

May 14, 2020

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Climate-Related Market Risk Subcommittee Under the Market Risk Advisory Committee, 85 Fed. Reg. 20,678

The following comments to the Commodity Futures Trading Commission relate to the Climate-Related Market Risk Subcommittee's report to the Market Risk Advisory Committee on climate change-related financial and market risks.

Climate change is a systemic and growing risk to our economy, yet is not priced into most market decisions today because of multiple market failures including a lack of information and a mismatch in time horizons for assessing risks considered material. The financial system requires transparent, uniform disclosure of climate risks, based on the best available science, to evaluate which companies are best prepared to weather the physical and transition risks of climate change. Despite efforts by some lawmakers and domestic financial bodies, corporate America currently lacks sufficient incentive to disclose accurate, standardized, and comparable metrics regarding their climate risks – particularly within the fossil fuel industry. Financial institutions are not properly pricing climate risks into financial assets, increasingly creating an unstable financial system with broader implications for the economy and the public. The statement “what is measured is managed” applies here, as the lack of consistent, accurate, and comparable measurement of climate-related financial metrics suggests a lack of management of climate-related financial risks. A suite of interventions, including but not limited to mandated and standardized disclosure and a robust price on carbon, is needed to help mitigate climate risks.

Climate Change is a Systemic Risk

Climate change has the potential to affect companies in two main ways. First, the physical risks of climate change – rising sea levels,¹ worsening or intensifying heat waves,² flooding, droughts, wildfires,³ and storms – directly threaten company and individual assets, supply chains, national infrastructure, and the economy. 2019 was the fifth consecutive year in which the U.S. experienced 10 or more billion-dollar weather and climate disaster events,

¹ Dahl, K., R. Cleetus, E. Spanger-Siegfried, S. Udvardy, A. Caldas, P. Worth. 2018. *Underwater: Rising Seas, Chronic Floods, and the Implications for US Coastal Real Estate*. Online at www.ucsusa.org/resources/underwater.

² Dahl, Kristina, Erika Spanger-Siegfried, Rachel Licker, Astrid Caldas, John Abatzoglou, Nicholas Mailloux, Rachel Cleetus, Shana Udvardy, Juan Declet-Barreto, and Pamela Worth. 2019. *Killer Heat in the United States: Climate Choices and the Future of Dangerously Hot Days*. Cambridge, MA: Union of Concerned Scientists. Online at www.ucsusa.org/resources/killer-heat-united-states-0.

³ UCS (Union of Concerned Scientists). 2020. *The Connection Between Climate Change and Wildfires*. Cambridge, MA. Online at www.ucsusa.org/resources/climate-change-and-wildfires.

with the total cost of billion-dollar disasters over the last 5 years exceeding \$525 billion.⁴ By 2045, within the lifetime of a typical mortgage issued today, about 325,000 U.S. coastal homes and commercial properties worth \$136 billion will be at risk of chronic flooding due to sea level rise.⁵ By the end of the century that increases to approximately 2.5 million US coastal properties currently worth more than \$1 trillion.⁶ Uniform, transparent disclosure of these kinds of risks is vital to ensuring that homebuyers, banks, insurers, investors, and others have full information and can take steps to reduce their exposure to financial losses.

Second, global efforts to mitigate the effects of climate change and lower the emissions of heat-trapping gases could also dramatically affect the value of corporate assets if left unmanaged. The Task Force on Climate-related Financial Disclosures (TCFD) concluded that the reduction in heat-trapping emissions “coupled with rapidly declining costs and increased deployment of clean and energy-efficient technologies could have significant, near-term financial implications for organizations dependent on extracting, producing, and using coal, oil, and natural gas.”⁷

At a recent Federal Reserve conference, it was clearly highlighted that climate change will have sweeping effects on our economy and financial system.⁸ Furthermore, the impacts of climate change—including its economic toll—fall disproportionately on low income communities and communities of color.

The findings of the Intergovernmental Panel on Climate Change Special Report on Global Warming of 1.5°C⁹ and the Fourth National Climate Assessment¹⁰ underscore the urgent need to reduce emissions to net-zero by mid-century. Burning fossil fuels for electricity, heat, and transportation is the largest source of global warming emissions. Scientists can now quantify¹¹ the global warming emissions, global average temperature increase, and sea level rise attributable to the product-related emissions of particular fossil fuel companies. Recent science also points to the growing risks of reaching climate tipping points, triggering truly catastrophic and irreversible impacts.

⁴ Smith, A. 2020. "2010-2019: A landmark decade of U.S. billion-dollar weather and climate disasters." *Beyond the Data* (blog). January 8. www.climate.gov/news-features/blogs/beyond-data/2010-2019-landmark-decade-us-billion-dollar-weather-and-climate#.Xr1mjMP3aj4.twitter

⁵ Dahl, K., R. Cleetus, E. Spanger-Sieffried, S. Udvardy, A. Caldas, P. Worth. 2018. *Underwater: Rising Seas, Chronic Floods, and the Implications for US Coastal Real Estate*. Online at www.ucsusa.org/resources/underwater

⁶ Ibid.

⁷ Task Force on Climate-Related Financial Disclosures (TCFD). 2017. Final report: Recommendations of the Task Force on Climate-Related Financial Disclosures. Online at <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf>.

⁸ Hale, G., O. Jorda, and G. Rudebusch. 2019. "The Economics of Climate Change: A First Fed Conference." FRBSF Economic Letter, Federal Reserve Bank of San Francisco, No. 2020-31, December 16. Online at www.frbsf.org/economic-research/publications/economic-letter/2019/december/economics-climate-change-first-fed-conference.

⁹ IPCC (Intergovernmental Panel on Climate Change). 2018. *Global warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty*. [V. Masson-Delmotte, P. Zhai, H. O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J. B. R. Matthews, Y. Chen, X. Zhou, M. I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, T. Waterfield (eds.)].

¹⁰ USGCRP (U.S. Global Change Research Program). 2017. *Climate Science Special Report: Fourth National Climate Assessment, Volume I* [Wuebbles, D.J., D.W. Fahey, K.A. Hibbard, D.J. Dokken, B.C. Stewart, and T.K. Maycock (eds.)]. U.S. Global Change Research Program, Washington, DC, USA, 470 pp., doi: 10.7930/J0J964J6.

¹¹ Ekwurzel, B., Boneham, J., Dalton, M.W. et al. *Climatic Change* (2017) 144: 579. <https://doi.org/10.1007/s10584-017-1978-0>

Mandatory Disclosure for the Fossil Fuel Industry

While disclosure has improved since the Securities and Exchange Commission issued its 2010 guidelines¹² for public companies to report on material regulatory, physical, and market-related risks and opportunities related to climate change, there is no economy-wide mandate for climate-related financial risk reporting. Mandatory disclosure based on the Climate Risk Disclosure Act¹³ or another legislative vehicle will help investors appropriately assess climate-related risks and accelerate the transition to a low carbon economy.

The energy sector, as defined by the TCFD¹⁴ and encompassing the oil and gas, coal, and electric utility industries, is inextricably linked to climate change; detailed disclosure is therefore required to accurately assess these companies' climate-related risks. The fossil fuel industry faces a unique mix of climate-related financial risks, such as potential regulations to reduce emissions, market competition from renewable energy technologies, climate damages lawsuits, and reputational damage for knowingly deceiving¹⁵ the public and shareholders¹⁶ about the climate risks of its products.¹⁷ The industry is also particularly vulnerable to physical damages to infrastructure and operations due to acute climate impacts.¹⁸

Mandatory disclosure, particularly by fossil fuel companies, will help the market appropriately assess the risk of climate change and generate pressure for more ambitious corporate climate action.¹⁹ Investments in the energy sector by asset managers and financial institutions could have an outsized impact on the financial system's bottom line in the event of a rapid transition to a low-carbon economy. Investors need comprehensive, consistent, and comparable information on corporate management of climate risks to make sound financial decisions, reward leaders, and encourage better management of climate risks.

¹² US Securities and Exchange Commission (US SEC). 2010. Commission guidance regarding disclosure related to climate change. 17 CFR Parts 211, 231, 241. Online at <https://www.sec.gov/rules/interp/2010/33-9106.pdf>.

¹³ Bill: Climate Risk Disclosure Act of 2019, H.R. 3623, 116th Cong. (2019). Online at <https://www.sec.gov/rules/interp/2010/33-9106.pdf>

¹⁴ Task Force on Climate-Related Financial Disclosures (TCFD). 2017. Final report: Recommendations of the Task Force on Climate-Related Financial Disclosures. Online at <https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Annex-062817.pdf>.

¹⁵ BRIEF OF AMICI CURIAE ROBERT BRULLE, CENTER FOR CLIMATE INTEGRITY, JUSTIN FARRELL, BENJAMIN FRANTA, STEPHAN LEWANDOWSKY, NAOMI ORESKES, GEOFFREY SUPRAN, and the UNION OF CONCERNED SCIENTISTS IN SUPPORT OF PLAINTIFF-APPELLEE AND AFFIRMANCE, State of Rhode Island v. Shell Oil, LLC, Case No. 19-1818 (2020). Online at http://blogs2.law.columbia.edu/climate-change-litigation/wp-content/uploads/sites/16/case-documents/2020/20200102_docket-19-1818_amicus-brief-1.pdf.

¹⁶ Commonwealth of Massachusetts v. ExxonMobil Corporation, No. 19-3333, Mass Super. Ct. Online at <https://www.mass.gov/doc/october-24-2019-massachusetts-complaint-exxon/download>.

¹⁷ Pinko, Nicole, Kathy Mulvey, Brenda Ekwurzel, and Peter Frumhoff. 2018. *The 2018 Climate Accountability Scorecard: Insufficient Progress from Major Fossil Fuel Companies*. Cambridge, MA: Union of Concerned Scientists. Online at <https://www.ucsusa.org/resources/climate-accountability-scorecard-0#ucs-report-downloads>.

¹⁸ Carlson, Christina, Gretchen Goldman, Kristina Dahl. 2015. *Stormy Seas, Rising Risks: What Investors Should Know About Climate Change Impacts at Oil Refineries*. Cambridge, MA: Union of Concerned Scientists. Online at <https://www.ucsusa.org/resources/stormy-seas-rising-risks#ucs-report-downloads>.

¹⁹ Mark Carney, "Breaking the Tragedy of the Horizon – Climate Change and Financial Stability" (speech, London, September 29, 2015), <https://www.bis.org/review/r151009a.pdf>

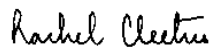
Carbon Tax & Suite of Climate Policies

Federal financial regulators have a unique position to take robust and rapid action to address climate risk. Mandated disclosure requirements and a robust carbon tax are necessary steps to ensure climate risks are priced into the larger economy. In addition, a comprehensive suite of policies are needed to ensure a just and equitable transition to net zero emissions by 2050 and to help build climate resilience.

Sincerely,



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