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David M. Gillers
MRAC Climate Subcommittee Alternate Designated Federal Officer
Chief of Staff to Commissioner Rostin Behnam
Commodity Futures Trading Commission

Re: Submission to the Commodity Futures Trading Commission Climate-Related Market Risk Subcommittee under the Market Risk Advisory Committee (MRAC)

Dear Mr. Gillers:

Across the globe, physical climate impacts resulting from a warmer planet have become more pronounced and damaging in recent years, with grave implications for vulnerable people and societies, and of course the financial system. The five-year period from 2014 to 2019 has been confirmed as the hottest on record, reflecting exceptional atmospheric and oceanic warming, a clear sign of continuing long-term climate change associated with record atmospheric concentrations of greenhouse gases¹.

These rising temperatures are increasingly giving rise to extreme weather that is adversely affecting many communities across the United States, with sometimes devastating repercussions for lives and livelihoods, particularly for highly vulnerable communities. Both acute and chronic impacts from a changing climate are already manifesting in financial and economic losses to investors, financial institutions, and, of course, the federal budget. These costs are likely to continue to mount without concerted efforts to both “build-in” resilience measures and reduce emissions. Between 2015 and 2019, more than 50 climate-influenced disasters with associated damages of \$1 billion each cost the US more than \$530 billion, according to NOAA.² From the perspective of the federal budget, augmenting disaster funding to deal with the impacts of these events may be necessary, but is not be enough.

Furthermore, the COVID19 pandemic has shaken the foundations of the economy. While a stimulus strategy is yet to be fully developed as of this date, a long-term, sustainable and efficient stimulus should simultaneously seek to reduce climate risks while catalyzing economic growth and job creation. In the context of a post-COVID stimulus plan, it will be equally important for financial markets to mainstream climate considerations so that finance can take into account climate-related financial risks. What is critical now is to devise and implement practical measures to help policymakers and financial actors facilitate,

¹ "2019 was 2nd hottest year on record for Earth say NOAA, NASA": *National Oceanic and Atmospheric Administration - National Centers for Environmental Information*, 15 January 2020
<https://www.noaa.gov/news/2019-was-2nd-hottest-year-on-record-for-earth-say-noaa-nasa>.

² "2010-2019: A landmark decade of U.S. billion-dollar weather and climate disasters." *National Oceanic and Atmospheric Administration - National Centers for Environmental Information*, 8 January 2020. <https://www.climate.gov/news-features/blogs/beyond-data/2010-2019-landmark-decade-us-billion-dollar-weather-and-climate>

accelerate, and align the financial system – inclusive of all its stakeholders – to help drive the transition to a low- or zero-carbon, climate-resilient society, and ensure our collective resilience to climate change.

[Climate Finance Advisors, Benefit LLC](#) is pleased to submit views to the **Commodity Futures Trading Commission Climate-Related Market Risk Subcommittee under the Market Risk Advisory Committee** (“MRAC Climate Sub-Committee”) in response to Federal Register notice of April 14, 2020 (FR Doc. 2020-07860). Our responses are specific to our expertise as financial practitioners and climate-finance policy experts and based on decades of experience among our team working at the intersection of finance and policy (and on financial policy) to catalyze, stimulate and accelerate climate-smart investment that supports low-carbon, climate-resilient economic growth across sectors, regions, and countries.

We recognize that there is a long history of policy-making for the financial sector that helps to both (i) incentivize and accelerate investments that have both an economic and public good nature and (ii) identify, assess and manage risks that can significantly impact the public good. In particular, policies developed and implemented by market regulators, such as the CFTC and SEC, encourage market transparency and efficiency, establish a framework for competitiveness and integrity, which is fundamental for protecting market participants against manipulation, abusive trading practices, fraud, and ensuring the financial integrity of markets at large.

Our responses are provided herein to help inform the policy recommendations of the MRAC Climate Sub-Committee, and primarily focus on financial sector policy actions drawn from our work published with UNEP-FI in July 2019, [Driving Finance Today for the Climate Resilient Society of Tomorrow](#), which we have included as an attachment to this submission. This report outlines the ways in which financial policymakers, and financial institutions, can help accelerate the low-carbon, climate-resilient investment needed to both limit warming to 2°C, and to be resilient in the face of impacts caused by already locked-in warming. It pre-dates but is aligned with many of the recommendations from other groups, coalitions, and associations of financial policy-makers representing mainstream thinking about how to address climate risks through financial policymaking, including the [Network for Greening the Financial System](#) (NGFS), [Coalition of Finance Ministers for Climate Action](#), the [Basel Committee on Banking Supervision](#), the [International Organization of Securities Commissions \(IOSCO\)](#) and others.

We have provided our responses below focusing on areas specific to supportive financial sector policies that can help address climate risk in the financial system. These are by no means exhaustive, and careful examination of these suggestions as part of a larger approach may be warranted, but should also balance the urgency with which policies can and should drive the low- or net-zero carbon, climate-resilient transition. We would welcome the opportunity to continue to engage with the MRAC Climate Sub-Committee and look forward to future reports of your work.

Respectfully yours,



Stacy A. Swann
CEO and Founding Partner
Climate Finance Advisors, Benefit LLC

Responses to Public Consultation Questions/Issues

We note that the MRAC Climate Sub-Committee welcomes input on several areas, including identifying challenges or impediments to evaluating and managing climate-related financial risks, as well as suggestions on how to improve the integration of climate-related risk management practices (e.g. scenario analysis, stress testing, climate-related value-at-risk (VaR) and/or CBA risk assessments, and disclosures) to support market efficiency and financial stability.

Our responses below focus on financial sector policies and actions that can help address climate risk in the financial system, including those policies that provide the appropriate frameworks for financial actors (market participants, banks, investors, institutions, etc.), and which support greater acceleration of climate-resilient investment opportunities **as a direct function and output of understanding, assessing and managing climate risks**. More specifically, our input highlights actions that can help integrate climate considerations into the main elements of financial policy and governance (e.g., prudential, disclosure, standards/metrics, and monetary policy) which further the goal of aligning the financial system to address resilience, and transition to the low- or net-zero economy.³ Finally, our input focuses on actions and policies that place a clear emphasis on **active and ongoing** climate risk assessment and management across the financial sector will be critically important components to ensure the financial system fully addresses climate risk.

In line with this framing, we would encourage the MRAC Climate Sub-Committee consider including the following action items as part of its upcoming report:

- a. **Climate-related Financial Risk Stress Testing:** MRAC should support emerging efforts to incorporate climate-related financial risk into required stress testing of systemically important institutions. Such stress testing should be grounded in both the evidence-based warming trajectory(ies) that are apparent at the time of such testing (e.g. warming on a pathway of 3°C or 4°C or more, vs. 1.5° C), and should be undertaken around several meaningful time horizons, including near-term (1-year), medium-term (2-5 years) and long-term (5 years+).
- b. **Develop Climate Risk Data/Analytics to Support Climate Risk Management.** MRAC should support efforts to ensure that financial policymakers and those entities important for financial governance actively and regularly employ climate tools, data, and analytics to understand and assess climate-related financial risk information. Key components of such analysis include (i) understanding the VaR at any given point in time, (ii) loss given probabilities, (iii) the analysis of black swan events and damage functions as a result, and (iv) economic impacts. Further, key issues for this type of analysis include: (i) having the capability to understand such VaR over various time horizons, including the short term (1 year or less), medium-term (2-5 years) and longer-term (5 years+), and (ii) taking into account the recognition that risks can be hazard-based and location-specific, resulting in the need for granular assessments of climate-related financial risks.

³ It is important to note that financial governance and policy making occurs across a number of agencies in the United States, each with clear and delineated agency roles and functions for prudential regulation, monetary policy, securities regulations, consumer protections and tax and budgetary policies. Nonetheless, each of these functions can be important to address climate risks through better risk assessment and management, and also through the development of financial policies which incentivize sustainable, climate-resilient investment.

- c. **Economy-wide Climate-related Financial Risk Analysis.** MRAC should support efforts to undertake regular economy-wide assessments of the climate-related financial and economic impacts from physical climate risks and use such assessments to help inform (i) disaster risk management planning and funding at the federal, state and local level; (ii) investments in resilience, including infrastructure and critical services; and (iii) strategies to support vulnerable communities.
- d. **Metrics and Standards:** MRAC Climate Sub-Committee should consider supporting the development of climate adaptation metrics and standards, and a “taxonomy” that can provide clear guidance for both public and private investors to understand the climate risk attributes of investments, and the benefits of investments that effectively manage such risks. The [European Union’s Technical Expert Group on Sustainable Finance \(EU-TEG\)](#) has advanced a “green taxonomy” approach which could be useful to consider, although the MRAC Climate Sub-Committee may also want to consider exploring a “brown taxonomy” which might provide more clarity and transparency for investors around those “brown” investments expected to lose value over time in the context of a low-carbon economic transition.
- e. **Guidance for Rating Agencies/Insurance Underwriting.** Two key actors of the financial system that provide for clear risk pricing and risk-pricing signals, namely the (i) rating agencies and (ii) the insurance industry. These entities can and should play a key role in (i) signaling the financial value of climate-related risks and (ii) help incentivize resilience investments. MRAC should support efforts to develop specific guidance that enable rating agencies and insurance entities to become a more reliable source of climate-related – and decision-useful – financial-risk information from which investors (both public and private) can use to inform better investment decisions.
- f. **Use Financial Policy to Incentivize Climate-resilient Investment.** MRAC should support efforts to explore and develop a range of financial policies that will incentivize climate-resilient/resilience and discourage maladaptation. More specifically, the MRAC Climate Sub-Committee should consider:
 - a. **Green and Resilience Funds/Banks:** Support for a national green and resilience funds/bank/financing institution, which can catalyze and accelerate the necessary investment in low- or zero-carbon and climate-resilient infrastructure across the country (current [U.S. Senate bill S. 2057](#) proposes one option for a National Climate Bank). Such an institution could take several forms and could support federal, state, and local climate resilience investment plans.
 - b. **Green and Resilience Bonds:** Explore mechanisms to enable the expansion of the green and resilience bond market, including through the development of clear guidelines, metrics (quantitative and qualitative), and standards that are clear for investors to assess.
 - c. **Disaster Funding and Climate-resilient Reconstruction:** Support efforts to connect FEMA and post-disaster funding for community reconstruction with efforts to “build back better” and integrate climate resilience measures.
- g. **Ensure Sufficient Support to Build Climate Risk Capacity Across Financial Governance.** MRAC should support efforts to promote and build the necessary capacity to identify, assess and quantify climate risks within the various bodies responsible for financial system governance to allow for active and ongoing climate-risk management at all levels, as well as in industry and financial institutions, and importantly with community banks and local governments (municipal or other).