BETTER MARKETS

– FACT SHEET –

Republicans, Democrats, Wall St Banks, and Finance Leaders All Agree: Financial Risks Related to Climate Change Must Be Addressed

February 9, 2021

Introduction

Republicans, Democrats, Wall Street's biggest banks, leaders of the financial industry and many others—in the U.S. and globally—recognize that climate change poses serious and dangerous risks to the financial system and our economy, as detailed below. They may have different ideas about how and how quickly to address those risks, but they agree on the risks and that they must be addressed. That is the widespread, mainstream, consensus view from Washington to Wall Street and beyond.

Moreover, Republican and Democratic members of (and President Biden's nominees to) the Federal Reserve Board agree that the Fed's legal mandates[1] require them to address those climate-related risks.[2] That includes Trump appointed/Biden renominated Republican Chair Jay Powell, former Trump appointed Republican Vice Chair for Supervision Randy Quarles, Obama appointed Governor/Biden nominated Vice Chair Lael Brainard, and Biden nominated Vice Chair for Supervision Sarah Bloom Raskin. Thus, addressing climate risks is a bipartisan, mainstream view at the Fed as well, also as detailed below.

Those attacking these views—of climate-related risks and the Fed's mandate—are out-of-the-mainstream extremists seeking a special interest carve out from the Fed's duties for a single industry: the fossil fuel industry. They are attempting to make the Fed exclude certain well-known, widely recognized risks—climate-related risks—from its supervision and regulation of financial firms. That, however, would be illegal because it would require the Fed to disregard its legal duties to supervise and regulate risks that pose a threat to the safety and soundness of banks and to financial stability ***regardless of origin or source***.

Such a political directive to the Fed to ***not*** consider certain risks would not only politicize the Fed and undermine its independence, but it would also risk repeating a prior catastrophic political prohibition on financial regulators (including the Fed) from considering certain risks: in 2000 politicians prohibited the regulation of risks posed by derivatives. But *politically unregulated risks* don't go away; they get bigger and more dangerous until they explode as those unregulated derivatives did when they were causing, intensifying, and spreading the 2008 global financial crash. That resulted in trillions of dollars in bailouts and damage, hurting families all across America, including causing more than 25 million to lose their full time employment and 16 million suffering from foreclosure filings.

Just as with any other risk, it is essential for the Fed to address climate-related financial risks to ensure it protects the safety and soundness of U.S. banks and promotes the stability of our financial system. That is the Fed's legal duty, which is supported by a deep and broad mainstream consensus. It is also imperative to protect the standard of living, the quality of life, and the livelihoods of Main Street Americans from another calamitous financial crash.

[1] See Appendix A.

[2] See Appendix B.

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Federal Reserve Chairman Jay Powell Recognizes That Climate-Related Risks Must be Considered and Assessed Alongside and in the Same Manner as Other Material Risks

a. Powell's nomination hearing on January 11, 2022:
   i. "Our role on climate change . . . is to ensure that banking institutions we regulate understand their risks and can manage them, and it's also to look after financial stability."
   ii. "The issue really is, can something from climate change rise to the level that would threaten the stability of the entire financial system."
   iii. "Our role on climate change is a limited one but it is an important one—and it is to assure that the banking institutions that we regulate understand their risks and can manage them."
   iv. "Within supervision, as I mentioned, [climate] is likely to be a very important priority over the coming years."
   v. "I think it's very likely that climate stress scenarios, as we like to call them, will be a key tool going forward."

b. Powell's public statement upon the release of the FSOC climate report in October 2021:
   i. "Climate change poses significant challenges for the global economy and the financial system. The public rightly expects us to work to ensure the financial system is resilient to climate-related financial risks."
   ii. "We are working to better understand and address climate-related risks for financial institutions and the broader financial system."
   iii. "We will also continue to identify links between climate change and financial stability, including by investigating how climate change can increase financial-sector vulnerabilities and looking for climate-related amplification channels."
   iv. "We at the Fed are developing a program of scenario analysis to evaluate the potential economic and financial risks posed by different climate outcomes."

c. Powell's statements at a Semiannual Monetary Policy Report to the Congress July 15, 2021:
   i. "We know that the transition, for example, to a lower carbon economy may lead to sudden repricings of assets or entire industries, and we need to think about that carefully in advance and understand it and be in a position to deal with all of that."
   ii. "I think the manifestations of climate change are here now."

d. Powell's statements on Panel S at the Green Swan conference in June 2021:
   i. "There's no doubt that climate change poses profound challenges for the global economy and increased uncertainty for the financial system."
   ii. "What is needed is a sustained, global response."
   iii. "At the Fed, we see our role as an important one that is tied tightly to our existing mandate . . . We view climate-related financial risk as a risk that falls under our existing mandates related to bank supervision and financial stability."

Trump's Former Vice Chair for Supervision Randal Quarles Recognizes that Climate-Related Risks Must be Considered and Assessed Alongside and in the Same Manner as Other Material Risks

a. Former Vice Chair for Supervision Randal Quarles gave a speech on July 11, 2021 entitled "Disclosures and Data: Building Strong Foundations for Addressing Climate-Related Financial Risks" which coincided with the release of the Financial Stability Board's "Roadmap for Addressing Climate-Related Financial Risks," which was published while he was also Chair of the FSB:
   i. "One [issue] of increasing focus is understanding and monitoring climate-related financial risks. Given the global nature of climate change, this demands a coordinated international effort."

ii. “The FSB was an early leader in bringing attention to the importance of reliable, entity-level disclosures to assess and manage climate-related financial risks and opportunities.”
iii. “International initiatives are needed to improve data quality and address data gaps, and ultimately to establish a basis of comprehensive, consistent, and comparable data for global monitoring and assessing climate-related financial risks.”
iv. “The FSB is exploring how to assess the degree to which climate-related risks might be transferred or amplified by different financial sectors, including the interdependence of banks and insurance firms. Climate-related risks vary across jurisdictions, and we need to look at how risks might be amplified by feedback loops with the real economy. Such analysis will contribute to a more comprehensive and global understanding of how to assess climate change and potential effects on the financial system.”

b. To Mr. Quarles' credit, he is walking his talk:
   i. “Notwithstanding my Republican credentials, I drive an electric car. I live in a solar house," and added climate issues "are important issues for society to be thinking about."

Wall Street's Biggest Banks — All Supervised and Regulated by the Fed — Recognize that Climate-Related Risks Are Real and Must be Addressed

a. Bank of America (environmental and social risk policy framework):
   i. “Climate change is no longer a far-off risk but rather a global concern with impacts that are already beginning to unfold, including increased frequency and severity of extreme weather conditions, melting glaciers, loss of sea ice, accelerated sea level rise and longer, more intense heat waves and droughts . . . urgent action is needed to address climate change and prevent its increasingly devastating impacts from accelerating further.”
   ii. “At Bank of America, we recognize that climate change poses a significant risk to our business, our clients and the communities where we live and work.”
   iii. “As one of the world's largest financial institutions, we have a responsibility and an important role to play in helping to mitigate and build resilience to climate change by using our expertise, resources and influence.”

b. JP Morgan Chase (statement on Paris-aligned commitment and report on climate risks and opportunities):
   i. “There must be collective ambition and cooperation by business and government to tackle climate change,” said Jamie Dimon.
   ii. “Climate change is a global challenge that has presented — and will continue to present — risks for businesses and communities around the world.”
   iii. “We are strengthening our understanding of how climate change impacts our day-to-day business activities, risks and processes.”

c. Citigroup (environmental and social policy framework and 2020 ESG report):
   i. “Citi understands the scale of the risks that climate change poses and the need for our society to successfully transition to a low-carbon economy and invest in mitigation and adaptation solutions.”
   ii. “The financial sector has an important role to play in addressing this crisis by supporting the transition to a sustainable, low-carbon economy that balances the environmental, social and economic needs of society.”
   iii. “Citi is committed to managing climate risks . . . we will further test the resilience of Citi's lending portfolios to transition and physical risks related to climate change.”

d. Wells Fargo (issue brief on climate change and 2021 ESG report):
   i. “Wells Fargo believes that climate change is one of the most urgent environmental and social issues of our time.”

ii. "It is critical to understand how various potential and predicted climate scenarios may impact different industries, geographies, and portfolios."
iii. "Climate change is one of the most urgent threats we all face. We believe collective action is needed to transition to a low-carbon economy and minimize the impact on our most vulnerable communities."

e. Goldman Sachs (environmental policy framework and 2020 sustainability report):
   i. "We believe that climate change is one of the most significant environmental challenges of the 21st century and is linked to other important issues, including economic growth and development, poverty alleviation, access to clean water, food security and adequate energy supplies."
   ii. "We remain committed to deepening our understanding and knowledge of managing climate risks."
   iii. ". . . our approach to managing climate-related risks and opportunities across our businesses and operations, including the initial steps we have taken on transition and physical climate-risk scenario analysis."

f. Morgan Stanley (2020 sustainability report and 2020 task force on climate-related financial disclosures report):
   i. "With respect to climate change, the science is clear. It is a reality that demands urgent attention. The impacts of rising global temperatures are already affecting economies and communities worldwide. . . all sectors, including financial services, must work alongside international, national and local governments on sound policies and solutions for a sustainable path forward."
   ii. "By harnessing the power of capital markets to support low-carbon transition, we are driving new opportunities for our business and our clients."
   iii. "Managing risks and pursuing the next generation of opportunities in a world faced with uncertain climate impacts is imperative to the way we shape our products, services, operations and policies."

Vice Chair for Supervision Nominee Sarah Bloom Raskin Recognizes that Climate-Related Risks Must be Considered and Assessed Alongside and in the Same Manner as Other Material Risks

a. Raskin's statement at her nomination hearing February 3, 2022
   i. "Whatever the risk – whether we're talking about the risks of cyberattacks, whether we're talking about the risks that come from climate-related extreme weather events – the job of the banking regulators is to make sure that the banking system has appropriately accounted for these risks and is prepared to mitigate them."

b. Testimony to the Senate Banking Committee March 17, 2020:
   i. "The challenge for financial policy is how this [climate-related] risk is managed. This seems like an extraordinary challenge, but it really is not different from what financial firms – banks, insurance companies pension funds, and asset managers – do to manage other risks they confront in the ordinary course of business. They need to understand what they are holding, and they must be informed about the extent to which their assets are affected by increasing financial risks associated with climate change."
   ii. "Minimizing both physical risks and transition risks is well within the Federal Reserve's mandate."
   iii. "If we want to encourage a market reaction to climate change and climate policies that avoids financial instability, we need to foster the development of climate-related financial risk management technology, including the systemic collection, analysis, and transparency of reliable information."
   iv. "It is essential that the financial industry and its regulators understand what the industry is holding and establish the correct valuations for these holdings."
   v. "Clear expectations need to be laid out for regulated firms . . . [such as] supervisory guidance."
   vi. Regulated firms should "calculate and disclose their carbon exposures."
   vii. "Regulators should begin to collect data and create models that would enable them to carry out meaningful climate-related stress tests."

viii. "Climate-related stress tests would permit regulators to *assess* how banks would respond to the sudden implementation of a large carbon tax, or what would happen in the event of a fire sale of carbon-based assets."
    1. "Stress tests" here is a reference to scenario analysis.

c. Raskin's statements at the 2021 Green Swan Conference:
    i. "Considering whether high emission assets will require limits in order to keep them from creating unsafe and unsound conditions to the financial institution that holds them."
        1. This is a recommendation that is in-line with proposed climate risk management principles by the OCC and BIS.
    ii. "The use of a stress test, I think, is an important tool [to address climate-related risks]."
    iii. "[During the Global Financial Crisis] we learned that the stress tests were tools that could actually be very effective in mitigating the length and duration of a financial crisis. Now, to do that they need to be credible . . . They need to hypothesize conditions that could actually happen."
    iv. "Preparing the financial system to weather climate change effects that can't be eliminated by markets."

d. In an introduction to a report by Ceres, Raskin stated that the report's "recommendations outline the affirmative steps that regulators should take," which were related to the Fed's supervision and regulation:
    i. Acknowledging that climate change poses risks to financial market stability and immediately begin assessing their impacts,
    ii. Ensuring banks are adequately addressing climate change as part of their risk management,
    iii. Having banks conduct their own stress tests/scenario analysis,
    iv. Requiring disclosure of climate risks, and
    v. Coordinating with international counterparts on sources of climate risk.

Industry Executives and Others Recognize that Climate-Related Risks Are Real and Action Must be Taken

a. Open letter from the Alliance of CEO Climate Leaders with over 70 global companies — "Climate change is an immediate and growing threat to people, ecosystems, and economies. . .To avoid the worst impacts of climate change we need to limit warming to 1.5°C."
b. Open letter to President Biden from the We Mean Business Coalition of over 400 business and investors — "Millions of Americans are already feeling the impacts of climate change. From recent extreme weather to deadly wildfires and record-breaking hurricanes, the human and economic losses of the past 12 months alone are profound. Tragically, these devastating climate impacts also disproportionately hit marginalized and low-income communities who are least able to withstand them. We must act now to slow and turn the tide."
c. Financial Times Editorial Board: "Ultimately anything that could imperil the banking sector is within the Fed's bailiwick. Climate change is an inherently political topic . . . but that cannot be an excuse for regulators to do nothing."
d. BlackRock CEO Larry Fink (2020 letter to CEOs) — "Climate risk is investment risk"; "Climate change has become a defining factor in companies' long-term prospects . . . [and is] a risk that markets to date have been slower to reflect."

International Regulatory Agencies and Organizations Recognize that Climate-Related Risks Must be Considered and Assessed Alongside and in the Same Manner as Other Material Risks

a. Bank of England:
    i. "The risks from the physical effects of climate change and the transition to a net-zero economy are relevant to our mission to maintain monetary and financial stability. In particular, these risks pose a threat to the stability of the wider financial system, and the safety and soundness of firms we regulate."

ii. "We became the first central bank and supervisor to set supervisory expectations (Supervisory Statement 3/19) for banks and insurers on the management of climate-related financial risks, covering governance, risk management, scenario analysis and disclosure."
iii. "The financial risks posed by climate change are unprecedented, and so building a toolkit to help manage and mitigate them is equally unprecedented. Climate scenario analysis and stress testing is a key part of such a toolkit."

b. Bank of Germany (Bundesbank)
   i. "Climate change is one of the great, dominant issues of the present day, impacting the economy, society and the financial system."
   ii. "We are factoring in the effects of climate change on price stability and the stability of the financial system. We are making sure that financial institutions take proper account of climate-related financial risks."

c. Bank of Japan
   i. "Climate change, through the channels of 'physical risk' and 'transition risk,' could significantly affect the businesses of financial institutions, and consequently the stability of the financial system."
   ii. "The Bank, through on-site examinations and off-site monitoring, will have in-depth discussions with financial institutions on their efforts in addressing climate-related financial risks."
   iii. "The Bank, in collaboration with the Financial Services Agency, is working on pilot exercises of scenario analysis targeting large financial institutions by using common scenarios."

d. Bank of the Netherlands
   i. "Climate change is having a profound impact on people, businesses and the economy. We expect financial institutions to identify and manage their climate-related risks."
   ii. "We expect financial institutions to identify and manage their climate-related risks as part of all of their operations, from business strategy to risk management frameworks. We expect banks to factor climate risks into the lending process and monitor these risks in their portfolios. We also expect institutions to monitor the impact of climate and environmental factors on current market risk positions and future investment."

e. European Central Bank
   i. "Whatever combination of physical and transition risks materialises, the economic consequences and financial risks of the climate and environmental crisis will be profound for banks."
   ii. "It is key that banks build up capacity to address these emerging risks and proactively incorporate them into their business strategies and their governance and risk management frameworks."
   iii. "In 2022 we will carry out a thematic review on risk management practices as well as a climate-risk stress test covering all banks under our supervision."

f. Bank for International Settlements
   i. "Climate change may result in physical and transition risks that could affect the safety and soundness of individual banking institutions and have broader financial stability implications for the banking system. To address climate-related financial risks within the banking sector, the Basel Committee on Banking Supervision (BCBS) established a high-level Task Force on Climate-related Financial Risks in 2020 to contribute to the Committee's mandate to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability."
   ii. "The Committee is now examining the extent to which climate-related financial risks can be addressed within the Basel Framework, identifying potential gaps in the current framework and considering possible measures to address any identified gaps. Current work in this area is comprehensive in nature, spanning the regulatory, supervisory and disclosure dimensions."

iii. "Through the publication of this consultative document in the form of BCBS Guidelines, the Committee seeks to promote a principles-based approach to improving risk management and supervisory practices related to climate-related financial risks."

g. Financial Stability Board
   i. "Policymakers have an interest in ensuring that the financial system is resilient to all forms of risk . . . [including] how climate risks might impact, or be amplified by, the financial system."
   ii. "The FSB is assessing the availability of data through which climate-related risks to financial stability could be monitored, as well as any data gaps. The FSB is also reviewing regulatory and supervisory approaches to addressing climate risks at financial institutions."

Appendix

Appendix A: The Fed's Legal Mandates Include Identifying and Mitigating Risks to the Financial System Regardless of Their Source

a. The Fed's statutory mandates include:
   i. Promoting the safety and soundness of individual financial institutions (primarily bank holding companies) and monitoring their impact on the financial system as a whole, and
   ii. Promoting the overall stability of the financial system to help ensure the system supports a healthy economy for U.S. households, communities, and businesses.

b. The statutorily defined role of the Vice Chair for Supervision includes (Dodd-Frank Act, Sec. 1108):
   i. Developing policy recommendations for the Board regarding supervision and regulation of depository institution holding companies and other financial firms supervised by the Board, and
   ii. Overseeing the supervision and regulation of such firms.

Appendix B: The Fed's Legal Mandates Require It to Address Climate-Related Risks Just as with Any Other Material Risk That Threatens the Safety and Soundness of Financial Institutions or the Stability of the Financial System

a. Like crypto, cyber and other risks, the risks of climate change are widely recognized here in the U.S. and internationally as a threat to financial institutions, and overall financial stability.
   i. It is broadly recognized that climate change introduces risks to the banking system and to financial stability through both so-called physical and transition risks.
   ii. These risks can even ultimately manifest as more "traditional" risks such as credit risk — for example, if changes in weather patterns affect the value of a property that collateralizes a loan, such as a farm or homes in areas more prone to hurricanes, tornadoes, or flooding.

b. Therefore, the identification, assessment, and management of climate-related risks are clearly within the legal mandates of the Fed and responsibilities of the Vice Chair for Supervision, just as with any other risk the Fed is mandated to address.
   i. Currently the Fed has taken the position this means including in supervisory activities an assessment of banks' ability to manage climate-related risks as well as performing scenario analysis to support the identification and assessment of climate-related risks.
   ii. This is also consistent with the efforts of the regulatory authorities of other developed economies such as the United Kingdom, France, Germany, Japan, and the European Central Bank as well as with the views of international organizations such as the Bank for International Settlements and the Financial Stability Board.

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Better Markets is a public interest 501(c)(3) non-profit based in Washington, DC that advocates for greater transparency, accountability, and oversight in the domestic and global capital and commodity markets, to protect the American Dream of homes, jobs, savings, education, a secure retirement, and a rising standard of living.

Better Markets fights for the economic security, opportunity and prosperity of the American people by working to enact financial reform, to prevent another financial crash and the diversion of trillions of taxpayer dollars to bailing out the financial system.

By being a counterweight to Wall Street's biggest financial firms through the policymaking and rulemaking process, Better Markets is supporting pragmatic rules and a strong banking and financial system that enables stability, growth and broad-based prosperity. Better Markets also fights to refocus finance on the real economy, empower the buyside and protect investors and consumers.

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