September 10, 2021

President Joseph R. Biden, Jr.
The White House
1600 Pennsylvania Avenue NW
Washington, D.C. 20500

Dear President Biden,

We are deeply concerned by the lack of progress being made by the Federal Reserve Board of Governors (the Fed) on the assessment and mitigation of climate risk in the financial system. The Fed has failed to take proactive measures to address the risks that banks and the financial system face from climate change. **This must change.**

Where its international counterparts have begun taking necessary and timely steps to scope out and address the risks that climate change poses to the financial system, the Fed has consistently lagged behind. The Fed can and should take these immediate actions:

- Issue public supervisory guidance to direct banks and bank examiners to measure the risks individual banks face and begin planning to reduce those risks;
- Require banks to disclose to regulators information on climate-related risks; and
- Conduct scenario analysis and stress tests to analyze and inform risk mitigation.

These actions and others[1] fit squarely within the Fed's existing statutory authority and responsibilities, and many would not require rulemaking or other time-intensive administrative processes. Under its statutory mandate, the Fed can and must play a major role in ensuring that banks understand and reduce the risks they face from the physical impacts of climate change, as well as from the necessary transition to a low carbon economy.

Stronger financial regulation from the Fed promotes financial stability, which facilitates long term and sustainable economic growth, maximum employment, and price stability. The ambitious climate, racial equity, and economic justice agendas you have developed will require the economy and financial system to undertake a rapid, equitable, and just decarbonization transition. All of these vital goals are put at risk by the Fed's failure to address climate risks faced by banks and the broader financial system.

The Fed's lack of robust action means that regulators, depositors, investors, and other market participants have little visibility into the massive climate-fueled economic impacts that will worsen for the next 30 years even if we meet science-based climate targets. To avoid obstacles like financial instability, unpredictable price movements in key markets, insurance firms pulling out of markets, climate bankruptcies, and threats to full employment and economic growth, the

[1] Once the Fed has a greater picture of the scope of these risks, it has the authority and the responsibility to deploy a range of prudential tools to reduce them, including enhanced capital requirements and concentration limits for risky assets.

Fed must take a precautionary approach and start immediately working with banks to manage and mitigate climate risk and its drivers.

To date, the Fed has done nothing of the sort. It has been the slowest moving major central bank in the world on assessing, managing, and mitigating climate risk. Chair Powell has consistently downplayed the urgency of the crisis and the Fed's responsibility to mitigate climate risk, while at the same time advancing an alarming set of deregulatory measures that weaken many of the guardrails put in place after the 2008 financial crisis. This is a recipe for continuing the Fed's pre-2008 pattern of allowing risk to overflow and cause serious harm to the economy and to households and communities before intervening.

By contrast, various central banks around the world have already begun to incorporate climate risk into their prudential supervision and regulatory programs[2]—and the initial results have only affirmed the urgent need to act. The European Central Bank's (ECB) recent climate stress test program and supervisory survey revealed that European banks are woefully unprepared[3] to deal with climate risk and falling far short of supervisory expectations.

The Fed—the world's most well-resourced central bank—should be leading the charge instead of watching from the sidelines. The formation of the Fed's Supervision Climate Committee (SCC) and the Financial Stability Climate Committee (FSCC) were important initial steps, but after several months, those committees have yet to produce a public account of their activities, much less a regulatory program or preliminary supervisory guidance. We cannot afford for the Fed to wait any longer before taking meaningful steps. All tools must be on the table, and the initial step of integrating climate risk into supervisory expectations, bank examinations, and periodic call reports should be taken immediately.

While the Fed delays, Wall Street is aggressively fueling the climate crisis. That means it is inflating the risk to financial stability from climate harms and from the collision between your climate agenda and Wall Street's massively overweight investment in fossil fuels. And, as was the case in the 2008 financial crisis, a climate-fueled economic crash will disproportionately harm lower income households and communities of color that already bear the brunt of environmental pollution and climate impacts. Simply put, the Fed is idly watching a slow motion disaster unfold on climate-related risks to the financial system.

For all of these reasons, it is crucial that your nominees to the Federal Reserve Board, including the Chair, understand the systemic threat that climate change poses to the financial system and

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[2] The Bank of England (BoE) and the European Central Bank (ECB) have issued supervisory guidance. The BoE, ECB, the Bank of France, and the People's Bank of China have also begun stress testing individual financial institutions and the financial system. See e.g.,
https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319.pdf?la=en&hash=7BA9824BAC5FB313F42C00889D4E3A6104881C44;
https://www.bankofengland.co.uk/stress-testing/2021/key-elements-2021-biennial-exploratory-scenario-financial-risks-climate-change;
https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.guideconsolidation2101~fb6f871dc2.en.pdf

[3] See e.g.,
https://www.reuters.com/business/sustainable-business/ecb-will-see-it-that-banks-meet-climate-risk-expectations-elderson-2021-06-16/
https://www.bankingsupervision.europa.eu/press/publications/newsletter/2021/html/ssm.nl210818_5.en.html;
https://www.bis.org/review/r210712b.pdf

be committed to proactively and robustly using all the regulatory tools to step in when private sector risk management is falling short, as it is now.

The climate crisis is deepening. We must transition to a clean energy economy. Financial regulators are charged with preparing the financial system to remain stable during this type of transition. The Fed must fulfill its mandate by safeguarding the financial system as we undertake the ambitious climate agenda you have proposed. Failing to do so will threaten the economic security of households and communities across the nation, and it will undermine your climate and economic and racial justice agendas.

Sincerely,

350.org
350NYC
350PDX
350 Butte County
350 Colorado
Action Center on Race and the Economy
Americans for Financial Reform Education Fund
Climate Finance Action
Climate Law & Policy Project
Earth Action, Inc.
Environment America
Evergreen Action
Extinction Rebellion San Francisco Bay Area
Future Coalition
GreenFaith
GreenLatinos
Green America
Green New Now
Institute for Agriculture and Trade Policy
Mid-Missouri Peaceworks
Oil Change International
Partnership for Policy Integrity
Positive Money U.S.
Public Citizen
Nuclear Information and Resource Service
Rainforest Action Network
Revolving Door Project
Sierra Club
Stand.earth
Texas Campaign for the Environment
The Peoples Hub
U.S. PIRG

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