

Congress of the United States
Washington, DC 20515

August 19, 2020

Secretary Steven Mnuchin
U.S. Treasury Department
1500 Pennsylvania Ave NW
Washington, D.C., 20220

Dear Secretary Mnuchin:

As Chair of the Financial Stability Oversight Council (FSOC), you have a statutory responsibility to, among other things, “respond to emerging threats to the stability of the United States financial system.”¹ There is a compelling body of research, and emerging international consensus, that recognizes climate change as a serious risk to financial institutions and markets.² We write to ask what steps you, in your role as Chair of the FSOC, have taken to address these risks to our financial system.

Established under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the FSOC is responsible for identifying and mitigating threats to financial stability and improving the coordination among the disparate financial regulatory agencies. The FSOC has the authority to research and report on risks to the financial system, issue non-binding policy recommendations to member agencies to mitigate identified risks, and to designate nonbank financial companies as systemically important—subjecting them to enhanced regulatory supervision and financial safeguards. While performing these important functions, it is critical that the FSOC consider climate-related risks to the financial system.

The United Nations Intergovernmental Panel on Climate Change (IPCC) has found that without rapid, unprecedented changes to all sectors of society, we cannot limit global warming to 1.5°C and prevent sea level rise, polar ice cap melting, and habitat destruction.³ Our financial system must be resilient in the face of the physical and transition risk-related losses that climate change could inflict. If a climate shock destabilizes the financial system, businesses and households would bear the severe economic costs that financial crises impose. By not addressing these risks now, the FSOC is leaving our financial system and economy vulnerable.

We have already begun to see the physical risks our financial institutions will face from an increased number of extreme weather events and lasting environmental changes. Between 1980 and 2019, the United States suffered an annual average of 6.5 weather events costing over \$1

¹ Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. § 5322(a)(1)(C)

² Network for Greening the Financial System, https://www.ngfs.net/sites/default/files/medias/documents/ngfs-report-technical-supplement_final_v2.pdf

³ IPCC, <https://www.ipcc.ch/2018/10/08/summary-for-policymakers-of-ipcc-special-report-on-global-warming-of-1-5c-approved-by-governments/>

billion each. In 2019, the number of costly weather events rose to 14.⁴ Financial institutions' mortgage, commercial real estate, business lending, derivatives, and other portfolios are exposed to these physical risks. Furthermore, these accelerating physical risks—or the realization of an imminent policy intervention to mitigate them—could spark a volatile market correction. Financial institutions and investors may try to sell assets tied to carbon-intensive industries at fire-sale prices, inducing severe price shocks.⁵ Some financial institutions are beginning to recognize the importance of combatting climate change and have committed to aligning their businesses with the goals set forward in the Paris Agreement.⁶

Banks, credit unions, insurance companies, asset managers, and other nonbank financial companies are all exposed to these risks. The size, scale, and scope of both physical- and transition-related risks make climate change a textbook systemic risk.⁷ If the financial system is not prepared to withstand these risks safely, a climate shock could seriously disrupt the financial system and trigger a financial crisis. These climate-related risks do not discriminate based on a financial institution's regulatory charter, making it critical for the FSOC to organize and oversee a coordinated regulatory response across the financial regulatory landscape.

Under your leadership, the FSOC has simply failed to act. Despite significant international momentum on this issue, the FSOC's 2019 Annual Report failed to mention the systemic risk climate change poses to our financial system—just like each previous annual report published during your tenure.⁸ Not once has climate change been an agenda topic at an FSOC meeting, nor have you issued any recommendations to regulators or Congress on ways to mitigate the financial stability threat posed by climate change. Moreover, instead of integrating climate risk as a factor when considering whether to designate a nonbank financial company as systemically important, you have shelved the designation authority altogether.⁹

After seeing the impact that the COVID-19 pandemic has had on our nation's economy, and the extraordinary measures the Federal Reserve and Department of Treasury were forced to take to stabilize financial markets, we believe it is more important than ever to prepare for future external shocks. While epidemiologists predicting an infectious disease pandemic could not foresee the precise consequences of COVID-19, the risks from climate change are well known, highly probable, but still inaccurately priced. We can act now to address the economic impact of climate change using the projections made by climate scientists and climate economists.

We urge you, as Chair of the FSOC, to prepare our financial system for the next crisis and consider climate risk when responding to emerging risks to the stability of the United States' financial system. We look forward to your response.

⁴ NOAA, <https://www.ncdc.noaa.gov/billions/>

⁵ Center for American Progress, <https://www.americanprogress.org/issues/economy/reports/2019/11/21/477190/climate-change-threatens-stability-financial-system/#:~:text=Climate%20change%20is%20a%20systemic,enhanced%20mitigation%20efforts%20of%20regulators.&text=Such%20changes%20could%20strand%20carbon,value%20of%20other%20financial%20instruments.>

⁶ United Nations, <https://news.un.org/en/story/2019/09/1046982>

⁷ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3542840

⁸ FSOC, <https://home.treasury.gov/system/files/261/FSOC2019AnnualReport.pdf>

⁹ <https://home.treasury.gov/news/press-releases/sm844>

Sincerely,



Mike Levin
Member of Congress

/s/
Mike Quigley
Member of Congress

/s/
Joe Neguse
Member of Congress

/s/
Suzanne Bonamici
Member of Congress

/s/
Eleanor Holmes Norton
Member of Congress

/s/
Jamie Raskin
Member of Congress

/s/
Nanette Diaz Barragán
Member of Congress

/s/
Barbara Lee
Member of Congress

/s/
Peter Welch
Member of Congress

/s/
Alcee L. Hastings
Member of Congress



Brian Schatz
United States Senator

/s/
Sherrod Brown
United States Senator

/s/
Cory A. Booker
United States Senator

/s/
Elizabeth Warren
United States Senator

/s/
Edward J. Markey
United States Senator

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Chris Van Hollen
United States Senator

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Dianne Feinstein
United States Senator

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Mazie Hirono
United States Senator

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Jeanne Shaheen
United States Senator

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Martin Henrich
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Alan Lowenthal
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Debbie Wasserman Schultz
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Jared Huffman
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Jahana Hayes
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Denny Heck
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Ayanna Pressley
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Carolyn B. Maloney
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Julia Brownley
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Earl Blumenauer
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Joseph P. Kennedy, III
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Donald S. Beyer Jr.
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Kathy Castor
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Doris Matsui
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Harley Rouda
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Emanuel Cleaver, II
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Alexandria Ocasio-Cortez
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Juan Vargas
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Rashida Tlaib
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William Lacy Clay
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