WHITEHOUSE, SCHATZ URGE CFTC TO INCORPORATE CARBON PRICING, CLIMATE FINANCIAL RISK STANDARDS INTO CLIMATE RISKS REPORT

Washington, DC – Senators Sheldon Whitehouse (D-RI) and Brian Schatz (D-HI)—Senate leaders on carbon pricing and confronting the economic risks of climate change—have sent a pair of comment letters to the Commodity Futures Trading Commission (CFTC) urging that a key forthcoming report address carbon pricing policy and the systemic financial risks of climate change. As the Commission's Climate-Related Market Risk Subcommittee finalizes its report on climate change's implications for commodities markets, carbon pricing and clear standards for assessing climate financial risks ought to be included, the senators argue.

One of the comments addresses the sweeping financial risks of climate change and the need for federal financial regulators to play a bigger role in guarding the financial system from those risks. The senators emphasize the need for standards for a range of climate-related financial factors.

"The United States' current regulatory regime allows financial institutions to ignore climate change when they measure risk," Schatz and Whitehouse write. "When the [CFTC] voted to establish the subcommittee in July 2019, it became the first federal financial regulator to formally examine the risks that climate change poses to financial stability. Meanwhile, the CFTC's peers are allowing systemic risk to build in our financial system, even as their counterparts around the world are taking steps to identify climate financial risks. Our regulators must develop standards for climate-related scenario analysis, stress testing, governance requirements, and disclosures, and they must incorporate those standards into their core market risk assessments and supervisory practices."

The other comment addresses the urgent need for the market to reflect the massive costs of carbon pollution by instituting an economy-wide price on carbon emissions.

"The International Monetary Fund estimates that total annual direct and indirect subsidies for fossil fuels in the U.S. are north of $600 billion, the vast majority of which stems from the failure to price negative externalities caused by fossil fuel combustion," Whitehouse and Schatz write. "A carbon price can correct this market defect and help to efficiently allocate capital, reduce the risks of a "carbon bubble" in the financial markets, and drive the needed greenhouse gas emissions reductions to avoid the worst effects of climate change."

The Subcommittee's report will be provided to the CFTC's Market Risk Advisory Committee to identify and analyze climate-related financial and economic risks.

Senators Whitehouse and Schatz have been leaders on carbon pricing and the economic risks of climate change in the Senate. Together in each of the last four Congresses, they have introduced legislation to place an economy-wide, border-adjustable fee on carbon emissions—a step that would price in the harms of climate change across markets. Senator Schatz is Chair of Senate Democrats' Special Committee on the Climate Crisis, on which Whitehouse also serves. Whitehouse is a senior member of the Senate Environment and Public Works Committee, where he serves as Ranking Member of the Subcommittee on Air and Nuclear Safety. Senator Schatz is a member of the Senate Banking Committee.

PDF copies of the comments are available here (carbon pricing) and here (financial risks).

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