May 14, 2020

Members of the Climate-Related Market Risk Subcommittee
Commodity Futures Trading Commission
1155 21st St NW
Washington DC 20581

Re: Request for comments from the CFTC's Climate-Related Market Risk Subcommittee

Dear Members of the Subcommittee:

Rainforest Action Network is glad to offer comments to the Subcommittee for its upcoming report identifying and examining climate-related financial and market risks.

Climate change poses grave, and growing, risks to the financial system. U.S. financial companies are not only vulnerable to these risks -- they also drive them, via their support for fossil fuels. Financial regulators have the authority and responsibility to prioritize and address these risks. Insufficient preventative action could result in a future climate-driven financial shock with dire effects on communities across the country and around the world.

Climate Risk as Financial Risk

Both climate-related transition risks and physical risks threaten financial stability. Physical risks -- from, for example, increasingly frequent and/or severe storms, floods, droughts and heat waves -- threaten residential real estate, commercial real estate and agricultural commodities, among other assets. Transition risks are those that financiers face from exposure to carbon-intensive sectors that will need to be rapidly phased out to mitigate climate change, losing value rapidly. In both cases, financial institutions are vulnerable to severe and sudden losses. Given the systemic interconnectedness of these institutions, this could ramify into a financial crisis.

Not only are banks, insurers and other financial companies in danger from these risks -- they also drive them, via their support for carbon-intensive sectors, especially fossil fuels. With $811.1 billion in fossil fuel lending and underwriting in the four years since the Paris Climate Agreement was adopted (2016-2019), the four biggest fossil banks are all U.S.-headquartered: JPMorgan Chase is the world's biggest banker of fossil fuels by a 36% margin, followed by Wells Fargo, Citigroup, and Bank of America.[1] Since the Paris Agreement these four banks have provided 30% of fossil financing from the 35 global banks analyzed. Morgan Stanley and Goldman Sachs are also among the world's top 13 bankers of fossil fuels. Between them, the top six Wall Street banks have provided $986.8 billion in fossil financing since Paris.

[1] "Banking on Climate Change: Fossil Fuel Finance Report Card 2020," Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change International, Reclaim Finance, and Sierra Club, March 18, 2020.

U.S. banks are also among the top funders of the most destructive parts of the fossil fuel industry. JPMorgan Chase is the world's biggest funder of 100 top companies *expanding* the fossil fuel sector, despite the need for a global phase-out of fossil fuels. JPMorgan Chase is also the world's biggest funder of Arctic oil and gas, offshore oil and gas, and fracked oil and gas, as well as the top non-Canadian funder of tar sands oil. Citi is second to JPMorgan Chase on the funding of fossil fuel expansion, Arctic oil and gas, and offshore oil and gas, while Wells Fargo is the world's second biggest banker of fracking. Citi is also the biggest non-Chinese banker of coal power.

The insurance industry underpins the fossil fuel economy by providing insurance coverage for coal, oil, and gas projects and companies, as well as investing in these companies. Insurance companies are the second largest institutional investors (after pension funds) with more than $24 trillion held collectively. According to data reported to the California Department of Insurance in 2017, the ten largest U.S. insurance companies had $51 billion invested in fossil fuel companies.[2]

However, climate change may pose an existential threat to the insurance industry, which has suffered unprecedented losses due to natural disasters in recent years: $140 billion in payouts in 2017 and $80 billion in 2018, in comparison to a long-term annual average of $41 billion. According to major insurer Munich Re, the record losses of 2017 gave insurers "a foretaste of what we can expect in the future" and will drive costs up so that insurance becomes too expensive for most people.[3]

Financial Regulators' Role

Regulators have the responsibility to ensure the functioning of financial markets and promote financial stability. Regulators have authority to mitigate climate-driven financial risks,[4] and in fact are required by mandate to do so, given the seriousness of these threats. Internationally, a range of central banks and regulators are creating a growing community of practice in addressing these risks, especially via the Network for Greening the Financial System.

Specific policy recommendations include the following:

- Improved disclosure: The Securities and Exchange Commission (SEC) should mandate that corporations disclose their exposure to climate risk, their direct level of greenhouse gas emissions, as well as the emissions of the assets they finance and invest in.

- Stress tests: The Federal Reserve should establish climate risk stress tests for our nation's largest financial institutions, including banks, insurance companies, and asset managers. These tests would help demonstrate the aggregate and individual climate risk exposure of major financial

[2] "8 Out of 10 Have Not Altered Investments To Address Climate Change Despite Catastrophic Fires & Hurricanes," Consumer Watchdog, October 9, 2018.
[3] "Extreme storms, wildfires and droughts cause heavy nat cat losses in 2018," Munich Re, January 8, 2019.
[4] See, e.g., Graham Steele, "A Regulatory Green Light: How Dodd-Frank Can Address Wall Street's Role in the Climate Crisis," The Great Democracy Initiative, January 2020.

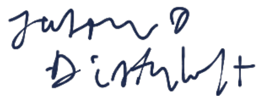
institutions, and move the financial institutions and their regulators toward addressing the most pressing risks.

- Prudential regulation: Regulators should broadly embed climate risk into their prudential regulatory and supervisory frameworks for systemically important financial institutions -- which should include insurance companies and asset managers as well as banks -- such as capital and margin requirements, supervisory guidance, risk management standards, and potentially portfolio limits.

- Fiduciary duties: The SEC, as well as the Department of Labor, should integrate climate risk into their fiduciary duty frameworks. Investment advisers should be required to factor in climate-related risks when providing advice to investors.

Thank you for your work addressing these issues.

Sincerely,



Jason Opeña Disterhoft
Climate and Energy Senior Campaigner
Rainforest Action Network