Public Statements & Remarks

Keynote Address of Commissioner Christy Goldsmith Romero at the Chicago Bar Association's Futures & Derivatives Law Seminar, Chicago

June 15, 2022

(Remarks Prepared for Delivery)

Good afternoon. I want to thank the Chicago Bar Association for the warm welcome of me as a new CFTC Commissioner. I only wish I could join you in person. I started my law career in Chicago as a young associate at Jenner & Block with a view of the river from my office. I instantly fell in love with the city, including Gold Coast hot dogs, summer concerts at Ravinia, and baseball games. Although I won't tell you which team because half of you will likely be upset.

Please let me give the standard disclaimer. My views are my own and do not reflect the views of the Commission or my fellow Commissioners. I am excited that you are focusing this conference on one of my priorities, which is mitigating climate financial risk and the opportunities to promote responsible innovation for ESG products in derivatives markets. I want to speak about that, how I am thinking about that, and the role of the CFTC. However, let me first talk about what the CFTC is doing relevant to geopolitical events and our markets.

The Impact of Geopolitical Events on Commodity and Derivatives Markets

When I testified before Congress at my confirmation hearing, I said that my highest priority would be to ensure that derivatives markets are working well, and that we identify and mitigate risk. As you know, commodity markets have been under considerable strain, first with the pandemic, and supply chain issues, and then in the last few months the impact of geopolitical events surrounding Russia's invasion of Ukraine.

The CFTC is actively monitoring commodity markets so that we can ensure that derivatives markets are functioning well. Our economists provide the Commissioners daily information on the markets, along with color. CFTC staff are talking to counterparts at other agencies, market participants, and in some cases, conducting deep dives into particular market activity. Commissioners are involved in dialogue with the economists and other staff so that we have a deep understanding of market activity and the reason for that activity.

As we see the significant increases in oil prices, we are spending time understanding the differences in U.S. oil which is light and sweet, and the heavier crude used by Europe. We have developed an understanding of the recent history of oil production in the United States, including challenges in production brought on by the pandemic. Substantial increases in natural gas prices is a key focus and something that we are monitoring. Wheat is a critical commodity that we are also focused on in particular given the invasion of Ukraine, which is called the bread basket of Europe.

I can tell you that derivatives markets continue to be resilient. Our markets are providing the risk management and price discovery that our market participants need. This is particularly important at this point in time when commodity markets are facing significant challenges.

These markets are global. We are actively talking with international regulators. Last week, I was in London, meeting with United Kingdom financial regulators to discuss commodity and derivatives markets. This week, I met virtually with European financial regulators to have similar discussions.

Climate Financial Risk and Responsible Innovation in ESG

The CFTC is also following the potential impact of recent substantial drought on crops. That brings me to talk about climate risk and ESG opportunities. Derivatives markets have a long history of helping market participants manage risk, and the financial risks posed by climate change are directly in front of us. Climate change presents both physical risk of extreme weather and disasters, as well as transitional risk as market participants, corporations and others move towards net zero targets.

Managing Physical Climate Risk

The CFTC's mission includes promoting the resilience of our derivatives markets. That was true related to the pandemic, and it is also true related to the physical risks of climate change. For many years, farmers, ranchers, and other end users have been using derivatives markets to manage risk from climate events. However, wildfires, flooding, droughts, and other disasters have increased in number and severity, causing devastating losses. The USDA reported 20 climate disasters in 2021 that each caused $1 billion in losses. These in addition to climate disasters that caused significant losses under $1 billion, could impact derivatives markets. Our agricultural community understands that climate risk is real, and many of them have been engaged in sustainability efforts, some of them for many years.

Climate-related financial risk presents a unique set of risk management challenges. First, historical patterns may not predict future events, leading to uncertainty. Second, climate events may put strain on particular states or regions of the country, causing sub-systemic shocks. Assessing risk will require forward-looking exercises, as well as assessing interconnections to understand the ripple effects of sub-systemic shocks.

Transition Risk and Market Opportunities

The Paris Accord and recent net zero commitments by a substantial number of companies have accelerated the discussions about how derivatives markets can help mitigate transition risk. Many companies will be challenged to meet net zero targets solely through the reduction of carbon emissions. There has been a huge surge in demand for voluntary carbon markets and other products that would complement a reduction in emissions to help companies meet their targets.

U.S. derivatives markets present an opportunity for risk management as companies transition to their net zero commitments. There are already more than 200 listed sustainability products on CFTC-regulated exchanges. However, the size of listed environmental derivatives markets remains small, in comparison to over the counter carbon products, which by one count was more than $1 billion last year.

The opportunity to scale up the number of high-quality carbon products that are listed on exchanges could be a game changer in helping drive up supply to meet the surge in demand. Voluntary carbon markets face challenges in establishing pricing, and derivatives exchanges have always played a vital role in price discovery. The CFTC can facilitate the exchanges' introduction of new environmental products.

As many of you know, Chairman Behnam has been leading the CFTC's efforts for a number of years related to climate risk. He sponsored the Market Risk Advisory Committee report that recognized that climate risk presents financial risk. He also formed the Climate Risk Unit within the CFTC. I agree with Chairman Behnam when he said recently that, "the CFTC is uniquely poised as the regulator at the forefront of climate-related risk management as firms and individuals will increasingly turn to derivatives markets to mitigate climate change-induced physical and transition risk and seek price discovery for new and evolving risk management products."[1]

The CFTC's future actions will be part of a whole of government approach in the Biden Administration. President Biden issued an Executive Order on managing climate risk with a roadmap to build an economy that is resilient to climate change impacts. The Executive Order charges the Financial Stability Oversight Council to assess and make recommendations to enhance the financial system's ability to address climate-related financial risk. FSOC issued recommendations for member agencies which includes the CFTC. Recommendations include, for example, building capacity to address climate-related financial risks, getting climate-related data, and assessing and mitigating climate-related risks to financial stability.

The CFTC is now in that formal information and data gathering phase. On June 2, 2022, we released a Request for Information, seeking public input to understand climate risk in detail, how to assess that risk, and the steps market participants are taking to reduce risk. We also asked questions about the appropriate role of the CFTC in the area of climate and voluntary carbon markets.

Two weeks ago, the CFTC held a public roundtable on voluntary carbon markets, where we invited views from non-profit organizations, carbon credit registries, the supply side, and the demand side. Voluntary carbon markets face challenges in scaling up. If I can sum up the challenges we heard from the demand side – those seeking to invest in carbon credits—it came down to a lack of trust and transparency. There are concerns about a lack of standards and taxonomy, a lack of transparency with pricing, a lack of transparency into projects that form the basis of carbon credits, and integrity-related issues like double counting and the need for independent verification. The lack of consistent and comparable data can impact trust in voluntary carbon markets, and can lead to concerns about greenwashing.

We also heard from the supply side, including our agricultural community who face challenging circumstances right now. They are facing significantly increased fuel costs as well as fertilizer costs given geopolitical events surrounding Russia's invasion of Ukraine. The agricultural community may not have the resources to make certain sustainable investments that could become carbon credits.

Regulators are at their best with public input. We want to hear from all of you. I want to hear especially about how we at the CFTC can promote responsible innovation and market driven solutions. At the roundtable, we heard several participants say that the CFTC could help with standardization and taxonomy, as well as curbing greenwashing. As these are global markets, we heard requests for international harmonization of standards. When I was in London meeting with UK regulators, some of our exchanges, and market participants, there was a lot of discussion about ESG opportunities.

As we look to bring trust and transparency to this market, that could include enforcement actions for greenwashing. As someone with a career in law enforcement, I am talking with our Division of Enforcement about greenwashing cases.

Finally, I will say that one purpose of the Commodity Exchange Act is to promote responsible innovation. To me that applies as equally in the ESG space as it does to technology.

Thank you and I hope that you enjoy your conference.

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[1] *See* Opening Statement of Chairman Rostin Behnam at the CFTC Voluntary Carbon Markets Convening, Washington, DC (https://www.cftc.gov/PressRoom/SpeechesTestimony/behnamstatement060222), June 2, 2022.

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