

Securities Regulation Daily Wrap Up, TOP STORY—Climate change poses major risk to stability of the U.S. financial system, according to CFTC report, (Sept. 9, 2020)

Securities Regulation Daily

<http://resource.stg.cch.com/resource/scion/document/default/sld01d3e308647dae10008847000d3a8abb4e02?cfu=Legal&cpid=WKUS-Legal-Cheetah&uAppCtx=cheetah>

By [Brad Rosen, J.D.](#)

The extensive report, issued by a subcommittee of the CFTC's Market Risk Advisory Committee, examines climate change-related financial risks and offers key policy recommendations.

The CFTC's Climate-Related Market Risk Subcommittee of the Market Risk Advisory Committee (MRAC) released its report titled [Managing Climate Risk in the U.S. Financial System](#). The [subcommittee](#) voted unanimously 34-0 to adopt the report. According to [a CFTC release](#), the report is the first-of-its-kind effort from a U.S. government entity. Commissioner Rostin Behnam, MRAC's sponsor, initiated the undertaking to examine climate-related impacts on the financial system in June 2019 with the establishment of the subcommittee.

Report findings convey urgency. The report contains numerous findings and conclusions implicating a call to action. These include:

- Climate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy. Climate change is already impacting or is anticipated to impact nearly every facet of the economy, including infrastructure, agriculture, residential and commercial property, as well as human health and labor productivity. Over time, if significant action is not taken to check rising global average temperatures, climate change impacts could impair the productive capacity of the economy and undermine its ability to generate employment, income, and opportunity
- 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.
- Existing statutes already provide U.S. financial regulators with wide-ranging and flexible authorities that could be used to start addressing financial climate-related risk now.
- Regulators can help promote the role of financial markets as providers of solutions to climate-related risk.

Recommendations include bold action. The report contains 53 specific recommendations to mitigate the risks to financial markets posed by climate change. These include:

- The U.S. should establish a price on carbon. It must be fair, economy-wide, and effective in reducing emissions consistent with the Paris Agreement. This is the single most important step to manage climate risk and drive the appropriate allocation of capital.
- All relevant federal financial regulatory agencies should incorporate climate-related risks into their mandates and develop a strategy for integrating these risks in their work, including into their existing monitoring and oversight functions.
- The Financial Stability Oversight Council (FSOC)—of which the CFTC is a voting member—as part of its mandate to monitor and identify emerging threats to financial stability, should incorporate climate-related financial risks into its existing oversight function.

Commissioner Behnam weighs in. While recognizing the recent extreme weather events sweeping the nation and their physical devastation, as well as the potential adverse consequences to the financial system, Commissioner Behnam observed: "Now, with this report in hand, policymakers, regulators, and stakeholders can

begin the process of taking thoughtful and intentional steps toward building a climate-resilient financial system that prepares our country for the decades to come."

Still, the report drew criticism from Public Citizen's Tyson Slocum, a voting member of the MRAC. While applauding the subcommittee's work, [Slocum asserted](#) that the report fell short on needed action and failed to promote an effective CFTC authority to adjust capital and margin requirements to properly reflect climate risks.

MainStory: TopStory CFTCNews CommodityFutures CorporateGovernance Derivatives
ExchangesMarketRegulation FinancialIntermediaries GCNNews InternationalNews RiskManagement