May 13, 2020

MRAC Climate Subcommittee
Market Risk Advisory Committee
Commodities Futures Trading Commission

Ladies and Gentlemen:

We are submitting, on behalf of the Natural Resources Defense Council, our comments on addressing climate change-related financial and market risks pursuant to the comment request published by the CFTC in the Federal Register on April 14, 2020.

The NRDC is an international nonprofit environmental organization with more than 3 million members and online activists. Since 1970, our lawyers, scientists, and other environmental specialists have worked to protect the world's natural resources, public health, and the environment. NRDC has offices in New York City, Washington, D.C., Los Angeles, San Francisco, Chicago, Montana, and Beijing.

We commend the CFTC, the MRAC, and the Subcommittee on this comment request and, more generally, on their efforts to identify and examine climate change-related financial and market risks. Climate change will have an enormous impact on our financial system and it is critical to identify the risks in order that macroeconomic and microeconomic actions may be taken to help forestall or alleviate the adverse impact.

In our brief comments, we focus on disclosure, a necessary prerequisite to properly assessing and addressing climate risk.

Climate-related financial risk is sometimes divided into physical risk and transition risk. Physical risk refers to risk to assets from changes in climate and related extreme weather events. Examples of physical risks include weather-induced damage to real property or crops, coastal damage from extreme storms, and wildfire damage. Potential victims of these risks include not only the owners of the affected properties, but also their lenders, insurers, employees, local communities, and purchasers of output from these properties. NRDC is committed to acting to mitigate these risks, but the rate of progress toward decarbonization is currently insufficient to avoid some impacts.

Transition risk refers to the risk to the economy (and economic actors) arising from structural changes to the economy resulting from the low carbon transition. Examples of transition risk include declining value of fossil fuel reserves and declining vitality of fossil fuel production and service businesses and the adverse economic impact on their employees and local communities.

The consequences of physical damage from climate change and unanticipated transition will ripple throughout the economy and will be felt by many different types of market participants and, ultimately, public sector balance sheets. Equity investors in affected businesses -- as well as lenders, bondholders, and insurers -- will bear the risks of these harms.

The derivatives markets subject to CFTC oversight will be impacted by these risks. But it won't necessarily be just the obvious markets, such as oil, natural gas, and coal-related commodities and weather and insurance derivatives that will be affected. As climate-related financial risk spreads across the international financial system, U.S. and international equity and fixed income derivatives will be impacted as well.

The ripple effects will not always be obvious. In our interconnected economy, changes to one sector can affect other sectors in unexpected ways. For example, if a bank has a large fossil fuel loan portfolio that cannot be repaid, the bank's ability to make loans to businesses in unrelated industries may be curtailed. As another example, changes in weather patterns, such as excessive heat, drought, and more intense storms, could disrupt international supply chains, with reverberations in distant locales. Thus, all sectors (not just obvious sectors like the fossil fuel industry) must seriously consider (and disclose) the potential impact of climate change and develop strategies to address the consequences. Indeed, there is a growing consensus that climate-related financial risk, of which transition risk, for most countries, is probably most important in the short term, could pose a material threat to global financial stability.

We believe it is critical that, as a first step, the market players undertake robust disclosure practices regarding climate-related risk (both physical and transition risk) and their resilience strategies to cope with this risk. Only in this way will investors and other capital providers be able to allocate their capital to effectively respond to these risks. Such disclosure is also necessary so that regulators have the necessary information to help protect their regulatory domains and the larger economy.

There is no "one size fits all" method of disclosure that will be adequate across the broad range of industries, market participants, and potential climate-related consequences. However, we believe that there are "best practice" principles that can inform the development of efficacious disclosure standards across the various industries and markets:

- The disclosure should be based on current consensus science (as it evolves over time) and, subject to appropriate caveats, the best available projections.

- The disclosure should address both physical risks and transition risks, including the potential impact of the regulation that would be expected to arise in response to these risks.

- The form of disclosure should be adapted to each particular industry (e.g., the different energy sectors, the different agricultural sectors, the different transportation sectors, and the different financial sectors).

- The form of disclosure should also be particular to the different market participants (e.g., equity owners, lenders, insurers, and output purchasers).

- Initially, the disclosure should not be required to follow a particular reporting framework. However, as soon as possible, regulators must converge on a set of standards to enable investors to make informed apples-to-apples decisions. There are published frameworks that disclosing entities could use (or be informed by), such as those published by the Task Force on Climate-Related Financial Disclosures and the Sustainability Accounting Standards Board.

- Regulatory agencies should require robust reporting of climate change-related risk and resilience strategies. Stress tests could be a valuable tool. The use of particular frameworks could be "safe harbors", if so determined by the relevant regulatory agency.

Climate change will not wait for us to get prepared. There is urgency in getting climate-related risk disclosure obligations in place. Disclosure frameworks should be put in place as soon as possible and then modified, if necessary, based on experience.

Very truly yours,

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