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INVESTIGATIONS

May 14, 2020

Mr. Robert Litterman
Chair
Climate-Related Market Risk Subcommittee
Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

RE: 85 FR 20678- FR Doc. 2020-07860

Dear Chair Litterman:

Thank you for your work on the report to the Market Risk Advisory Committee that will identify and examine climate change related financial and market risks. I believe there are ample opportunities to improve integration of climate related scenario analysis, stress testing, and disclosures into financial and market risk. As you are developing policy initiatives, I write to urge you to include policies from H.R. 3623, the Climate Risk Disclosure Act and H.R. 5194, the Climate Change Systemic Risk Act in your final report.

Climate change is a source of financial risk. Through rising sea levels, more frequent extreme weather patterns, water shortages, increased resource scarcity, and its many other effects, climate change directly threatens valuable company assets. It is also changing long-term climate patterns in ways that will lower labor productivity, devalue and destroy fixed assets, stress agricultural yields, and ultimately affect every sector of our economy. These impacts are likely to exacerbate market volatility and erode investor confidence, ultimately increasing systemic risk. Freddie Mac has stated that climate change appears “likely to destroy billions of dollars in property and to displace millions of people,” which will produce “economic losses and social disruption... likely to be greater in total than those experienced in the housing crisis and Great Recession.”[1]

Global efforts to reduce greenhouse gas emissions or otherwise mitigate the effects of the climate crisis could dramatically affect the value of company assets. The Task Force on Climate-related Financial Disclosures has written that the reduction in greenhouse gas emissions “coupled with rapidly declining costs and increased deployment of clean and energy-efficient technologies

[1] http://www.freddiemac.com/research/insight/20160426_lifes_a_beach.page

could have significant, near-term financial implications for organizations dependent on extracting, producing, and using coal, oil, and natural gas…In fact, climate-related risks and the expected transition to a lower-carbon economy affect most economic sectors and industries."[2] Former Vice President Al Gore has noted that by ignoring the risk of a carbon bubble, investors "are exposing their portfolios to an externality that should be integrated into the capital allocation process."[3]

It is clear that disclosing and understanding the impacts of these risks are critical for preparing companies and the economy for addressing the climate crisis, and I urge you to include both policies in your report.

Climate Risk Disclosure

The market lacks information about companies' exposures to transition and physical risks and it appears to dramatically undervalue the potential impacts of the climate crisis. While the Securities and Exchange Commission (SEC) has issued guidelines suggesting that companies consider the effects of the climate crisis on company assets, it has not mandated any specific disclosures. I urge you to include in the report the principles in the Climate Risk Disclosure Act, which requires public companies to disclose critical information about its exposure to climate related risks. The bill directs the SEC, in consultation with climate experts at other federal agencies, to issue rules within two years that require every public company to disclose:

- Its direct and indirect greenhouse gas emissions;
- The total amount of fossil-fuel related assets that it owns or manages;
- How its valuation would be affected if climate change continues at its current pace or if policymakers successfully restrict greenhouse gas emissions to meet the 1.5 degrees Celsius goal; and
- Its risk management strategies related to the physical risks and transition risks posed by the climate crisis.

The SEC should be directed to tailor these disclosure requirements to different industries and to impose additional disclosure requirements on companies engaged in the commercial development of fossil fuels. These principles will help the market appropriately assess the risk of climate change, which will help push private and government actors to act more decisively to address the climate crisis. It will help promote financial stability.[4] And it will accomplish this without expending a penny of taxpayer money.

Climate Change Systemic Risk

U.S. financial regulators are lagging their international peers in attempting to quantify and manage these risks. In June 2019, the Bank of England began stress testing the U.K. financial system against climate risks with an exploratory three-scenario test for insurance firms. While the Federal Reserve has developed and tested a range of scenarios for the largest global banks, none have incorporated climate related losses. Given the non-linear and unpredictable nature of climate change, more needs to be done to incorporate climate science with systemic risk. That is why I

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[2] https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf
[3] https://www.algore.com/news/the-coming-carbon-asset-bubble
[4] https://www.bis.org/review/r151009a.pdf

urge you to include Climate Change Financial Risk Act in your report as it would create stress tests for large financial institutions to measure their resilience to climate related risks.

It would require the Federal Reserve ("Fed") to establish an advisory group of climate scientists and climate economists to help develop climate change scenarios for the financial stress tests. The Fed would use the scenarios to quantify how expected physical and/or transition risks would disrupt global business operations and otherwise change conditions across the economy. The biennial tests would require each financial institution to create and update a qualitative plan that defines how the institution will evolve its capital planning practices to limit the financial impacts of future climate risks. These adaptations could include the orderly divestment of certain assets or the mitigation of credit risk by reducing lending to climate-exposed sectors like oil and gas. The bill also creates a climate change risk subcommittee within the Financial Stability Oversight Council (FSOC) and requires it to assess and report annually on the systemic risks of climate change to the U.S. financial system.

When incentives serve to maximize short-term profits and share price, long-term goals like the future of the planet are superseded. The potential losses from failing to aggressively mitigate the financial risks of climate change greatly exceed the economic costs of mitigating those risks. That is why addressing the systemic nature of climate financial risks is essential to preserving financial stability. I urge you to include H.R. 3623, the Climate Risk Disclosure Act and H.R. 5194, Climate Change Systemic Risk Act in your report.

Sincerely,

Sean Casten
Member of Congress