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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

February 10, 2020

The Honorable Brian Schatz
United States Senate
Washington, D.C. 20510

Dear Senator:

Thank you for your letter of December 13, 2019, regarding climate-related financial and economic risks.

As I have said in prior testimony, Congress has principally entrusted other agencies with the task of addressing climate change. However, as your letter notes, there are ways in which climate-related risks could have relevance for the Federal Reserve Board (Board) as it fulfills its mission. We recognize the need to understand and address those risks as fully as possible, and we have a range of efforts underway to do so.

An important distinction lies at the heart of these efforts: while scientific research on climate change is mature and well-developed, economic research on the specific transmission channels between climate change and economic and financial risks is novel and emerging, as are firms' disclosures with respect to climate-related risks. An accurate assessment of those transmission channels is essential to understand fully the specific effects that climate-related risks may have on economic output, financial stability, the transmission of monetary policy, and the safety and soundness of financial institutions.

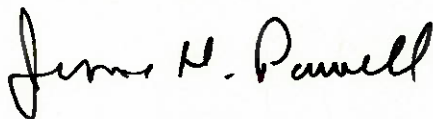
The banking agencies have considerable expertise in understanding the impact of a wide array of risks, ranging from economic forecasting, to financial stability monitoring, to prudential supervision, to continuity of operations. Board guidance requires bank management to take into account all relevant risks in their underwriting and review practices. These include climate-related risks that could affect the ability of a borrower to repay. Federal Reserve economists are also active participants in the emerging research dialogue on climate-related financial risks. Our goal is to marshal our expertise, in order to further the supervisory community's assessment and measurement of these risks, and to ensure appropriate supervisory expectations around financial institutions' management of climate-related financial risks.

As with all of the Board's work, empirical research is the foundation of our efforts. The Board and Reserve Banks are exploring new sources of climate-related data and computational resources, research projects involving existing supervisory data collections, and participation in conferences and workshops to share our efforts with the public. These efforts, which are in their early stages, span several areas within the Board and the Reserve Banks. We expect these efforts to improve our ability to assess the ways climate-related risks may affect the economy, financial stability, and the safety and soundness of financial institutions.

We expect this analytic work will also contribute to international efforts to understand climate-related financial risks, particularly new projects at the standard-setting bodies, such as the Basel Committee on Banking Supervision and the Financial Stability Board (FSB). The G20 made the FSB, which is chaired by Vice Chair Quarles, responsible for coordinating the activities of these bodies, knowing that a patchwork of sector-specific groups could miss the emergence of critical financial vulnerabilities. The FSB and other standard-setting bodies' commitment to robust empirical analysis as the basis for and prerequisite to policy is one that we share. We have also remained in frequent contact with our supervisory colleagues in other jurisdictions, following closely their own climate-related projects, in addition to our direct communications with members of the Network for Greening the Financial System.

I would be happy to provide more information on any of these efforts at your request, and I appreciate the opportunity to continue to discuss them with you as they proceed.

Sincerely,

A handwritten signature in black ink, reading "James H. Powell". The signature is written in a cursive, flowing style with a large initial "J".