

Congress of the United States

Washington, DC 20515

June 13, 2024

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Michael Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th St SW
Washington, DC 20219

Dear Chair Powell, Chairman Gruenberg, and Acting Comptroller Hsu,

We write to you today with new concerns about the U.S. federal banking agencies' oversight of, and response to, climate-related financial risks. In particular, we are alarmed by the weaknesses revealed by the newly disclosed results of the Federal Reserve Board's (the Fed's) 2023 pilot scenario analysis,¹ as well as reports that the Fed, Federal Deposit Insurance Corporation (FDIC), and Office of the Comptroller of the Currency (OCC) are impeding progress toward addressing international financial climate risk reduction goals.²

Last month, the Fed released the results from its 2023 pilot scenario analysis, intended to inform regulators and the public as to how America's largest banks "are using climate scenario analysis to explore the resiliency of their business models to climate-related financial risks."³ Unfortunately, the results revealed deep gaps in six large banks' understanding of the risks posed to them from climate change, including Wells Fargo, Bank of America, and JP Morgan Chase. According to the analysis, "participants noted a lack of comprehensive and consistent data related to building characteristics, insurance coverage, and counterparties' plans to manage climate-related risks. In many cases, participants relied on external vendors to fill data and modeling gaps."⁴ The banks also generally had to rely on assumptions to estimate the degree of

¹ Board of Governors of the Federal Reserve System, Pilot Scenario Exercise, Summary of Participant's' Risk-Management Practices and Estimates, May 2024, <https://www.federalreserve.gov/publications/files/csa-exercise-summary-20240509.pdf>.

² Bloomberg, "Fed Blocks Tough Global Climate Rules for Wall Street Banks," Alastair Marsh, April 3, 2024 <https://www.bloomberg.com/news/articles/2024-04-03/fed-blocks-tough-global-climate-risk-rules-for-wall-street-banks>.

³ Board of Governors of the Federal Reserve System, "Federal Reserve Board releases summary of the exploratory pilot Climate Scenario Analysis (CSA) exercise that it conducted with six of the nation's largest banks," press release, May 9, 2024, <https://www.federalreserve.gov/newsevents/pressreleases/other20240509a.htm>.

⁴ Board of Governors of the Federal Reserve System, Pilot Scenario Exercise, Summary of Participant's' Risk-Management Practices and Estimates, May 2024, p.1, <https://www.federalreserve.gov/publications/files/csa-exercise-summary-20240509.pdf>

insurance mitigation and underscored the importance of developing a more “nuanced understanding” of insurance markets, including indirect impacts like increases in insurance premiums.⁵ These findings cast serious doubt on the preparedness of our banks and financial system for climate-related financial risks.

Nearly every global financial supervisor agrees that climate-related risks present safety and soundness risks to individual institutions and systemic risks to the financial sector.⁶ Last year, a review by central banking experts concluded that “climate change has a clear systemic dimension: its consequences are not only widespread across all sectors and regions, but potential concentrations, spillovers and interlinkages within the financial system risk further amplifying its economic and financial impacts.”⁷

Despite these threats, this April, Bloomberg reported that significant and alarming rifts exist between American regulators and European Central Bank (ECB) officials on efforts to tackle climate risk in the global financial system.⁸ On the issue of bank supervision, “European central bankers have been advocating for the Basel Committee on Banking Supervision (BCBS) to agree on requiring lenders to disclose their strategies for meeting green commitments,” but “[i]n closed-door meetings, U.S. officials have” pushed back against these suggestions.⁹ These obstructions reportedly have included:

- Pushing to make climate transition plan guidelines optional;
- Halting work on Pillar I and limiting monitoring of implementation of the BCBS principles for effective management and supervision of climate-related financial risks;
- Attempting to remove financed emissions from the proposed disclosure framework for banks and advocating for key disclosure standards to be discretionary; and
- Not participating in an international climate-related credit risk analysis of financial institutions.

It is not hard to see why our European counterparts view our financial regulators as hindrances to addressing key financial and economic risks from climate change. For instance, despite the significant impacts of climate change on insurance markets—leading some insurance companies to hike premiums or withdraw coverage from entire states or portions of states—U.S. regulators have done little to address the climate-related risks to our insurance system, besides the Federal Insurance Office’s recent data call.¹⁰

⁵ *Id.*

⁶ Centre for Sustainable Finance, “Climate-related systemic risks and macroprudential policy,” Paul Hiebert and Pierre Monnin, August 2023, p. 2, <https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2023/08/INSPIRE-Sustainable-Central-Banking-Toolbox-Paper-14.pdf>.

⁷ *Id.*, p. 1.

⁸ Bloomberg, “Fed Blocks Tough Global Climate Rules for Wall Street Banks,” Alastair Marsh, April 3, 2024 <https://www.bloomberg.com/news/articles/2024-04-03/fed-blocks-tough-global-climate-risk-rules-for-wall-street-banks>.

⁹ *Id.*

¹⁰ Better Markets, “The Unseen Banking Crisis Concealed Behind the Climate Crisis,” August 23, 2023, https://bettermarkets.org/wp-content/uploads/2023/08/BetterMarkets_Report_Unseen_Banking_Crisis_Behind_Climate_Crisis_08-23-2023.pdf; In March 2024, FIO announced a collaboration with state insurance regulators and the

The United States' lack of progress and innovation in establishing robust measures to address the financial and economic risks from climate change places us behind our international peers and is counterproductive to American interests. The European Union (EU), for example, has adopted enhanced disclosure,¹¹ due diligence requirements,¹² and changes to monetary policy that aim to decarbonize the European Central Bank's (ECB's) balance sheet.¹³ Additionally, the ECB conducted scenario analysis exercises in 2021 and 2022 and has already begun implementing suggested regulatory changes.¹⁴ Finally, European authorities have acknowledged the need for macroprudential measures to tackle system-wide climate-related risks.¹⁵ As we drag our feet on even recognizing and modeling the financial risk associated with climate change, our international partners are legions ahead.

The Fed, FDIC, and OCC have clear authority to regulate climate-related financial risks. Climate change has been identified as a microprudential and systemic risk by all the banking agencies, Treasury, and the Financial Stability Oversight Council (FSOC).¹⁶ Indeed, climate's systemic risk is squarely within the Fed's dual mandate of limiting inflation and maximizing employment. In Europe, the 2022 summer heat wave increased food inflation by .67%, and the ECB concluded, "climate change poses risks to price stability by having an upward impact on inflation, altering its seasonality and amplifying the impacts caused by extremes."¹⁷ Chair Powell has similarly acknowledged that insurability is a key factor driving U.S. inflation concerns.¹⁸ As members of several international financial organizations, the Fed, FDIC, and OCC must act on climate risk in the domestic and global financial system.

National Association of Insurance Commissioners to gather data on the impacts of climate-related financial risks on the insurance sector.

¹¹ European Commission, "Corporate sustainability reporting," https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en.

¹² European Commission, "Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937," February 23, 2022, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022PC0071>.

¹³ European Central Bank, "ECB takes further steps to incorporate climate change into its monetary policy operations," press release, July 4, 2022, <https://www.ecb.europa.eu/press/pr/date/2022/html/ecb.pr220704~4f48a72462.en.html>.

¹⁴ European Central Bank, "Faster green transition would benefit firms, households and banks, ECB economy-wide climate stress test finds," press release, September 6, 2023, <https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.pr230906~a3d6d06bdc.en.html>.

¹⁵ European Central Bank, European Systemic Risk Board, "Towards macroprudential frameworks for managing climate risk," December 2023, https://www.esrb.europa.eu/pub/pdf/reports/esrb_report202312~d7881028b8.en.pdf.

¹⁶ U.S. Department of the Treasury, Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, Federal Register Notice, "Principles for Climate-Related Financial Risk Management for Large Financial Institutions," October 30, 2023, <https://www.govinfo.gov/content/pkg/FR-2023-10-30/pdf/2023-23844.pdf>; U.S. Department of the Treasury, Financial Stability Oversight Council, "Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability," press releases, October 21, 2021, <https://home.treasury.gov/news/press-releases/jy0426>.

¹⁷ European Central Bank, "The impact of global warming on inflation: averages, seasonality, and extremes," Maximilian Kotz, Friderike Kuik, Eliza Lis, and Christiane Nickel, May 2023, p. 1, <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2821~f008e5cb9c.en.pdf?06bb134ae9fa3c4e75099724f2d46311>.

¹⁸ New York Times "Insurance Costs Are Pushing Up Overall Inflation" Jeanna Smialek, March 12, 2024, <https://www.nytimes.com/2024/03/12/business/insurance-inflation.html#:~:text=Insurance%20of%20various%20different%20kinds,during%20congressional%20testimony%20last%20week>.

The U.S. prides itself as the gold standard in financial markets, but we are falling behind our peers. Last year, the U.S. ranked 16th among the G20 countries in climate risk mitigation, and your efforts will continue to keep us behind our peers and unable to guard our financial systems against the dangers posed by climate change.¹⁹

We urge you to take decisive action on climate risk and to cease your obstruction of progress on global financial rules. We ask that you answer the following questions by June 28, 2024:

1. Please describe your authority and responsibility to address financial risks, including climate-related financial risks to individual firms and the financial system.
2. Please describe your position on the Basel Committee on Banking Supervision (BCBS) negotiations in the Task Force on Climate-related Financial Risks (TCFR) and provide a list of all meetings related to these negotiations.
3. The BCBS's mandate is to "strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability."²⁰ The Fed, FDIC, and OCC are members of the Financial Stability Oversight Council (FSOC), which describes climate change as a systemic risk, yet reporting indicates that representatives of your agencies have attempted to weaken the BCBS's work on climate. If the answer to any of the following questions is yes, please provide any relevant written documents that have been transmitted to BCBS.
 - a. Have any representatives from your agency expressed concern, written or verbally, that the BCBS is "overstepping its mandate" with its climate work?²¹
 - b. Have any representatives from your agency advocated to remove the word "guidance" from TFCR's climate transition plans?
 - c. Have any representatives from your agency advocated to stop work on Pillar I and implementation monitoring for the BCBS principles for effective management and supervision of climate-related financial risks?
 - d. Have any representatives from your agency advocated to remove financed emissions from the BCBS's proposed disclosure framework for banks or for key disclosure standards to be discretionary?

¹⁹ The Guardian, "Climate activists block Federal Reserve bank, calling for end to fossil fuel funding," Dharna Noor, September 18, 2023, <https://www.theguardian.com/environment/2023/sep/18/climate-activists-block-new-york-federal-reserve-bank>. In this regard, we note that the recently updated Basel Core Principles explicitly reference the need to take climate-related financial risks into account, along with other emerging risks, such as the digitalization of finance.

²⁰ BIS, The Basel Committee, "The Basel Committee – overview," <https://www.bis.org/bcbs/index.htm>.

²¹ Bloomberg, "Fed Blocks Tough Global Climate Rules for Wall Street Banks," Alastair Marsh, April 3, 2024 <https://www.bloomberg.com/news/articles/2024-04-03/fed-blocks-tough-global-climate-risk-rules-for-wall-street-banks>.

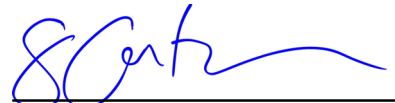
4. Why did the United States decline to contribute to the BCBS's analysis on incorporating climate risk into credit-risk assessments? Why should U.S.-based Globally Systemic Important Banks be exempt from Globally Systemic Important analyses?
5. How do you plan to monitor banks' improvements in climate-related financial risk management, in light of the Fed's recent pilot scenario analysis?
6. Are you concerned that the large banks could use the results of the Fed's pilot scenario analysis to offload their climate-related exposures onto other entities, including Fannie Mae and Freddie Mac?
7. Please describe what authorities your agency has to improve access to data for banks to address insurance-related data gaps.

Thank you for your attention to this important matter.

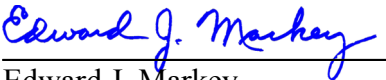
Sincerely,



Elizabeth Warren
United States Senator



Sean Casten
Member of Congress



Edward J. Markey
United States Senator



Bernard Sanders
United States Senator




Sheldon Whitehouse
United States Senator



Jerrold Nadler
Member of Congress



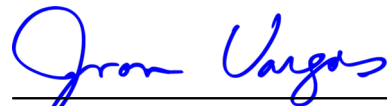
Katie Porter
Member of Congress



Jared Huffman
Member of Congress



Barbara Lee
Member of Congress



Juan Vargas
Member of Congress



Rashida Tlaib
Member of Congress



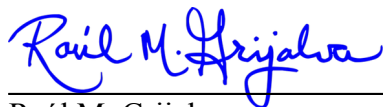
Adriano Espaillat
Member of Congress



Alexandria Ocasio-Cortez
Member of Congress



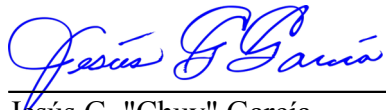
Delia C. Ramirez
Member of Congress



Raúl M. Grijalva
Member of Congress



Ilhan Omar
Member of Congress



Jesús G. "Chuy" García
Member of Congress



Adam B. Schiff
Member of Congress



Greg Casar
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Earl Blumenauer
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