

United States Senate

WASHINGTON, DC 20510

September 20, 2024

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Michael Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th St SW
Washington, DC 20219

Dear Chair Powell, Chairman Gruenberg, and Acting Comptroller Hsu:

We write to inquire about your plans to address climate-related financial risk (CRFR) and conduct further climate scenario analysis (CSA) exercises, following the pilot CSA exercise concluded in May 2024¹ and your finalization of the Principles for Climate-Related Financial Risk Management for Large Financial Institutions.² It is critical to our economic stability that we plan for climate risks and align investments with the opportunities presented by the clean energy transition.

Last year, the United States experienced a record 28 disasters that cost at least one billion dollars.³ Climate-related disasters are increasing in both their frequency and severity, posing threats to the United States' economy as insurers face rising losses and leave climate-vulnerable markets. Additionally, global clean energy investment is far outpacing investment in fossil fuels.⁴ Banks will play an important role in financing clean energy technologies and ensuring the United States' competitiveness in the clean energy market. We must ensure that our financial institutions understand and prepare for CRFR.

Your agencies' Principles for Climate-Related Financial Risk Management for Large Financial Institutions and the Federal Reserve's pilot CSA exercise for the nation's six largest banks acknowledge the importance of scenario analysis in measuring and managing CRFR. To fulfill its mandate of ensuring the safety and soundness of our banks and financial system, the Federal

¹ <https://www.federalreserve.gov/publications/files/csa-exercise-summary-20240509.pdf>

²² [Federal Register :: Principles for Climate-Related Financial Risk Management for Large Financial Institutions](#)

³³ [2023: A historic year of U.S. billion-dollar weather and climate disasters | NOAA Climate.gov](#)

⁴⁴ <https://www.iea.org/news/investment-in-clean-energy-this-year-is-set-to-be-twice-the-amount-going-to-fossil-fuels>

Reserve must use its authority under Section 39 of the *Federal Deposit Insurance Act*⁵⁵ to continue CSA exercises with more in-depth requirements and incorporate CRFR into annual stress testing.

Participants in the pilot CSA “reported significant data and modeling challenges in estimating climate-related financial risks,” particularly for real estate exposures, insurance, obligor transition risk management, and infrastructure. The pilot also showed risks for the participating banks in both the physical and transition risk scenarios, including increases in the probability of default. Lack of insurance coverage increased the probability of default across portfolios for most participants, and the exercise identified transition risk for commercial real estate loans across all property types.

While scenario analysis is not the only tool financial regulators should be employing, it is an important first step in identifying risks faced by financial institutions. As you consider next steps to address CRFR, we urge you to work together with the Federal Stability Oversight Council and climate scientists at the Environmental Protection Agency, National Oceanic and Atmospheric Administration, Department of Energy, United States Geological Survey, Department of the Interior, and other agencies as appropriate to develop future CSA scenarios that include, at a minimum, longer time horizons; multi-risk scenarios; disorderly and delayed transition scenarios; indirect impacts; market, operational, and liquidity risk; and assessments of additional sectors such as agricultural, energy, and retail portfolios. Future scenarios should also provide educational resources for banks, including instruction on how to identify what transition risks banks will face.

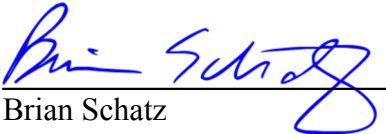
To better understand how you plan to manage CRFR and ensure your supervised financial institutions do the same, we request that you provide answers to the following questions no later than October 11, 2024:

1. When will additional CRFR scenario analysis exercises take place?
 - a. Will additional exercises incorporate the recommendations outlined above?
 - b. How will you ensure participants have access to the data and models they require to appropriately manage CRFR?
 - c. Will you expand the participation of banks in future CSA exercises beyond the six banks that participated in the pilot?
2. Do you intend to incorporate CRFR into annual stress testing, and if so, when?
3. What is your assessment of the progress large banks have made in implementing the joint Principles for Climate-Related Financial Risk Management for Large Banks?

⁵⁵ 12 U.S.C. § 1831

Thank you for your attention to this important matter. We look forward to your responses.

Sincerely,



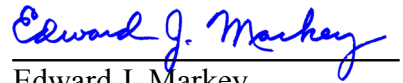
Brian Schatz
United States Senator



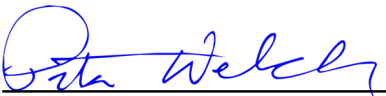
Elizabeth Warren
United States Senator



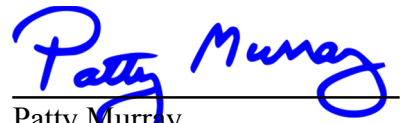
Chris Van Hollen
United States Senator



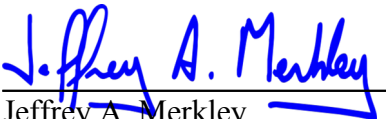
Edward J. Markey
United States Senator



Peter Welch
United States Senator



Patty Murray
United States Senator



Jeffrey A. Merkley
United States Senator



Sheldon Whitehouse
United States Senator



Cory A. Booker
United States Senator



Michael F. Bennet
United States Senator



Alex Padilla
United States Senator