United States Senate
WASHINGTON, DC 20510

December 3, 2021

The Honorable Jerome H. Powell
Chair
Federal Reserve Board
20th Street and Constitution Avenue NW
Washington, DC 20551

The Honorable Jelena McWilliams
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Todd M. Harper
Chairman
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Mr. Michael J. Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

Dear Chair Powell, Chairman McWilliams, Chairman Harper, and Acting Comptroller Hsu:

We write to urge your agencies to clarify supervisory expectations for management of climate risks.

Climate change poses a threat to financial institutions across the country. No institution is immune. For instance, an institution with a portfolio of mortgages in low-lying coastal areas faces elevated risks as sea levels rise, while an institution that focuses on agricultural lending in the Midwest faces elevated risks as farmland suffers from drought and flooding. The transition to a clean energy economy will create economic opportunities for investors and increased visibility into entities enabling that transition, but may create risks for banks and credit unions that remain over-invested in carbon-intensive industries. Empirical research now demonstrates that climate change translates into financial risk.

You have all recently acknowledged in testimony, speeches, or interviews that climate-related risk is a "safety and soundness" issue for many of the institutions that you supervise. We are pleased that your agencies have already begun to examine institutions' risk-management systems related to climate change. Indeed, supervisors have long had flexibility to address general risks from extreme weather events. Moreover, the Basel Committee on Banking Supervision recently published a proposal with principles for supervision of climate-related financial risk. The proposal demonstrates international consensus about the need for guidance that is flexible and tailored to the size, scope, and activities of individual institutions. Nevertheless, current supervisory guidance in the United States has not been revisited in decades, nor does it address the unique risks associated with today's rapidly changing climate. A fresh look is long overdue.

The interagency Financial Stability Oversight Council (FSOC), on which you serve, published a report last month on climate-related financial risks. The report offers a blueprint through the inclusion of 30 recommendations for how the United States can address these risks. One

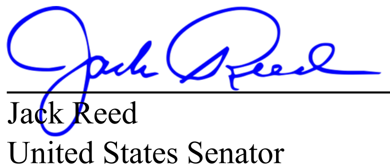
important recommendation is to evaluate whether existing supervisory guidance is adequate. Recommendation 4.8 directs member agencies to evaluate whether "guidance specific to climate-related risks is necessary to clarify expectations for regulated or supervised institutions." Existing guidance is inadequate because it is not tailored to the emerging risks identified in the FSOC report. Federal regulators should implement this recommendation by explicitly incorporating climate-related financial risk into overall risk management expectations.

Providing updated guidance would be an effective way to strengthen climate-related risk management using existing authorities. First, financial institutions would pay greater attention to climate risks before they are realized in a manner that could affect the safety and soundness of individual institutions. This is clearly a better alternative than scrambling to contain the damage after an institution suffers significant losses due to the physical impacts of climate change. Second, your agencies would gain greater visibility into climate-related risks across institutions. That can help examiners understand the most effective ways to manage risks and fill data gaps that make those risks difficult to analyze. Third, examiners' expectations would become clear and transparent. That can improve the effectiveness of supervision and deter banks and credit unions from cutting corners when it comes to compliance. Finally, written guidance would allow the federal agencies to keep pace with state regulators and central banks in other countries that have already taken steps to clarify their own expectations for climate-related financial risk management.

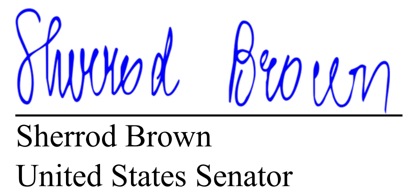
The FSOC's report communicates a sense of urgency. Several of your agencies have separately emphasized a need for prompt and concrete action. For instance, Acting Comptroller Hsu has said that he intends to issue guidance for comment by the end of this year. We could not agree more with that approach.

For these reasons, we respectfully urge you to issue supervisory guidance specifically addressing climate risk management as soon as practicable. We appreciate your attention to this critical matter, and look forward to your prompt reply.

Sincerely,

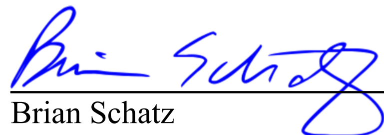


Jack Reed
United States Senator



Sherrod Brown
United States Senator

Dianne Feinstein
United States Senator


Brian Schatz
United States Senator

Tina Smith
United States Senator

Chris Van Hollen
United States Senator

Sheldon Whitehouse
United States Senator

Elizabeth Warren
United States Senator

Richard Blumenthal
United States Senator

Alex Padilla
United States Senator

Tammy Baldwin
United States Senator