Ms. Raskin In Her Own Words:

"REIMAGINING" FINANCIAL REGULATION TO SAVE US FROM AN "UNLIVABLY HOT PLANET"

DESTRUCTION AND EXTINCTION

AFFECT BOTH DIRECTION AND PACE

TERRIBLE INVESTMENT

WITHOUT NEW LEGISLATION

ALLOCATE CAPITAL

FIDUCIARY RULES

CAPITAL CHARGES

PORTFOLIO LIMITS

STRESS TESTS

ALIGN PORTFOLIOS

CONCENTRATION LIMITS

DECISIONS ON ASSET PURCHASES

INCENTIVIZE

CLIMATE CATSTROPHE

REIMAGINED

ENHANCED PRUDENTIAL SUPERVISION

SENATE BANKING COMMITTEE REPUBLICANS

A Quick Intro on Global Warming Risk

Advocates for more aggressive governmental action on global warming have shifted their concerns in recent years to financial regulation, citing possible "risks" to banks and the entire financial system itself.[1]

As Federal Reserve Chair Jay Powell described, "there's physical risk and then there's transition risk."[2]

Physical risk, Chair Powell stated at a Banking Committee hearing on January 11, 2022, as "in the form of extreme weather," which he noted "doesn't seem likely in the near term." Powell went onto describe the: "real risk would be transition risk . . . . [H]ow would that happen? It conceivably could happen through government policy. A -- or it could come through an event, some kind of a public event that . . . only related to climate in some way."[3]

What Powell was saying is that the risk is that regulators would impose rules that make it prohibitively expensive for banks to lend and service the traditional energy sector. Given the costs, those rules would steer capital away from one legal, yet disfavored, sector of the economy. That's what Sarah Bloom Raskin has suggested the Fed must do—***"adopt . . . practices and policies that will allocate capital"***— in order "to avoid the climate catastrophe that comes from fossil fuels and their collateral consequences like destruction and extinction."

Even climate regulation enthusiast and Fed Governor Lael Brainard has said the Fed should not be involved in allocating capital. Asked by Senator John Kennedy (R-LA) whether "federal regulatory authorities should use their considerable power . . . to discourage private banks from lending money to oil and gas companies?" Brainard answered, "No."[4]

Raskin Is a "Climate Warrior" Who Would Abuse the Fed's Narrow Statutory Mandates by Having the Central Bank Actively Engage in Capital Allocation and De-Bank Energy Companies

- **Raskin's extreme positions are based on her misguided belief that global warming will create financial risks that "will bring about economic catastrophe" and "flatten an economy and grind it to dust," as she wrote in a June 2020 Ceres report titled *Addressing Climate as a Systemic Risk: A call to action for U.S. financial regulators.***
    - Raskin encouraged financial regulators to **"do all they can" to "allocate capital"** away from carbon and fossil fuels. Raskin wrote:
        - *"At the very least, we must rebuild with an economy where the values of sustainability are explicitly embedded in market valuation. **This transformation will come, in part,** from urging the leaders of our financial regulatory bodies to **do all they can – which turns out to be a lot – to bring about the adoption of practices and policies that will allocate capital and align portfolios** toward sustainable investments that do not depend on carbon and fossil fuels."*

[1] Department of the Treasury, *Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability* (Oct. 21, 2021). https://home.treasury.gov/news/press-releases/jy0426.
[2] Nomination Hearing of Jerome Powell Before the Senate Banking Committee (Jan. 11, 2022), https://plus.cq.com/doc/congressionaltranscripts-6430127?3.
[3] *Id*.
[4] Nomination Hearing of Lael Brainard Before the Senate Banking Committee (Jan. 13, 2022), https://twitter.com/BankingGOP/status/1481672751878443017?s=20.

    - Raskin said the report, which is from a group that seeks to "**transform the practices and policies that govern capital markets to accelerate action**" on climate change, provides a "comprehensive set of valuable recommendations for United States' financial regulators—something they can pick up and deploy now." The report's recommendations for the Fed include imposing climate stress tests on banks and increasing their capital requirements for energy-related assets: ***"The Fed should conduct climate stress tests on the financial institutions that it supervises*** *and define the scenarios, time horizons and modeling approaches that should be used as a part of this."*
    - *"Corrective action stemming from such stress tests should address the desirability of holding risky assets over a period of time.* ***Banks and insurers whose balance sheets show unacceptably high vulnerability to climate risks could be required to hold additional capital to mitigate potential losses****. For instance, it has been suggested that central banks should tighten risk-weights associated with coal financing given the 'high risk of default of the underlying business.'* ***Financial institutions could be required to sell off high-risk assets to reduce their vulnerability****."*

- **In May 2020—at the height of the pandemic—Raskin penned a New York Times opinion piece titled,** ***Why Is the Fed Spending So Much Money on a Dying Industry?***
  - Raskin **argued** that the Fed should have excluded fossil energy companies—which she described as a "dying industry"—from the emergency lending facilities established by the Fed with funding authorized by Congress under the CARES Act to help save businesses and jobs. Raskin wrote:
    - *"The Fed is ignoring clear warning signs about the economic repercussions of the impending climate crisis by taking action that will lead to increases in greenhouse gas emissions at a time when even in the short term,* ***fossil fuels are a terrible investment****."*
    - *"The decision to bring oil and gas into the Fed's investment portfolio not only misdirects limited recovery resources but also* ***sends a false price signal to investors about where capital needs to be allocated****. It increases the likelihood that investors will be stuck with stranded* ***oil and gas assets that society no longer needs****. It also forestalls the inevitable decline of an industry that can no longer sustain itself. And finally, it undermines urgent efforts to counter surging carbon dioxide and methane emissions, which are* ***bringing us closer to the catastrophe of an unlivably hot planet.****"*
    - *"Given the size and scope of government intervention, we should be maximizing the public's return on our investment. The Fed's unique independence affords it a powerful role, and its mandate includes ensuring both the stability of the financial system and full employment. Climate change threatens financial stability; addressing it can create economic opportunity and more jobs. The decisions the Fed makes on our behalf should build toward a stronger economy with more jobs in innovative industries —* ***not prop up and enrich dying ones.****"*

- **In July 2020, Raskin continued her crusade to exclude fossil fuel companies from the Fed's emergency lending facilities by starring in an environmental group's [anti-energy campaign-style video] that she promoted on Twitter in which she accused the Fed of engaging in a fossil fuel "bailout" "under the pretense of keeping the economy stable."** Raskin said in the video:

  - *"Unprecedented. Unproven. Risky.* ***That's the way I would describe this bailout.*** *I'm Sarah Bloom Raskin. I was a Federal Reserve Governor. The Fed is doing something that it's never done before: It's buying troubled assets from the fossil fuel industry. Here's why that's so dangerous. The big three credit agencies measure risk. Ratings go from investment grade to more risk, or 'junk.'* ***Look at credit ratings for U.S. fossil fuel companies over the last five years.*** *This could be the worst decline of any sector.* ***And all these declines have pushed the sector into junk status. That's a lot of junk. And there's no sign it's turning around anytime soon.*** *Look at the credit ratings for oil and gas drilling in particular. Of all the 158 sub-sectors in the economy, oil and gas drilling are declining the fastest.* ***And there is no indication that the value of fossil fuel assets is ever going to return. It's one of the worst investments there is.*** *And yet this is one that the Fed has picked.* ***There Fed is doing this under the pretense of keeping the economy stable.*** *But vacuuming up unsustainable assets does something different. It distorts the economy. In my opinion, this is not what the Fed should be doing. It's bad for the economy, bad for the environment, bad for all of us.*

- **In a January 2021 Financial Times [piece], Raskin made clear that bank climate disclosures would be the first step toward sweeping regulatory changes to disincentivize banks from serving fossil energy companies.** Raskin wrote:

  - *"Next, financial supervisors will need to know how to act on this information.* ***Supervisory adjustments will have to take climate disclosures into account and the Fed will need to use climate risk data to make decisions on asset purchases.*** *Rating agencies will need to know what it means to incorporate climate risks, so market pricing reflects the cost of climate risk.* ***Fiduciary duty rules, too, may need to be reimagined*** *and accounting standards clarified."*

- **At an April 2021 [UC Berkeley conference], Raskin argued financial regulation should be used to influence the "direction and pace" of the "move into sustainable, durable, net-zero economy" including by imposing higher capital requirements on banks that hold fossil fuel assets.** Raskin said:

  - *"I have come to a* ***singular recognition*** *and it's this: in order to maximize the speed and safety of a move into sustainable, durable,* ***net zero economy*** *and away from climate change disaster* ***we need to use the financial regulatory apparatus to engage financial markets and financial institutions in affecting both direction and pace****."*

  - *"And the* ***most hawkish voices on climate are urging financial regulators to increase the amount of capital that banks must hold to offset fossil fuel assets, thereby reducing the incentive to finance fossil fuels*** *and counter balancing the risk of holding assets that could lose value rapidly in the not too distant future."*

- **In a June 2021 [speech at a conference about "coordinating finance on climate"], Raskin proposed de-banking energy companies by establishing portfolio or concentration limits for banks based on "high-emission assets."** Raskin said:

- "*The financial regulators, together with the financial auditors and the standard-setting bodies, need to help the financial firms mitigate climate-related threats by stepping forward and* ***incentivizing a rapid, orderly, and just transition away from high-emission assets****. This they can do in various ways—for example, by considering whether high-emission assets will require limits to keep them from creating unsafe and unsound conditions to the financial institution that holds them. One can imagine* ***portfolio limits or concentration limits*** *that assist the financial firm in checking their exposure to potential losses and costs.*"

- **During the same June 2021 speech, Raskin advocated for weaponizing the Fed's [stress tests for banks] to penalize banks that serve fossil energy companies.** Raskin said:
  - "***Stress testing is exactly one of the . . . financial regulatory tools that regulators, in particular central banks, have at their disposal.*** *And the use of a stress test, I think, is an important tool. Now you hear a lot of discussion saying 'oh, but the scenarios are too hard, there are too many, we don't know for sure what in essence what such a scenario might look like.' And I think that we need to move beyond that. I think we need to bypass those concerns because there are several known—already known—scenarios that can be tested, that can be used, that can be hypothesized, and we can imagine the central banks beginning to use—as they are using already on your side of the pond—that essentially will hypothesize what in essence a significant climate event might look like for a financial firm.* ***The stress tests have the potential, when they're crafted well, to be able to actually work very well as important tools.***"

- **In a July 2021 [Pitchfork Economics podcast] interview, Raskin that climate change is an "existential threat" and that financial regulators like the Fed should impose "stress tests, capital charges, [and] enhanced prudential supervision" on banks to combat climate change.**
  - **Raskin**: *"That said, I think we still have quite a bit of work to do in the financial regulatory space. How the financial regulatory tools get used exactly, what they could possibly do in the realm of climate change, all of that I think we need some work on here in the U.S."*
  - **Podcast Host**: *"When you talk about regulatory tools, are you talking solely about regulatory powers of the administration or are you talking about additional legislation as well?"*
  - **Raskin**: *"****I think it can all be done, actually, <u>without new legislation</u>. In other words, I think the tools exist.*** *Because they were tools that were used in response to the financial crisis. We've seen the use of pretty extraordinary tools by the Fed in the response to the pandemic. A lot of this was done without new authorities. Without new legislation****. And so when I talk about them, what I mean are things like disclosures or stress tests, capital charges, enhanced prudential supervision, macro prudential supervision, macro operational supervision.*** *These are all the words that are used to describe the different regulatory tools that are scattered across the different federal financial regulatory bodies.* ***Those tools already exist. Now, they haven't been used to deal with <u>this particular existential risk that confronts us</u>, <u>but they can be and they need to be</u>.*** *They need to be used in a way that is really quite careful and coordinated and tailored. And that's the work, I think, that we need to be doing much more on now."*

- **In a September 2021 [article for Project Syndicate](), Raskin called on U.S. financial regulators to "think creatively about potential solutions" to climate change, claiming each financial regulator already has the authority to address these so-called risks.**
    - In the piece, Raskin proposed stress tests, living wills, and risk-based capital standards.
        - *"But even though the United States lacks a single monolithic financial regulator, the complexity of its regulatory apparatus need not imply climate inaction. While none of its regulatory agencies was specifically designed to mitigate the risks of climate-related events, **each has a mandate broad enough to encompass these risks within the scope of the instruments already given to it by Congress**. **Accordingly, all US regulators can – and should – be looking at their existing powers and considering how they might be brought to bear on efforts to mitigate climate risk."***
        - *"More broadly, though, US regulators need to be encouraged to **think more imaginatively about how they can engage with local transition efforts**. For example, how might financial policies from diverse agencies be stitched together to produce outcomes that enable firms to hit their net-zero targets? How can financial policy be used to help accelerate a transition that redeploys workers for new jobs, or to assist households that are being asked to change their spending habits? **And how can regulatory changes relating to disclosure, <u>access to credit</u>, and pricing of risk support a rapid and just green transition?"***
        - *"In short, neither industry players nor regulators should wait around for someone else to tell them what to do and when to start. Most of the necessary tools are already there. What is lacking is a willingness to break the habit of acting only after a disaster. **<u>Financial regulators must reimagine their own role so that they can play their part in the broader reimagining of the economy</u>**."*