# Banking and Finance Law Daily Wrap Up, FINANCIAL STABILITY—Fed would conduct climate change stress tests under proposed law, (Nov. 21, 2019)

Banking and Finance Law Daily Wrap Up

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The bicameral measure calls for the Federal Reserve to conduct climate change stress tests every two years on the same large financial institutions that are currently subject to Comprehensive Capital Analysis and Review stress tests.

Senator Brian Schatz (D-Hawaii) and Rep. Sean Casten (D-Ill) introduced legislation to direct the Federal Reserve Board to conduct stress tests on large financial institutions to measure their resilience to climate-related financial risks. The Climate Change Financial Risk Act (S. 2903/H.R. 5194) would require the Fed to establish an advisory group of climate scientists and climate economists to help develop climate change scenarios for the financial stress tests.

With the input from the advisory group, the Fed would create three stress test scenarios: a 1.5-degree Celsius warming scenario; a 2-degree scenario; and a "business as usual" scenario, which assumes a higher level of warming based on current climate policies. The Fed would conduct stress tests every two years on the same large financial institutions that are currently subject to Comprehensive Capital Analysis and Review (CCAR) stress tests—i.e., firms with more than $250 billion in total consolidated assets.

"While our federal regulators are legally obligated to manage and reduce risks in the financial system, they have been ignoring the growing financial risks of climate change," said Schatz. "We should not be treating some risks different from others: risks are risks. This bill will push the Fed to do their job and start taking climate risk seriously."

"Climate-related financial risks pose serious threats to our economy, whether this is due to the physical risks of the crisis or those risks posed to investments in conventional resources by a successful transition to clean energy," said Casten. "Either way, U.S. consumers deserve to have confidence that our financial institutions are adequately prepared for these risks and won't be caught unaware as they were in 2008."

In remarks at a recent research conference sponsored by the San Francisco Fed, Federal Reserve Board Governor Lael Brainard emphasized that climate risks may affect many of the Fed's responsibilities in monetary policy, financial stability, financial regulation and supervision, community and consumer affairs, and payments. "To fulfill our core responsibilities, it will be important for the Federal Reserve to study the implications of climate change for the economy and the financial system and to adapt our work accordingly," Brainard said (see *Banking and Finance Law Daily*, Nov. 12, 2019).

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