

Congress of the United States
Washington, DC 20515

April 1, 2021

The Honorable Jerome H. Powell
20th Street and Constitution Avenue, N.W.
Washington D.C. 20551

Dear Chair Powell,

We write to share our concern over the limited action of the Federal Reserve (“Fed”) to prepare our financial institutions and broader economy for the risk and destabilizing impact of climate change. While we commend the creation of the Supervision Climate Committee and the Financial Stability Climate Committee, without concrete objectives and measurable changes to the supervisory framework and monetary policy activities carried out by the Fed, we worry progress will be both too slow and insufficient in scale to adequately address the reality of the crisis our economy and our planet face.

To limit global temperature increase to 1.5°C, consistent with the United Nations IPCC Special Report, the world must decrease fossil fuel production by 45% by 2030, or 7.6% per year.¹ Accomplishing this goal, or anything near it, will require rapid, dramatic changes in multiple sectors of the economy, which could threaten financial stability if not managed properly. Failing to make the transition away from fossil fuels and adhere to a 1.5°C pathway will threaten financial stability even more dramatically. Persistent increase in average global temperature by 0.04°C per year, as is expected in the absence of mitigation policies, is expected to reduce world real GDP per capita by more than 7 percent by the year 2100. On the other hand, abiding by the Paris Agreement, thereby limiting the temperature increase to 0.01°C per year, is expected to reduce the loss substantially to about 1 percent.²

Critical to mitigating both physical climate risk and the risks associated with the economic transition is reducing financial institutions’ support for high-carbon energy sources and redirecting capital toward sustainable alternatives. From 2016 to 2020, banks provided \$3.8 trillion in direct fossil fuel financing, with most of that investment coming from banking holding companies under the Fed’s supervision.³ This flow of money exposes our financial system, our economy, and our planet to high levels of climate risk. Given the Fed’s financial stability objectives and supervisory role over these institutions, we believe there is a clear need and ability for the Fed to incentivize and enforce a reduction in fossil fuel financing.

¹ Intergovernmental Panel on Climate Change, Special Report: Global Warming of 1.5 °C, 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).

² Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis (2019), <https://www.imf.org/en/Publications/WP/Issues/2019/10/11/Long-Term-Macroeconomic-Effects-of-Climate-Change-A-Cross-Country-Analysis-48691>.

³ Banking on Climate Change, Fossil Fuel Financing Report 2021, Rainforest Action Network (2021), <https://www.ran.org/bankingonclimatechaos2021/>.

The Fed's own portfolio decisions also contribute to the financing of the fossil fuel industry and the continued unsustainable level of carbon emissions. Not only did the Fed buy risky fossil fuel assets in 2020 without any conditions, its corporate bond purchases were also heavily overweight in the energy sector (defined as oil/gas and coal value chain companies exclusively).⁴ Over \$1 billion (19.5%) of the Secondary Market Corporate Credit Facility portfolio is composed of bonds from the Energy or Utilities sector, including via ETFs with no maturity date.⁵ We hear time and again that the Fed is not in the position to pick winners and losers in financial markets, or as Vice Chair Quarles stated before the Financial Services Committee on November 12, 2020, "We at the Fed can't be involved in credit allocation."⁶ We ask not that the Fed speculate on the performance of financial assets, but to consider the externalities of the Fed's bond purchasing decisions and their impact on long-term financial stability.

We echo the calls made by climate activists and concerned citizens for further action to protect our financial system, our economy, and our planet from the devastating impacts of climate change. Specifically, we support accelerated action by the Fed in the following three core areas of your mandate:

1. **Implement supervisory and prudential measures** to increase the resilience of the financial system to climate risks, as well as reduce the risks to the economy and the planet that the financial system creates through the financing of fossil fuels and deforestation. Supervisory and prudential measures include incorporating climate risk into bank stress tests, adjusting capital requirements to reflect climate risk, and limiting and phasing out the financing of emissions.
2. **Incorporate climate risk into the Federal Reserve's monetary policy.** We believe the Fed should exclude fossil fuel assets from its asset purchase programs and collateral framework as well as align the Fed'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 as well as broader U.S. policy to decarbonize the economy.
3. **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. We believe the Fed should explore all possible authorities it can use toward these ends, including supervision, asset purchases, credit facilities, and any others.

⁴ A Financial Analysis of the US Federal Reserve's Corporate Bond Market Interventions, InfluenceMap (2020), <https://influencemap.org/report/Is-the-Fed-Being-Sector-Neutral-3a1294e4de3b6275fae9370d6f68cc70>.

⁵ Federal Reserve Secondary Market Corporate Credit Facility Transaction Specific Disclosures (February 2021), <https://www.federalreserve.gov/monetarypolicy/smccf.htm>.

⁶ Virtual Hearing - Oversight of Prudential Regulators: Ensuring the Safety, Soundness, Diversity, and Accountability of Depository Institutions during the Pandemic, U.S. House Committee on Financial Services (November 2020), <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=406870>.

Thank you for your attention to this issue. We look forward to working with you to create financial institutions and an economy at large prepared for and resilient to the risks posed by climate change.

Sincerely,



Mondaire Jones
Member of Congress



Rashida Tlaib
Member of Congress



Nanette Diaz Barragán
Member of Congress



Jared Huffman
Member of Congress



Earl Blumenauer
Member of Congress



Henry C. "Hank" Johnson, Jr.
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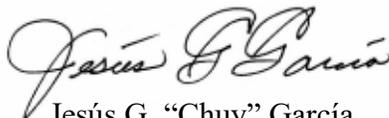
Ro Khanna
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Adriano Espaillat
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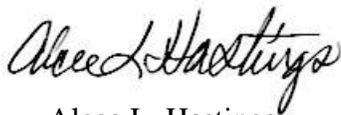
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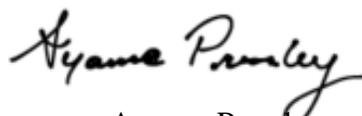
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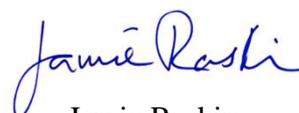
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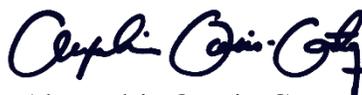
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