

117TH CONGRESS
1ST SESSION

S. 1876

To require the Board of Governors of the Federal Reserve System, in consultation with the heads of other relevant Federal agencies, to develop and conduct financial risk analyses relating to climate change, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MAY 27, 2021

Mr. SCHATZ (for himself, Mr. WHITEHOUSE, Mr. BOOKER, Mr. MERKLEY, Mr. VAN HOLLEN, Mrs. FEINSTEIN, Ms. WARREN, Mrs. MURRAY, Mr. PADILLA, Mr. BENNET, and Ms. KLOBUCHAR) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To require the Board of Governors of the Federal Reserve System, in consultation with the heads of other relevant Federal agencies, to develop and conduct financial risk analyses relating to climate change, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Climate Change Finan-
5 cial Risk Act of 2021”.

1 **SEC. 2. SENSE OF CONGRESS.**

2 It is the sense of Congress that—

3 (1) if current trends continue, average global
4 temperatures are likely to reach 1.5 degrees Celsius
5 above pre-industrial levels between 2030 and 2050;

6 (2) global temperature rise has already resulted
7 in an increased number of heavy rainstorms, coastal
8 flooding events, heat waves, wildfires, and other ex-
9 treme events;

10 (3) since 1980—

11 (A) the number of extreme weather events
12 per year that cost the people of the United
13 States more than \$1,000,000,000 per event, ac-
14 counting for inflation, has increased signifi-
15 cantly; and

16 (B) the total cost of extreme weather
17 events in the United States has exceeded
18 \$1,875,000,000,000;

19 (4) as physical impacts from climate change are
20 manifested across multiple sectors of the economy of
21 the United States—

22 (A) climate-related economic risks will con-
23 tinue to increase;

24 (B) climate-related extreme weather events
25 will disrupt energy and transportation systems
26 in the United States, which will result in more

1 frequent and longer-lasting power outages, fuel
2 shortages, and service disruptions in critical
3 sectors across the economy of the United
4 States;

5 (C) projected increases in extreme heat
6 conditions will lead to decreases in labor pro-
7 ductivity in agriculture, construction, and other
8 critical economic sectors;

9 (D) food and livestock production will be
10 impacted in regions that experience increases in
11 heat and drought and small rural communities
12 will struggle to find the resources needed to
13 adapt to those changes; and

14 (E) sea level rise and more frequent and
15 intense extreme weather events will—

16 (i) increasingly disrupt and damage
17 private property and critical infrastructure;
18 and

19 (ii) drastically increase insured and
20 uninsured losses;

21 (5) advances in energy efficiency and renewable
22 energy technologies, as well as climate policies and
23 shifting societal preferences, will—

24 (A) reduce global demand for fossil fuels;
25 and

1 (B) expose transition risks for fossil fuel
2 companies and investors, and for companies
3 and investors in other energy-intensive indus-
4 tries, which could include trillions of dollars of
5 stranded assets around the world;

6 (6) climate change poses uniquely far-reaching
7 risks to the financial services industry, including
8 with respect to credit, counterparty, and market
9 risks, due to the number of sectors and locations im-
10 pacted and the potentially irreversible scale of dam-
11 age;

12 (7) financial institutions must take a consistent
13 approach to assessing climate-related financial risks
14 and incorporating those risks into existing risk man-
15 agement practices, which should be informed by sce-
16 nario analysis;

17 (8) the Board of Governors conducts annual as-
18 sessments of the capital adequacy and capital plan-
19 ning practices of the largest and most complex bank-
20 ing organizations (referred to in this section as
21 “stress tests”) in order to promote a safe, sound,
22 and efficient banking and financial system;

23 (9) as of the date of enactment of this Act, the
24 stress tests conducted by the Board of Governors are

1 not designed to reflect the physical risks or transi-
2 tion risks posed by climate change;

3 (10) the Board of Governors—

4 (A) has the authority to take into account
5 the potentially systemic impact of climate-re-
6 lated risks on the financial system; and

7 (B) should develop new analytical tools
8 with longer time horizons to accurately assess
9 and manage the risks described in subpara-
10 graph (A); and

11 (11) the Climate-Related Market Risk Sub-
12 committee of the Commodity Futures Trading Com-
13 mission has identified the importance of researching
14 “climate-related ‘sub-systemic’ shocks to financial
15 markets and institutions in particular sectors and
16 regions of the United States”.

17 **SEC. 3. DEFINITIONS.**

18 In this Act:

19 (1) BANK HOLDING COMPANY.—The term
20 “bank holding company” has the meaning given the
21 term in section 102(a) of the Financial Stability Act
22 of 2010 (12 U.S.C. 5311(a)).

23 (2) BOARD OF GOVERNORS.—The term “Board
24 of Governors” means the Board of Governors of the
25 Federal Reserve System.

1 (3) CLIMATE SCIENCE LEADS.—The term “cli-
2 mate science leads” means—

3 (A) the Administrator of the National Oce-
4 anic and Atmospheric Administration;

5 (B) the Administrator of the Environ-
6 mental Protection Agency;

7 (C) the Secretary of Energy;

8 (D) the Administrator of the National Aer-
9 onautics and Space Administration;

10 (E) the Director of the United States Geo-
11 logical Survey;

12 (F) the Secretary of the Interior; and

13 (G) the head of any other Federal agency
14 that the Board of Governors determines to be
15 appropriate.

16 (4) COVERED ENTITY.—The term “covered en-
17 tity” means—

18 (A) a nonbank financial company or bank
19 holding company that has not less than
20 \$250,000,000,000 in total consolidated assets;
21 and

22 (B) a nonbank financial company or bank
23 holding company—

1 (i) that has not less than
2 \$100,000,000,000 in total consolidated as-
3 sets; and

4 (ii) with respect to which the Board of
5 Governors determines the application of
6 subparagraph (C) of section 165(i)(1) of
7 the Financial Stability Act of 2010 (12
8 U.S.C. 5365(i)(1)), as added by section 6
9 of this Act, is appropriate—

10 (I) to—

11 (aa) prevent or mitigate
12 risks to the financial stability of
13 the United States; or

14 (bb) promote the safety and
15 soundness of the company; and

16 (II) after taking into consider-
17 ation—

18 (aa) the capital structure,
19 riskiness, complexity, financial
20 activities, and size of the com-
21 pany, including the financial ac-
22 tivities of any subsidiary of the
23 company; and

24 (bb) any other risk-related
25 factor that the Board of Gov-

1 errors determines to be appro-
 2 priate.

3 (5) NONBANK FINANCIAL COMPANY.—The term
 4 “nonbank financial company” has the meaning given
 5 the term in section 102(a)(4)(C) of the Financial
 6 Stability Act of 2010 (12 U.S.C. 5311(a)(4)(C)).

7 (6) PHYSICAL RISKS.—The term “physical
 8 risks” means financial risks to assets, locations, op-
 9 erations, or value chains that result from exposure
 10 to physical climate-related effects, including—

11 (A) increased average global temperatures;

12 (B) increased severity and frequency of ex-
 13 treme weather events;

14 (C) increased flooding;

15 (D) sea level rise;

16 (E) ocean acidification;

17 (F) increased severity and frequency of
 18 heat waves;

19 (G) increased frequency of wildfires;

20 (H) decreased arability of farmland; and

21 (I) decreased availability of fresh water.

22 (7) SURVEYED ENTITY.—The term “surveyed
 23 entity” means a nonbank financial company super-
 24 vised by the Board of Governors, or a bank holding
 25 company, that—

1 (A) has total consolidated assets of not less
2 than \$10,000,000,000; and

3 (B) is not a covered entity.

4 (8) TECHNICAL DEVELOPMENT GROUP.—The
5 term “Technical Development Group” means the
6 Climate Risk Scenario Technical Development Group
7 established under section 4.

8 (9) TRANSITION RISKS.—The term “transition
9 risks” means financial risks that are attributable to
10 climate change mitigation and adaptation, including
11 efforts to reduce greenhouse gas emissions and
12 strengthen resilience to the impacts of climate
13 change, including—

14 (A) costs relating to—

15 (i) international treaties and agree-
16 ments;

17 (ii) Federal, State, and local policies;

18 (iii) new technologies;

19 (iv) changing markets;

20 (v) reputational impacts relevant to
21 changing consumer behavior; and

22 (vi) litigation; and

23 (B) a loss in the value, or the stranding,
24 of assets due to any of the costs described in
25 clauses (i) through (vi) of subparagraph (A).

1 (10) VALUE CHAIN.—The term “value chain”—

2 (A) means the total lifecycle of a product
3 or service, both before and after production of
4 the product or service, as applicable; and

5 (B) may include the sourcing of materials,
6 production, and disposal with respect to the
7 product or service described in subparagraph
8 (A).

9 **SEC. 4. CLIMATE RISK SCENARIO TECHNICAL DEVELOP-**
10 **MENT GROUP.**

11 (a) ESTABLISHMENT.—The Board of Governors shall
12 establish a technical advisory group to be known as the
13 Climate Risk Scenario Technical Development Group.

14 (b) MEMBERSHIP.—

15 (1) COMPOSITION.—The Technical Develop-
16 ment Group shall be composed of 10 members—

17 (A) 5 of whom shall be climate scientists;
18 and

19 (B) 5 of whom shall be economists, with
20 expertise in either the United States financial
21 system or the risks posed by climate change.

22 (2) SELECTION.—The Board of Governors shall
23 select the members of the Technical Development
24 Group after consultation with the climate science
25 leads.

1 (c) DUTIES.—The Technical Development Group
2 shall—

3 (1) provide recommendations to the Board of
4 Governors regarding the development of, and up-
5 dates to, the climate change risk scenarios under
6 section 5;

7 (2) after the establishment of the climate
8 change risk scenarios under section 5, determine the
9 financial and economic risks resulting from those
10 scenarios;

11 (3) make any final work product and any data
12 sets or other inputs used in the development of the
13 final work product, publicly available; and

14 (4) provide technical assistance to covered enti-
15 ties in assessing physical risks or transition risks.

16 (d) INAPPLICABILITY OF FEDERAL ADVISORY COM-
17 MITTEE ACT.—The Federal Advisory Committee Act (5
18 U.S.C. App.) shall not apply with respect to the Technical
19 Development Group.

20 **SEC. 5. DEVELOPMENT AND UPDATING OF CLIMATE**
21 **CHANGE RISK SCENARIOS.**

22 (a) IN GENERAL.—

23 (1) INITIAL DEVELOPMENT.—Not later than 1
24 year after the date of enactment of this Act, the
25 Board of Governors, in coordination with the climate

1 science leads, and taking into consideration the rec-
 2 ommendations of the Technical Development Group,
 3 shall develop 3 separate climate change risk sce-
 4 narios as follows:

5 (A) One scenario that assumes an average
 6 increase in global temperatures of 1.5 degrees
 7 Celsius above pre-industrial levels.

8 (B) One scenario that assumes an average
 9 increase in global temperatures of 2 degrees
 10 Celsius above pre-industrial levels.

11 (C) One scenario that—

12 (i) assumes the likely and very likely
 13 average increase in global temperatures
 14 that can be expected, taking into consider-
 15 ation the extent to which national policies
 16 and actions relating to climate change have
 17 been implemented, as of the date on which
 18 the scenario is developed, or on which the
 19 scenario is updated under paragraph (2),
 20 as applicable; and

21 (ii) does not take into consideration
 22 commitments for policies and actions relat-
 23 ing to climate change that, as of the appli-
 24 cable date described in clause (i), have not
 25 been implemented.

1 (2) UPDATES.—After the initial development of
2 the climate change risk scenarios under paragraph
3 (1), the Board of Governors, in coordination with
4 the climate science leads, and taking into consider-
5 ation the recommendations of the Technical Devel-
6 opment Group, shall update those scenarios once
7 every 3 years.

8 (3) INTERNATIONAL COORDINATION.—In devel-
9 oping and updating the 3 scenarios required under
10 this subsection, the Board of Governors shall take
11 into consideration analytic tools and best practices
12 developed by international banking supervisors relat-
13 ing to climate risks and scenario analysis in an ef-
14 fort to develop consistent and comparable data-driv-
15 en scenarios.

16 (4) RECOMMENDATIONS.—If the Technical De-
17 velopment Group determines that the average in-
18 crease in global temperatures described in subpara-
19 graph (A) or (B) of paragraph (1) is no longer sci-
20 entifically valid, the Technical Development Group
21 may recommend that the Board of Governors, in co-
22 ordination with the climate science leads, update the
23 average increase in global temperatures described in
24 the applicable subparagraph to reflect the most cur-
25 rent assessment of climate change science.

1 (b) CONSIDERATIONS.—In developing and updating
2 each of the 3 scenarios required under subsection (a), the
3 Board of Governors, in coordination with the climate
4 science leads, shall account for physical risks and transi-
5 tion risks that may disrupt business operations across the
6 global economy, including through—

7 (1) disruptions with respect to—

8 (A) the sourcing of materials;

9 (B) production; and

10 (C) the disposal of products and services;

11 (2) changes in the availability and prices of raw
12 materials and other inputs;

13 (3) changes in agricultural production and with
14 respect to food security;

15 (4) direct damages to fixed assets;

16 (5) increases in costs associated with insured or
17 uninsured losses;

18 (6) changes in asset values;

19 (7) impacts on—

20 (A) aggregate demand for products and
21 services;

22 (B) labor productivity;

23 (C) asset liquidity; and

24 (D) credit availability;

1 (8) mass migration and increases in disease and
2 mortality rates;

3 (9) international conflict, as such conflict re-
4 lates to global economic activity and output; and

5 (10) changes in any other microeconomic or
6 macroeconomic condition that the Board of Gov-
7 ernors, in coordination with the climate science
8 leads, determines to be relevant.

9 **SEC. 6. CLIMATE-RELATED ENHANCED SUPERVISION FOR**
10 **CERTAIN NONBANK FINANCIAL COMPANIES**
11 **AND BANK HOLDING COMPANIES.**

12 Section 165(i)(1) of the Financial Stability Act of
13 2010 (12 U.S.C. 5365(i)(1)) is amended—

14 (1) in subparagraph (B)(i), by inserting “except
15 as provided in subparagraph (C)(ii)(I),” before
16 “shall provide”; and

17 (2) by adding at the end the following:

18 “(C) BIENNIAL TESTS REQUIRED.—

19 “(i) DEFINITIONS.—In this subpara-
20 graph—

21 “(I) the term ‘capital distribu-
22 tion’ has the meaning given the term
23 in section 225.8(d)(4) of title 12,
24 Code of Federal Regulations, as in ef-

1 fect on the date of enactment of this
2 subparagraph;

3 “(II) the term ‘capital policy’ has
4 the meaning given the term in section
5 225.8(d)(7) of title 12, Code of Fed-
6 eral Regulations, as in effect on the
7 date of enactment of this subpara-
8 graph; and

9 “(III) the terms ‘climate science
10 leads’ and ‘covered entity’ have the
11 meanings given those terms in section
12 3 of the Climate Change Financial
13 Risk Act of 2021.

14 “(ii) TESTS.—

15 “(I) IN GENERAL.—Subject to
16 the other requirements of this clause,
17 the Board of Governors, in coordina-
18 tion with the appropriate primary fi-
19 nancial regulatory agencies and the
20 climate science leads, shall conduct bi-
21 ennial analyses in which each covered
22 entity is subject to evaluation, under
23 an adverse set of conditions, of wheth-
24 er that covered entity has the capital,
25 on a total consolidated basis, nec-

1 essary to absorb financial losses that
2 would arise under each climate change
3 risk scenario developed under section
4 5 of the Climate Change Financial
5 Risk Act of 2021.

6 “(II) INITIAL TESTS.—With re-
7 spect to each of the first 3 analyses
8 conducted under subclause (I)—

9 “(aa) the covered entity to
10 which such an analysis applies
11 shall not be subject to any ad-
12 verse consequences as a result of
13 the analysis; and

14 “(bb) the Board of Gov-
15 ernors shall—

16 “(AA) not later than 60
17 days after the date on which
18 the Board of Governors
19 completes each such anal-
20 ysis, make a summary of the
21 analysis publicly available;
22 and

23 “(BB) submit a copy of
24 the results of the analysis to
25 the Committee on Banking,

1 Housing, and Urban Affairs
2 of the Senate and the Com-
3 mittee on Financial Services
4 of the House of Representa-
5 tives.

6 “(III) CLIMATE RISK REMEDI-
7 ATION PLAN.—

8 “(aa) IN GENERAL.—Except
9 with respect to the first analysis
10 conducted under subclause (I),
11 each covered entity shall, before
12 being subject to an analysis
13 under that subclause, submit to
14 the Board of Governors a remedi-
15 ation plan with respect to climate
16 risk planning (referred to in this
17 subclause as a ‘climate risk reme-
18 diation plan’), which shall be
19 based on the results of the most
20 recently conducted analysis of the
21 covered entity under that sub-
22 clause.

23 “(bb) CONTENTS.—Each cli-
24 mate risk remediation plan re-

quired under item (aa) shall include—

“(AA) a capital policy with respect to climate risk planning; and

“(BB) qualitative and quantitative targets for balance sheet and off-balance sheet exposures, and other business operations, that remedy vulnerabilities identified in the most recently conducted analysis of the applicable covered entity under subclause (I).

“(cc) REJECTION.—Except as provided in subclause (II)(aa), the Board of Governors may object to a climate risk remediation plan submitted by a covered entity under item (aa) if the Board of Governors determines that—

“(AA) the covered entity has not demonstrated a reasonable plan to maintain

1 capital above each minimum
 2 regulatory capital ratio on a
 3 pro forma basis under the
 4 adverse set of conditions de-
 5 scribed in subclause (I);

6 “(BB) the climate risk
 7 remediation plan is other-
 8 wise not reasonable or ap-
 9 propriate;

10 “(CC) the assumptions
 11 and analysis underlying the
 12 climate risk remediation
 13 plan, or the methodologies
 14 and practices that support
 15 the climate risk remediation
 16 plan, are not reasonable or
 17 appropriate; or

18 “(DD) the climate risk
 19 remediation plan otherwise
 20 constitutes an unsafe or un-
 21 sound practice.

22 “(dd) GENERAL DISTRIBUTION
 23 LIMITATION.—If the Board
 24 of Governors, under item (cc),
 25 objects to a climate risk remedi-

1 ation plan submitted by a cov-
 2 ered entity under item (aa), the
 3 covered entity may not make any
 4 capital distribution, other than a
 5 capital distribution arising from
 6 the issuance of a regulatory cap-
 7 ital instrument eligible for inclu-
 8 sion in the numerator of a min-
 9 imum regulatory capital ratio.”.

10 **SEC. 7. SUB-SYSTEMIC EXPLORATORY SURVEY.**

11 (a) DEVELOPMENT OF SURVEY.—The Board of Gov-
 12 ernors, in consultation with the Comptroller of the Cur-
 13 rency and the Board of Directors of the Federal Deposit
 14 Insurance Corporation, shall develop an exploratory survey
 15 to assess—

16 (1) the ability of surveyed entities, including ag-
 17 ricultural banks, community banks, and other finan-
 18 cial institutions with a significant concentration of
 19 business activities in certain geographical areas or
 20 industries, to withstand each climate risk scenario
 21 developed under section 5; and

22 (2) how surveyed entities plan to make adapta-
 23 tions to the business models and capital planning of
 24 those entities in response to the risks presented in

1 each climate change risk scenario developed under
2 section 5.

3 (b) ADMINISTRATION OF SURVEY.—

4 (1) INITIAL ADMINISTRATION.—

5 (A) IN GENERAL.—Not later than 1 year
6 after the completion of the first analysis under
7 subparagraph (C) of section 165(i)(1) of the Fi-
8 nancial Stability Act of 2010 (12 U.S.C.
9 5365(i)(1)), as added by section 6 of this Act,
10 the Board of Governors shall administer the
11 survey developed under subsection (a) to each
12 surveyed entity.

13 (B) ASSESSMENT AND REPORT.—Not later
14 than 18 months after the date on which the
15 Board of Governors completes the administra-
16 tion of the survey under subparagraph (A), the
17 Board of Governors shall—

18 (i) assess the responses to the survey;

19 and

20 (ii) publicly release a report that sum-
21 marizes the results of the survey, which
22 shall include the analysis of the Board of
23 Governors regarding whether the planned
24 actions of the surveyed entities to which

1 the survey was administered, in the aggregate—
2 gate—

3 (I) are plausible; and

4 (II) would be effective.

5 (2) SUBSEQUENT ADMINISTRATION.—

6 (A) IN GENERAL.—After the release of the
7 report required under paragraph (1)(B)(ii), the
8 Board of Governors shall, on a biennial basis,
9 administer to each surveyed entity the survey
10 developed under subsection (a).

11 (B) SUBSEQUENT REPORT.—Not later
12 than 180 days after the date on which each survey
13 administered under subparagraph (A) is
14 completed, the Board of Governors shall publicly
15 release a report that summarizes the results
16 of the survey, which shall include the analysis
17 described in paragraph (1)(B)(ii).

18 (c) EFFECT OF SURVEY PARTICIPATION.—

19 (1) IN GENERAL.—With respect to a surveyed
20 entity to which any survey under this section is administered—
21 ministered—

22 (A) subject to paragraph (2), the entity
23 shall not be subject to any adverse consequence
24 on the basis of a response provided by the entity
25 to the survey; and

1 (B) in any report released with respect to
2 the survey, the Board of Governors may not
3 identify any individual response submitted by
4 the entity to the survey.

5 (2) RULE OF CONSTRUCTION.—Nothing in
6 paragraph (1)(A) may be construed to preclude the
7 Board of Governors from pursuing an enforcement
8 action against a surveyed entity because of a viola-
9 tion discovered by the Board of Governors during an
10 examination of the surveyed entity that is inde-
11 pendent of a survey administered under this section.

12 **SEC. 8. FINANCIAL STABILITY OVERSIGHT COUNCIL.**

13 (a) IN GENERAL.—The Financial Stability Oversight
14 Council shall establish a committee of the Council that
15 shall support the Council in identifying risks to, and in
16 responding to emerging threats to, the stability of the
17 United States financial system as a result of climate
18 change.

19 (b) RESPONSIBILITIES.—

20 (1) COMMITTEE.—The committee established
21 under subsection (a) shall, not later than 1 year
22 after the completion of the first analysis required
23 under subparagraph (C) of section 165(i)(1) of the
24 Financial Stability Act of 2010 (12 U.S.C.
25 5365(i)(1)), as added by section 6 of this Act, and

1 in consultation with the Office of Financial Re-
2 search, submit to Congress an assessment of the risk
3 posed by climate change to the efficiency, competi-
4 tiveness, and stability of the United States financial
5 system as a whole.

6 (2) COUNCIL.—For each year after the year in
7 which the assessment required under paragraph (1)
8 is submitted, the Financial Stability Oversight Coun-
9 cil shall include in the annual report required under
10 section 112(a)(2)(N) of the Financial Stability Act
11 of 2010 (12 U.S.C. 5322(a)(2)(N)) an update to
12 that assessment.

13 (c) COMPOSITION.—The committee established under
14 subsection (a) shall be composed of—

- 15 (1) the Chairman of the Board of Governors;
- 16 (2) the Secretary of the Treasury;
- 17 (3) the Comptroller of the Currency;
- 18 (4) the Chairperson of the Board of Directors
19 of the Federal Deposit Insurance Corporation;
- 20 (5) the Chairman of the Securities and Ex-
21 change Commission;
- 22 (6) the Chairperson of the Commodity Futures
23 Trading Commission; and

- 1 (7) any other voting or nonvoting members that
- 2 the Financial Stability Oversight Council determines
- 3 to be appropriate.

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