April 1, 2021

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551
Re: Management of Climate-Related Risk and Investment

Dear Chair Powell,

The Federal Reserve Board has a crucial role to play in protecting the economy and the public from material risks, including those from climate change, as you highlighted in your November 2020 press conference. The threats posed by climate change, as outlined in the Fed's most recent financial stability report, are significant and, to quote Governor Lael Brainard, "one of the major challenges of our time."[1] We urge you to move more rapidly and more boldly with specific actions in supervision, micro and macroprudential regulation, monetary policy, the Board's balance sheet, and community development.

We are encouraged by recent steps the Board has taken to expand and deepen its engagement to address climate risk, such as the creation of the Supervision Climate and the Financial Stability Climate Committees. At the same time, we are concerned by indications that the Board may not view climate-related financial risk as requiring urgent action, as reflected in your recent statement that climate-related disclosures should be improved "in the long run" after allowing the status quo to "bear fruit . . . for a while."[2] Interested parties have worked to improve climate-related disclosures for several years now. Some progress has been made, but climate disclosures still fall far short of what is needed. More broadly, disclosures are far from the only tool which the Board can and must use to contend with climate risk. There is an urgent need for more significant financial regulatory responses to the climate crisis.

The Board must make the financial institutions it supervises more resilient to climate risk—including risks from direct and indirect climate harms and risks from the transition needed to mitigate the climate crisis. To follow a 1.5°C-consistent pathway, the world must decrease fossil fuel production by 45% by 2030, or 7.6% per year.[3] Accomplishing this goal,

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[1] Governor Lael Brainard, Strengthening the Financial System to Meet the Challenge of Climate Change, Dec. 18, 2021, https://www.federalreserve.gov/newsevents/speech/brainard20201218a.htm.
[2] Geof Koss, Fed Chair Tells Panel No Rush on Disclosure Rules, E&E Daily, Feb. 24. 2021, https://www.eenews.net/eedaily/stories/1063725839.
[3] Intergovernmental Panel on Climate Change, Special Report: Global Warming of 1.5 ºC, Summary for Policymakers 12 (2018), https://www.ipcc.ch/sr15/ (45% by 2030); United Nations Environment Programme, Emissions Gap Report 2019, https://www.unep.org/news-and-stories/press-release/cut-global-emissions-76-percent-every-year-next-decade-meet-15degc (7.6% annually from 2020 to 2030).

or anything near it, will require rapid, dramatic changes in multiple sectors of the economy, which could threaten financial stability if not managed properly. The United States, the European Union, China, and others are strengthening their climate policies and setting more stringent targets, and increasingly the private sector is doing so as well.[4] These are positive developments for climate mitigation (albeit still too little), but they increase the likelihood of an abrupt, potentially destabilizing devaluation of high-emission assets.

Critical to mitigating both physical and transition climate risk is reducing financial institutions' support for high-carbon energy sources and redirecting finance toward sustainable alternatives. From 2016 to 2020, the six biggest U.S. banks provided $1.2 trillion in lending and underwriting to the fossil fuel industry, meaning that almost a third of global bank support for fossil fuels comes from banking holding companies under the Board's supervision.[5] This flow of money exposes both our financial system, our economy, and our planet to high levels of climate risk. Many banks have begun making commitments to reduce their funding and exposure to fossil fuels. But these commitments typically set distant targets that sound promising in the abstract, such as "net-zero" by 2050, rather than guarantee what is needed most: sharp cuts this decade. The U.S. has committed to meaningful emissions reductions both by rejoining the Paris Agreement and through White House policy-setting. The Board should do its part to enable the government's policies on this critical issue to succeed, shepherding the financial system through the dramatic economic transition that is required to meet our climate goals.

The Board's own portfolio decisions also affect the world's ability to meet climate targets. The Board should not be in the business of rescuing fossil fuel companies without a plan to phase out their contributions to greenhouse gas pollution in accordance with a 1.5°C pathway. Not only did the Board buy risky fossil-fuel assets in 2020 without any conditions; its corporate bond purchases were heavily overweight in the Energy sector (defined as oil/gas and coal value chain companies exclusively).[6] In addition, over 13% of loans purchased through the Main Street Lending Program to date are for fossil fuels, compared to just 1% for clean energy.[7] Separately, over $1 billion (19.5%) of the Secondary Market Corporate Credit Facility portfolio is composed of bonds from the Energy or Utilities

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[4] In December 2020, the EU leaders set a new goal to cut emissions by 55% by 2030, up from 40%.; China recently adopted stronger carbon neutrality targets as well. The US has rejoined the Paris Agreement, and President Biden has announced a "whole-of-government" response to the climate crisis, with a White House Office of Domestic Climate Policy and National Climate Task Force comprising 21 federal agencies to drive it. A recent example of major private commitment is the decision by General Motors to sell 100% zero-emission vehicles by 2035.

[5] Rainforest Action Network, Banking on Climate Chaos 2021.

[6] A Financial Analysis of the US Federal Reserve's Corporate Bond Market Interventions.

[7] Main Street Lending Program recipients.

sector.[8] This is completely the wrong direction. The Board must stop exacerbating the climate crisis with its own bond purchases and other rescue programs.

There is much to be done urgently as the window for preventing extraordinarily catastrophic climate outcomes closes. We call on you to accelerate action by the Board in the following three core areas of your mandate, and in particular to demonstrate leadership and meaningful progress well before the next UN climate conference in November (COP26), which has been dubbed the "Finance COP":

- Implement supervisory and prudential measures to increase the resilience of the financial system to climate risks and to reduce the risks to the economy and the planet the financial system creates by financing of fossil fuels and deforestation. Supervisory and prudential measures include incorporating climate risk into the supervision process, adjusting capital requirements to reflect climate risk, and limiting and phasing down the financing of emissions.

- Incorporate climate risk into the Federal Reserve's monetary policy. The Fed should exclude or reduce fossil fuel assets from its asset purchase programs and its collateral framework. Align the Board's CARES Act credit facility assets and the terms of any future emergency lending programs with the Paris Climate Agreement's goal of limiting temperature rise to 1.5°C, consistent with U.S. membership in that agreement and broader U.S. policy to decarbonize the economy.

- Encourage and support bank investment aimed at limiting global temperature rise to 1.5°C, with a particular emphasis on lending to low-income communities and communities of color. These communities, historically underinvested due to discriminatory practices, have also been disproportionately harmed by carbon-intensive industries and face extreme climate risks, including climate-related displacement. A sustainable investment policy should have a specific focus on reparative investments in communities overburdened with pollution. The Board should explore all possible authorities it can use toward these ends, including supervision, asset purchases, credit facilities, and any others.

Many climate and economic justice organizations are watching financial regulators as they begin to engage on climate. There is broad-based public support for strong action from central banks across the globe playing a vital role in the transition from fossil fuels to a clean-energy economy.

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[8] SMCCF Transaction-specific disclosures (February 9, 2021).

We would like to meet with you to discuss this matter, and we are at your disposal to provide more detailed recommendations and analysis.

Sincerely,

350.org
Public Citizen
Americans For Financial Reform Education Fund
Sierra Club
Rainforest Action Network

Amazon Watch
Bulb Foundation
Catholic Divestment Network
Center for International Environmental Law
Climate Safe Lending Network

Fundacja "Rozwój TAK - Odkrywki NIE"
Global Choices
Reclaim Finance
Stand.earth
Women's International League for Peace & Freedom

Action Center on Race and the Economy
Businesses for a Livable Climate
CatholicNetwork.US
Clean Coalition
Climate Hawks Vote

ClimateMama
Earth Action, Inc
Friends of the Earth United States
Future Coalition
Green America

Greenpeace USA
Hip Hop Caucus
Oil Change International
RapidShift Network
Redwood Energy

Revolving Door Project
Sunrise U.S.
The Democracy Collaborative
UnKoch My Campus
Zero Hour

350 Butte County
350 Conejo / San Fernando Valley
350 Eastside
350 Humboldt
350 Montgomery County, MD
350 New Hampshire
350 New Orleans
350 Silicon Valley
350Hawaii
350NYC
350PDX

Athens County's Future Action Network, acfan.org - OH
Bioneers
Call to Action Colorado
Colorado Businesses for a Livable Climate
Extinction Rebellion San Francisco Bay Area

Fossil Free California
FreshWater Accountability
Long Beach Alliance for Clean Energy
New York Communities for Change (NYCC)
Northern California Solar Energy Association

NPC Solar
Santa Cruz Climate Action Network
Wall of Women

Unite North Metro Denver
Climate Justice at Boston College
Catholic Divestment Network
Texas Campaign for the Environment
Climate Action Rhode Island-350