

Congress of the United States

Washington, DC 20515

September 18, 2023

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

Dear Chair Powell,

We write to urge the Board of Governors of the Federal Reserve System to implement measures to adequately address climate-related financial risk. Climate-related disasters already cost the U.S. economy tens of billions of dollars every year, a sum that is growing as the climate crisis intensifies. To protect the stability of the U.S. financial system, the Federal Reserve must thoroughly understand and address climate risks and ensure that the financial institutions it oversees do the same, including by requiring them to reduce fossil fuel-financed emissions in line with science-based climate targets.

Climate-related weather disasters cost the U.S. economy more than \$617 billion between 2018 and 2022,¹ and \$177 billion in 2022 alone.² This year, wildfires in Canada led to severe air pollution across the United States and studies show that wildfire smoke costs American workers \$125 billion in lost pay annually.³ In the Northeast, record flooding over just a few days in July is projected to cause up to \$5 billion in damages.⁴ Summer 2023 also marks some of the hottest recorded days on Earth. Higher temperatures and increased rainfall are projected to continue throughout the second half of the year, further impacting the U.S. and the world's economy.⁵ Perhaps most concerning for financial stability, climate-related disasters are driving up the cost of insurance and causing insurance companies to deem many parts of the country uninsurable, leaving customers with higher premiums or no coverage at all.⁶

Although the Federal Reserve is currently conducting a pilot climate scenario analysis and has proposed principles for managing climate-related risk, these measures fall short in responding to the current climate crisis. The Federal Reserve can and should be doing more. Positive Money, a not-for-profit research and campaign organization, ranks the Federal Reserve near the bottom of its “Green Central Banking Scorecard,”

¹ NOAA, National Centers for Environmental Information (NCEI), U.S. Billion-Dollar Weather and Climate Disasters, <https://www.ncei.noaa.gov/access/billions/summary-stats#temporal-comparison-stats> (last visited Aug. 29, 2023).

² *Id.*

³ Irina Ivanova, *Wildfire smoke impacts more than our health – it also costs workers over \$100B a year. Here's why*, CBS News (June 8, 2023), <https://www.cbsnews.com/news/air-quality-wildfires-canada-125-billion-economic-costs/>.

⁴ Brian Sullivan, *Floods in US Northeast Forecast to Bring \$5 Billion in Damages*, Bloomberg (July 11, 2023), <https://www.bloomberg.com/news/articles/2023-07-11/floods-in-us-northeast-forecast-to-bring-5-billion-in-damages#xj4y7vzkg>.

⁵ Helen Regan, *El Niño is here and the world must prepare for more extreme heat, UN weather agency warns*, CNN (July 5, 2023), <https://www.cnn.com/2023/07/05/world/wmo-el-nino-warmer-weather-climate-intl-hnk/index.html>.

⁶ David Arkush & Carly Fabian, *Like a bad neighbor, State Farm is gone from California*, San Francisco Chronicle (July 12, 2023), <https://www.sfchronicle.com/opinion/openforum/article/state-farm-california-insurance-18175993.php>.

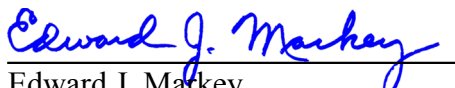
which measures G20 central banks on the full range of adopted green policies and initiatives.⁷ Unfortunately, the Fed is well behind its peers in responding to climate change.

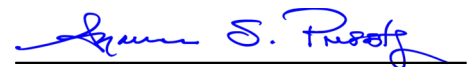
The Federal Reserve has acknowledged that climate change poses an emerging risk to the safety and soundness of financial institutions and the financial stability of the United States.⁸ That is why we urge the Federal Reserve to use its existing authority to oversee bank safety and mitigate risks to financial stability, and require financial institutions to submit and execute plans to align their activities with science-based climate targets, including reducing financed emissions.

The 2023 banking crisis further underscores the need for action to adequately manage risk.⁹ Recent bank failures reveal the consequences of downplaying or slow-walking management of known but unpriced risks—and allowing banks that need strong supervision and regulation to go without it. It is imperative that the Federal Reserve not repeat the same mistakes with climate-related financial risks and instead take decisive action to mitigate them.¹⁰ Although banks are already claiming to support reducing financed emissions, even achieving net-zero emissions by 2050, they continue to finance the fossil fuel industry to the tune of hundreds of billions of dollars annually.¹¹

The climate crisis is already placing a heavy financial burden on Americans and the U.S. economy. The Federal Reserve must take the necessary steps to protect the stability of the financial system by fully understanding climate risks and requiring financial institutions to stop fossil fuel financing.

Sincerely,


Edward J. Markey
United States Senator


Ayanna Pressley
Member of Congress

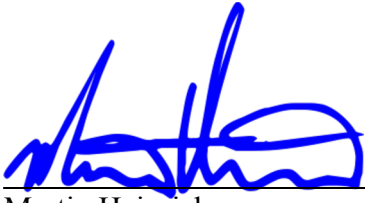
⁷ The Green Central Banking Scorecard (Nov. 2022), <https://positivemoney.org/wp-content/uploads/Positive-Money-Green-Central-Banking-Scorecard-Report-2022-8.12.pdf>.

⁸ Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 87 Fed. Reg. 75267 (Dec. 8, 2022), <https://www.federalregister.gov/documents/2022/12/08/2022-26648/principles-for-climate-related-financial-risk-management-for-large-financial-institutions>.

⁹ Yevgeny Shrago, *Silicon Valley Bank crisis shows climate risk can push banks over the brink*, Green Central Banking (Mar. 17, 2023), <https://greencentralbanking.com/2023/03/17/silicon-valley-bank-climate-risk-federal-reserve/>.

¹⁰ *Climate-Related Financial Policy in a World of Radical Uncertainty: Towards a Precautionary Approach*, UCL Institute for Innovation and Public Purpose (Feb. 9, 2020), <https://dx.doi.org/10.2139/ssrn.3520224>.

¹¹ Banking on Climate Chaos, Fossil Fuel Finance Report 2023, https://www.bankingonclimatechaos.org/wp-content/uploads/2023/08/BOCC_2023_vF.pdf.



Martin Heinrich
United States Senator



Barbara Lee
Member of Congress



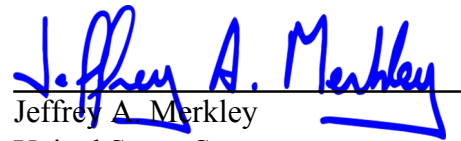
Alexandria Ocasio-Cortez
Member of Congress



Rashida Tlaib
Member of Congress



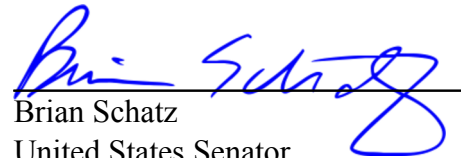
Bernard Sanders
United States Senator



Jeffrey A. Merkley
United States Senator

André Carson

André Carson
Member of Congress



Brian Schatz
United States Senator



Elizabeth Warren
United States Senator