September XX, 2021

Dear Secretary Yellen,

Climate change poses an existential threat to the economic security of households and communities across the nation and to the financial system. The creation of the Treasury Department's first-ever climate hub and the recent guidance to the Multilateral Development Banks cautioning against the riskiest fossil fuel projects were welcome and positive steps toward mitigating that risk. Now, we urge you to move forward with bolder actions to protect our financial system, the economy, workers, and communities from climate-related risks.

President Biden's May 20th Executive Order on Climate-Related Financial Risk encourages you—in your capacity as Chair of the Financial Stability Oversight Council—to issue a report that considers how "climate-related financial risk can be mitigated, including through new or revised regulatory standards as appropriate." This report is a decisive opportunity to outline an ambitious policy program to help avert climate-fueled financial instability, accelerate financial regulators' work to fulfill their necessary role in a whole-of-government approach to this challenge, and establish America's global credibility on climate-related financial regulation ahead of COP26 in November.

To meet these goals, the Treasury report must:

- Identify specific policies for each of the regulators to consider that could be used to mitigate systemic climate risk within their remit; and
- Address fossil fuel finance head on as the primary driver of systemic climate risk.

We urge that the Treasury report makes recommendations beyond assessment and disclosure of climate risk into mitigation, and it must include specific policies for each regulator to consider. We support the initial efforts[1] of the regulators to study climate data and models, to establish climate risk divisions, and to enhance climate disclosures. But banks, insurers, and other financial institutions also urgently need enhanced climate-related supervision and regulation to ensure they adequately address the threat that climate change poses to their stability and decrease their own contributions to systemic climate risks.[2]

While the EO does not mention fossil fuels directly, we urge that the Treasury report recognizes and contends with fossil fuel finance head on. The President's executive order makes clear that it is "the policy of [the] Administration to… act to mitigate [climate] risk *and its drivers*" [emphasis added]. Fossil fuels are the primary driver of the climate crisis—accounting for over 90 percent of human-caused U.S. carbon dioxide emissions—and fossil fuel *finance* is the primary driver of systemic climate financial risk. When banks finance new fossil fuel development, they are contributing to systemic physical and transition risks that pose a grave threat to financial stability and that may also undermine their own solvency.

---

[1] See e.g., https://www.sec.gov/news/public-statement/lee-climate-change-disclosures; www.cftc.gov/PressRoom/PressReleases/8368-21; www.reuters.com/article/usa-fed-climate/u-s-fed-taps-official-to-lead-new-climate-change-team-idUSL1N2K02GM

[2] See e.g., www.bloomberg.com/news/articles/2021-09-06/banks-warn-they-re-not-ready-for-ecb-s-historic-climate-tests

Recent reports[3] from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) have unequivocally found that climate harms are already occurring, that they will increase substantially over the coming decades, and that limiting warming to well-below 2°C will require us to immediately curb fossil fuel finance and transition to clean energy sources. IEA's net zero by 2050 pathway notes that "[n]o new oil and natural gas fields are required beyond those already approved for development" in 2021. UN Secretary-General Antonio Guterres said that the 2021 IPCC report "must sound a death knell for coal and fossil fuels, before they destroy our planet" and that "Countries should also end all new fossil fuel exploration and production, and shift fossil fuel subsidies into renewable energy."

We know that the economic costs of climate change will be staggering, and overlapping and intertwined systemic and subsystemic financial shocks caused by climate disasters and decarbonization will become increasingly common. Our financial regulators have a responsibility to pursue policies that mitigate this unprecedented risk, and to do so in ways that remedy rather than perpetuate the environmental, racial, and economic injustices of the current system, in line with the President's Executive Order on Advancing Racial Equity.

As the Chair of the FSOC, it is up to you to lead the writing of a Treasury report that can serve as a comprehensive roadmap that recognizes the urgency and severity of the climate crisis, includes specific policies beyond assessment and disclosure, and encourages each of the independent agencies to use all available tools to mitigate climate risk and its drivers.

Sincerely,

350.org
Amazon Watch
Americans for Financial Reform
Better Markets
Businesses for a Livable Climate
CA Businesses for a Livable Climate
Call to Action Colorado
CatholicNetwork US
Ceres
Climate First!
Climate Mama
Croatan Institute
Evergreen Action
Extinction Rebellion San Francisco Bay Area
Friends of the Earth US
Greenpeace USA
I-70/Vasquez Blvd. Superfund CAG
ICCR (Interfaith Center on Corporate Responsiblity)
Institute for Agriculture and Trade Policy
League of Conservation Voters

[3] https://www.ipcc.ch/report/ar6/wg1/; https://www.iea.org/reports/net-zero-by-2050

Mid-Missouri Peaceworks
Mid-Ohio Valley Climate Action
Montbello Neighborhood Improvement Association
North Range Concerned Citizens
Oil Change International
Positive Money US
Public Citizen
Publish What You Pay - United States
RapidShift Network
Revolving Door Project
Sierra Club
Small Business Alliance
Spirit of the Sun
Stand.earth
Sunrise Movement
System Change Not Climate Change
The Green House Connection Center
Unite North Metro Denver
Wall of Women