain and third parties, new product and service offerings, among others) in response to climate-related financial risks?

The conflation of climate-related financial risks with operational concerns renders this question practically meaningless. If NCUA is implying that FICUs should take precautions to ensure their facilities and operations can withstand weather disasters, then that already naturally happens regionally. In areas like California that are prone to earthquakes, FICUs comply with the building codes and emergency procedures that are necessary and prudent. Likewise for areas, such as Florida, that are prone to hurricanes, tailored building codes and emergency procedures are already routinely followed. Whether that hurricane is "natural" or "climate-related" is immaterial.

NCUA also seems to be implying that FICUs should concern themselves with the climate-related activities of their suppliers and vendors, obliquely indicating NCUA's contemplation of requiring FICUs to report their and their suppliers greenhouse gas (GHG) emissions. NCUA should avoid regulating GHG emissions as it would divert FICU resources and those of their members into tangential concerns and costly activities.

Governance

8. What role should a credit union's board of directors have in the oversight and analysis of financial risks due to climate change?

Boards should not elevate climate risks over much more proximate financial concerns and regulators like NCUA should not force them to do so.

9. How can credit unions incorporate climate-related financial risks into their overall risk management and governance framework?

Today's Climate-related financial risks should not be elevated over much more proximate financial concerns. As discussed above in question 1 in relation to Credit Suisse, financial institutions should be laser focused on navigating the difficult financial environment of today and into the reasonable foreseeable future, not out onto the time horizon of 2100 and beyond when climate change becomes more of a primary concern.

10. Do credit unions have board members, committees, or senior management functions that are responsible for climate-related financial risks? If yes, please provide examples.

NCUA lacks statutory authority to dictate climate-related functions for FICU boards and management.

11. What are the top barriers/challenges for credit unions in designating board members, committees, and/or senior management functions to be responsible for climate-related financial risks?

Elevating climate-related risk over the traditional financial qualifications that boards and senior management should prioritize is not beneficial for the long-term health of FICUs.

12. Do credit union boards and senior management have, or are they aware of and have an understanding of, the tools and resources necessary to evaluate and address climate-related financial risk? What, if any, are other barriers for addressing climate-related financial risks?

As discussed in question 5, objective quantification of climate change risk is virtually impossible and fraught with uncertainty. Scientists and economists focused exclusively on climate change research in academia and government agencies have not yet provided a satisfactory answer. NCUA should not expect credit unions, which should be focused on expanding access to banking services for disadvantaged communities, to try to replicate what the experts cannot. NCUA should not persist with regulation that would require FICUs to divert attention from financial risk management and into speculative climate change analysis.

Business Strategies

13. How should credit unions consider climate-related financial risks in developing business strategies? How do these risks impact product and service offerings?

Climate-related financial risks lay outside the time horizon that should be the concern of FICUs. Oil and natural gas projects and infrastructure remain solid financially despite government efforts to force a transition. The Biden Administration's own EIA projects increasing consumption of oil and natural gas through at least the year 2050. NCUA should not be pressuring FICUs to avoid investments in oil and natural gas as doing so would subject credit union members to lower financial returns.

14. In what ways may credit unions need to incorporate climate-related financial risks into business strategies and product and service offerings?

This question is not meaningfully different than question 13 above and our response is the same.

15. If you are a credit union, has your board and management assessed the impact of climate change on the credit union's products and services? If yes, please briefly describe how you have assessed the impact of climate change on your credit union's products and services.

N/A

16. What barriers or challenges do credit unions face in considering climate change in business strategies and product offerings? Does your board or senior management believe climate change is a material risk to the credit union's business?

Please see our response to questions 12 and 13 above.

17. Do credit unions have sufficient expertise or are they aware of and have an understanding of the tools and resources necessary to address the financial risks and opportunities associated with climate change and their impact on credit union performance? Do you think considering climate-related financial risks may put credit unions at a competitive disadvantage?

As discussed in several other questions, objective quantification of climate change risk is virtually impossible and fraught with uncertainty. Scientists and economists focused exclusively on climate change research in academia and government agencies have not yet provided a satisfactory answer. NCUA should not expect credit unions to try to replicate what the experts cannot. NCUA should not persist with regulation that would require FICUs to divert attention from financial risk management and into speculative climate change analysis.

Any regulatory effort to compel FICUs to focus on climate-related risks would divert their attention from proximate financial risks that should be their primary if not only concern. NCUA should not be pressuring FICUs to avoid investments in oil and natural gas as doing so would subject credit union members to lower financial returns and put FICUs at a competitive disadvantage.

18. Do credit unions take steps to assess, reduce, or mitigate its climate impact? If you are a credit union answering this question, please describe what your credit union has done. If your credit union has not taken such steps, do you plan to do so and what is your time frame? If your credit union does not plan to take such steps, please briefly describe the reason(s) for not doing so. What barriers exist that prevent your credit union from taking such steps?

N/A

Risk Management

19. What methods can credit unions use to identify, measure, monitor, manage, and report on their exposure to climate-related financial risks? Please provide a brief description of the risk management process credit unions should take. If you are a credit union, please provide a link to your climate policy. If you are a credit union and do not have a risk management process, do you

plan to develop a process? What is the anticipated time frame for developing such a process? If you do not plan to develop such a process, please explain your rationale for this decision.

There exist various means to report on climate change, with TCFD being one widely adopted by large companies. As discussed in our response to question 1, Credit Suisse issued a lengthy TCFD report just weeks before crashing and burning. Had Credit Suisse been more focused on financial risks rather than hypothetical climate risks, it might not have had to be rescued. NCUA should not likewise impose the very cumbersome and time consuming climate change reporting of TCFD on credit unions, which tend to be much smaller companies without the means to hire the armies of consultants and to expend the thousands of man-hours necessary to comply with these climate reporting frameworks.

Estimates of the burden to credit unions were NCUA to require them to “identify, measure, monitor, manage, and report on their exposure to climate-related financial risks” can be gleaned from the Securities and Exchange Commission’s (SEC) proposed climate change disclosure rule. The proposed rule would increase the cost of reporting to SEC nearly three-fold. The Big Four accounting firms report plans to hire hundreds of thousands of employees and invest billions to develop their climate-change auditing and consulting capabilities. KPMG reports it will spend \$1.5 billion over the next three years. Ernst & Young will spend \$10 billion over three years, while PWC will spent \$12 billion over five years and hire 100,000 new employees.²⁵ Were FICUs to absorb even a fraction of similar proportionate costs from a NCUA climate disclosure rule, the result would be detrimental to FICUs and their members.

20. Credit unions typically evaluate credit risk, interest rate risk, liquidity risk, transaction risk, strategic risk, reputation risk, and compliance risk. How do climate-related financial risks impact these traditional risk areas? To what extent should a credit union consider climate change in analyzing these and other existing risk factors?

Climate-related financial risks should not be elevated over much more proximate financial concerns including credit risk, interest rate risk, liquidity risk, transaction risk, strategic risk, reputation risk, and compliance risk. NCUA should not add to FICUs compliance risk by regulating on climate change. As discussed above in question 1 in relation to Credit Suisse, financial institutions should be laser focused on navigating the difficult financial environment of today and into the reasonable foreseeable future, not out onto the time horizon of 2100 and beyond when climate change becomes more of a primary concern.

21. What risk mitigation strategies can credit unions use to transfer some or all of the financial risks associated with climate change? Are these mitigation tools cost effective?

This question gets at the essence of the futility of requiring FICUs to attempt risk mitigation for climate change. Objective quantification and measurement of a company’s climate change risks is

²⁵ [“Auditors Assess Complex New Climate Disclosures,”](#) *The Wall Street Journal*, March 29, 2022.

virtually impossible. Climate risk assessments typically depend on multiple assumptions fraught with uncertainties, and are of little financial value to investors.²⁶ Our response to question 5 applies here.

22. When credit unions consider climate change in analyzing existing risk factors, should they include the risk of adverse effects of climate change on financially vulnerable populations, including lower-income communities, communities of color, Native American, and other disadvantaged or underresourced communities? If you are a credit union, are you considering climate-related financial risks specific to financially-vulnerable populations?

This question is not appreciably different than question 3, other than including climate change transition risk factors other than just physical. Our response on the danger of the government itself posing climate change transition risk in question 4 applies here, as does our response to question 3.

23. If your credit union does not currently consider climate change in analyzing its existing risk factors, do you anticipate doing so? How long will it take to do so? If you do not plan to do so, please briefly describe your reasons or barriers.

N/A

24. What are the top barriers for credit unions to consider (or that credit unions have encountered) in creating a risk management process for climate-related financial risks and/or including climate change in its analysis of existing risk factors? Does your board or senior management not consider climate change as posing a material risk to your credit union's business?

Cost and time consideration, and lost opportunity costs spending resources on climate-related risk rather than material financial factors.

25. What types of data or products are necessary to assist credit unions in evaluating exposure to climate-related financial risks?

Climate disclosure frameworks and tools, such as TCFD, exist and would be prohibitive for small FICUs.

26. Do credit unions have sufficient understanding of the climate-related risk management process? Do credit unions have sufficient understanding of how climate change affects existing risk factors? Please specify any other barriers credit unions face in assessing climate-related risk.

This question is not appreciably different than question 12, so our answer to that question applies here.

27. If your credit union is involved in the mortgage business, what tools does your credit union use to manage flood risk? What additional tools would be helpful to your credit union?

²⁶ Condon, May 2021.

Flood mitigation is something that mortgage companies and other insurers deal with on a regular basis. As IPCC has not definitively shown a high confidence on the anthropogenic contribution regarding flooding,²⁷ placing a similar burden on FICUs that are not involved in managing the normal risk of flooding should not become a regulatory requirement in the name of climate change.

Reporting and Targets

28. What internal reporting systems are you aware of that would assist credit unions in evaluating climate-related financial risks? Please provide a brief description of these internal reporting systems. If provided by third parties, what are the costs of these reporting systems?

Please see the answer to question 19 regarding cost of reporting.

Climate-Related Opportunities

29. Climate change and efforts to address climate change may also present new opportunities for credit unions. What products and services do credit unions offer in response to physical and transition risk (for example renewable energy loan products and services, such as loans for solar power generation or biodiesel development)? What are the top drivers for offering these products and services?

Insofar as there are opportunities for businesses to benefit from subsidies, federal loans, tax credits, grants, and other government sources of funding for climate change, such as those contained in the Infrastructure Act of 2021 and the Inflation Reduction Act, FICUs that are so inclined can tap into existing government resources from agencies such as the Department of Energy that are offering those benefits. NCUA should not go down the path of regulating for the supposed benefit of FICUs who already have government incentives to do so. Government regulation is inherently contradictory for compelling companies' self interest.

30. Are you aware of credit unions or does your credit union finance clean energy projects such as residential or commercial energy efficiency upgrades and solar installations? Is this financing of clean energy products just one of many services provided by the credit union or part of an overall business strategy? If you provide clean energy products, please provide the estimated size of your clean energy portfolio and what percent it represents of your overall lending. If no, please briefly describe any challenges for credit unions to offering this type of lending. Please also discuss the barriers to underwriting clean energy loans within under-resourced communities.

Please see our answer to question 29 above.

31. Each type of lending involves various areas of expertise such as underwriting, guidance for loan loss reserves, and/or technical assistance such as how to lend or acquire interest in climate-related and environmentally conscious loan products. What kind of support do credit unions need to

²⁷ [How to Understand the New IPCC Report: Part 2, Extreme Events](#), Roger Pielke, Jr., August 11, 2021.

expand products and services? Please describe any barriers to entry as well as the types of information or resources needed to facilitate a credit union's ability to offer climate-related and environmentally conscious loan products.

As in our response to question 29, government assistance to help private-sector businesses do what's in their supposed best interests is rarely efficient or effective.

32. Are there any climate-related opportunities, in addition to renewable energy, that credit unions should consider?

They should get in on the climate-industrial complex action by financing consultants that will help companies comply with the climate change disclosure rules from other federal agencies such as SEC. See the response to question 19 above.

33. What regulatory changes would be necessary to encourage credit unions to develop products and services designed to capitalize on opportunities presented by the transition to clean energy and a less carbon intensive economy?

In addition to referring to our responses to 29 and 31 above, we emphasize that government regulation is inherently contradictory to compelling companies' self interest. We realize we are not the targeted regulated entity in this regard, but as taxpayers, regulation for the self-interest of the private sector is on principle not something we believe government should engage in nor expend taxpayer resources on.

Suggestions for NCUA

34. The NCUA understands that managing the financial risks of climate change is an evolving field and new to some credit unions. The NCUA is exploring several options to support credit unions in these efforts, including sharing industry best practices, providing guidance on how to manage the potential financial risks from climate change, convening workshops with the industry to discuss climate-related financial risk topics, and hosting educational seminars on how climate change may impact the financial system and individual credit unions. What efforts would be the most beneficial to credit unions?

There are several entities, such as TCFD, that have frameworks for reporting and assessing climate change risk, developing best practices, providing guidance, and advancing education on climate-related reporting and risk. NCUA would be well advised not to try to duplicate such analysis, something for which NCUA lacks expertise. While NCUA should not expand its mission into that sphere, a mission for which it lacks statutory authority, NCUA should also be mindful of the prohibitively expensive nature of TCFD reporting on small credit unions and not go down the path of requiring FICUs to report under it or similarly cumbersome regimens.

35. Should the NCUA modify its examination procedures and supervisory posture in relation to

climate-related financial risk? This would be including, but not limited to, Flood Disaster Protection Act, Disaster Preparedness reviews, CAMELS ratings, and assessments of the level and direction of the various areas of risk.

NCUA does not have regulatory authority from Congress in this sphere and therefore, should not expand its mission in this regard.

Data Gathering

36. How can the NCUA support efforts to develop standards of classification and data reporting on climate-related financial risks?

Please see our answer to question 34, which applies to this question as well.

37. What data could the NCUA collect to improve credit unions' understanding of climate-related financial risks and support credit union efforts to manage these risks?

Our answer to question 34 is equally applicable to this question.

Questions for NCUA

38. Please provide any questions or comments not covered in this request for information that you would like the NCUA to address regarding to climate-related financial risk.

Should any NCUA proceed with any climate-related regulation, we request that it provide a full legal justification for doing so. We are curious to understand under what statutes NCUA has climate-change regulatory authority.

We appreciate the opportunity to comment. For all the reasons articulated above, we strongly believe NCUA should not proceed with a climate-related rule.

Sincerely,



Kathleen M. Sgamma
President