

# Addressing climate as a systemic risk:

*A call to action for U.S. financial regulators*

*UBS Quant Series 2020:  
Climate as a systemic risk: Implications for regulators and industries*

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# The Ceres **ACCELERATOR** FOR SUSTAINABLE CAPITAL MARKETS

ACCELERATING EFFORTS TO TRANSFORM CAPITAL MARKETS  
AND DRIVE WHOLESALE ACTION ON THE CLIMATE CRISIS



The Ceres Accelerator will, in the short term, work towards:

- ➔ Achieving Paris-Aligned Portfolios
- ➔ Regulating Climate as a Financial Risk
- ➔ Financing a Net-Zero Economy
- ➔ Board governance for a sustainable future



# Addressing climate as a systemic risk: *A call to action for U.S. financial regulators*

- Goals of report:
  1. Make the case that climate change is a systemic risk
  2. Outline action steps that U.S. financial regulators can take based on *their existing mandate*
- Focused on federal and state regulators
- Built on detailed legal analysis and a comprehensive literature review; 3 dozen interviews with current and former regulators, academics, investors and NGOs, assessment of evolving practice globally



# The Climate Crisis and Economic Stability

**Systemic risks** are risks that have the potential to destabilize the normal functioning of the capital markets and lead to serious negative consequences for financial institutions and the broader economy.

Evidence strongly indicates that climate change is a systemic risk:

- Increasingly frequent extreme weather events have led to mounting economic losses
- **Social and environmental factors** are exacerbating economic impacts: Health & productivity; Community impacts and Population Upheaval; Biodiversity Losses

"Climate change will affect all agents in the economy (households, businesses, governments) across all sectors and geographies....The risks will likely be correlated and potentially aggravated by tipping points and non-linear impacts. This means the impacts could be much larger, more widespread and diverse than those of other structural changes." - *Network for the Greening of the Financial System, 2019*



# The Climate Crisis and Economic Stability

- Climate impacts are already manifesting themselves in the **largest state economies**: California, Florida
- An unplanned, though inevitable, **transition to a low-carbon economy** will likely cripple key industries
- **Insurance companies and banks** are on the frontlines of risk (Losses from extreme weather events; risks to investments; Exposure to climate risks across their portfolio)
- The **cumulative and unpredictable** nature of these impacts poses the real risk to financial market stability
- The time for action is now



# Actions US Financial Regulators Can Take on Climate Change

US financial regulators should proactively address and act on climate change across their mandates to:

- ❑ **Affirm** that climate change is a systemic risk and **assess** climate impacts on financial market stability
- ❑ **Integrate** climate change into prudential supervision
- ❑ **Mandate** climate change disclosure
- ❑ **Coordinate** with each other and the global regulator community to develop a shared approach to addressing the global crisis

- Such actions fall within the **existing mandate** of the agencies in question.
- Similar actions are being taken by **financial regulators globally**.
- As **regulators of the largest economy** in the world, US regulators risk being left behind and have an especially important reason to act. Inaction affects US competitiveness
- While this blueprint focuses on a half-dozen key institutions, all federal and state regulators should **further examine their role** for climate change.



# Vision for Key Financial Regulators

- **Federal Reserve System:** Financial Stability, Supervision, Prudential Regulation, Monetary Policy, Community investment, International Cooperation
- **Office of Comptroller of the Currency & Federal Deposit Insurance Corporation:** Supervision, Stress Tests, Deposit Insurance Fund impacts
- **Securities and Exchange Commission:** Research on impacts on securities market; Fiduciary Duty, Disclosure, Accountants and auditors, Credit Raters
- **Commodity Futures Trading Commission:** Climate Change Sub-committee (Ceres CEO, Mindy Lubber is a key member)
- **State & Federal Insurance Regulators:** Risk Management, Investments, Disclosure, Products
- **Federal Housing Finance Agency:** Climate impacts of mortgage backed assets
- **Financial Stability Oversight Council:** Prioritize and coordinate between federal agencies on climate





# Momentum

## Climate Change Poses 'Systemic Threat' to the Economy, Big Investors Warn

Financial regulators should act to avoid economic disaster, according to a letter from pension funds and other investors representing almost \$1 trillion in assets.



## SCHATZ INTRODUCES NEW LEGISLATION TO ENSURE U.S. FINANCIAL SYSTEM IS PREPARED FOR CLIMATE CHANGE

Bill Requires Federal Reserve To Take Action To Identify And Manage Climate-Related Financial Risks

Wednesday, November 20, 2019

WASHINGTON – Today, U.S. Senator Brian Schatz (D-Hawai'i), a member of the Senate Banking Committee and Chair of the Senate Democrats' Special Committee on the Climate Crisis, introduced the [Climate Change Financial Risk Act of 2019](#). The legislation will direct the Federal Reserve ("Fed") to conduct stress tests on large financial institutions to measure their resilience to climate-related financial risks.

## Warren Urges SEC to Require Climate Risk Disclosures to Address Financial and Economic Threats Posed by Climate Change

"Investors and the public currently lack sufficient information about the threats of the climate crisis on their investments, though the risks to our economy posed by the climate crisis continue to grow." Warren's Climate Risk Disclosure Act would address many of the issues raised by investors and reduce the possibility of fossil fuel industry deception by requiring disclosures of climate-related risks

& Quotes

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Topics Magazine Data Advisor Penta

ECONOMY AND POLICY

## Financial Regulators Need to Lead on Climate Change

COMMENTARY Betty T. Yee July 8, 2020 11:05 am ET



Drew Angerer/Getty Images

Covid-19 has exposed the fault lines in our financial systems and market supply chains. It has shown how vulnerable our interdependent systems are to seismic shocks and risks. It has also underlined the importance of coordinated, collective action that is guided by science.

Like the pandemic, climate change poses a clear threat to financial markets. Just as with the pandemic, experts have warned us to prepare. Every day we wait, the devastating impacts compound.

## Feinstein, Rubio Call on CFTC to Address Financial Risk of Climate Change

Jun 02 2020

Washington—Senators Dianne Feinstein (D-Calif.) and Marco Rubio (R-Fla.) today [called on the Commodity Futures Trading Commission](#) to include specific recommendations for addressing the financial risk of climate change in the upcoming report by its Climate-Related Market Risk Subcommittee, the first federal financial regulator advisory committee focused on the risk climate change poses to the financial system.

# Recent climate change reports from Congress



[House Committee on the Climate Crisis](#)



AUGUST 25, 2020  
DEMOCRATS.SENATE.GOV/CLIMATE



[Senate Committee on the Climate Crisis](#)



# Climate change report from CFTC

## MANAGING CLIMATE RISK IN THE U.S. FINANCIAL SYSTEM

Report of the Climate-Related Market Risk Subcommittee,  
Market Risk Advisory Committee of the  
U.S. Commodity Futures Trading Commission

Commissioner Rostin Behnam, Sponsor

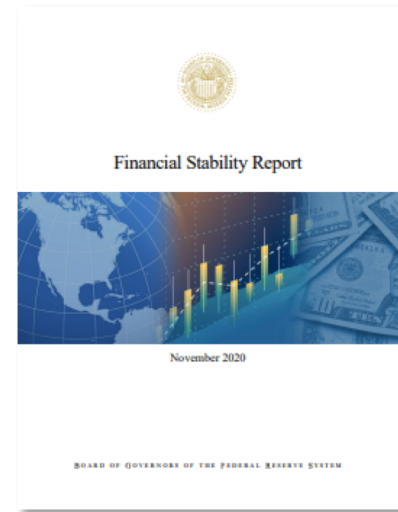
Bob Litterman, Chairman

- Climate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy.
- This reality poses complex risks for the U.S. financial System.
- A major concern for regulators is what we don't know.
- U.S. financial regulators must recognize that climate change poses serious emerging risks to the U.S. financial system, and they should move urgently and decisively to measure, understand, and address these risks.
- At the same time, the financial community should not simply be reactive—it should provide solutions.



*"I do think that the public will expect and has every right to expect that in our oversight of the financial system, we will account for all material risks and try to protect the economy and the public from those risks. Climate change is one of those risks. It's a relatively, the science and art of incorporating climate change into our thinking about financial regulation is relatively new, as you know. And we are very actively in the early stages of this, getting up to speed, working with our central bank colleagues and other colleagues around the world to try to think about how this can be part of our framework."*

*— Federal Reserve Chairman Jerome Powell at Fed Press Conference on November 5, 2020*



"The Federal Reserve is evaluating and investing in ways to deepen its understanding of the full scope of implications of climate change for markets, financial exposures, and interconnections between markets and financial institutions. It will monitor and assess the financial system for vulnerabilities related to climate change through its financial stability framework. Moreover, Federal Reserve supervisors expect banks to have systems in place that appropriately identify, measure, control, and monitor all of their material risks, which for many banks are likely to extend to climate risks.



# Thank You

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