Attn:
Treasury Secretary Janet Yellen
Under Secretary for Domestic Finance Nellie Liang
Federal Reserve Chair Jerome Powell
Federal Reserve Vice Chair for Supervision Michael Barr
FDIC Chair Martin Gruenberg
Acting Comptroller of the Currency Michael Hsu

CC:
National Economic Council Director Lael Brainard
House Financial Services Committee Chair Patrick McHenry
House Financial Services Committee Ranking Member Maxine Waters
Senate Banking Committee Chair Sherrod Brown
Senate Banking Committee Ranking Member Tim Scott

We the undersigned strongly urge financial regulators and Congress to learn from the collapse and bailout of Silicon Valley Bank (SVB) and rapidly implement new regulations to mitigate against climate related financial risk.

One key reason SVB collapsed, and several other banks have failed or nearly failed, is their failure to react to the widely discussed possibility that the Federal Reserve might raise interest rates amid high inflation. The risk of holding an outsized share of long term bonds was a risk all bankers should have been prepared for. Indeed, the Federal Reserve Bank of San Francisco flagged these risks, but failed to follow up adequately. It's clear the regulatory rollbacks under the Trump administration enabled less attention to these concerns.

This is only the latest example of a bank being wholly unprepared for a large and obvious financial risk. It is a stark reminder of the chaos that can unfold when a financial institution has high exposure to a risky industry, and of the fact that the leaders of major financial institutions are frequently far more concerned with their short-term gains than with robust risk management measures that ensure their safety and the safety and soundness of the financial system. As a reminder of the latter, senior managers at SVB paid themselves millions in bonuses hours before their bank failed and the federal government financially backstopped it. Here again, stronger rules—including the Dodd-Frank executive compensation rules that remain unfinished—could have incentivized greater bank attention to risks.

To prevent any potential for a cascade of bank runs after SVB's collapse, federal regulators have now effectively set a precedent of guaranteeing all bank deposits in all banking institutions nationwide, to be backstopped by the Federal Deposit Insurance Fund and then taxpayer dollars. Moreover, the Federal Reserve has begun lending at extraordinarily generous terms to any other banks with assets whose real value has been curbed by interest rate hikes — in effect, the Fed is offering a first-of-its-kind, get-out-of-bank-failure free card to any firms that made the same foreseeable mistake as SVB. Regulators justified this extraordinary shift in the structures of American finance by relying on emergency rules in place to prevent systemic risk to the financial system. In effect, regulators argued that SVB's inability to mitigate one of the most obvious forms of financial risk — the potential for rising interest rates amid high inflation — constituted a grave risk to the whole financial system, and, thereby, the whole economy.

If management at a wide swathe of banks failed to properly address a well-understood risk, they cannot be trusted to independently address other complex emerging risks. Regulators must intervene to protect the financial system from risks associated with climate change and the ongoing transition to a green economy.

As the SVB crisis revealed, banks tend to insist they have all risks under control, until they don't. During periods of ease, bank executives justify taking on risks to maximize profits. They fail to take measures needed to prepare for even the most predictable risks—such as those related to heavily-forecasted interest rate increases—making failures even more extreme and contagious. This complacency-failure-contagion scenario will be mirrored as the physical impacts of climate change become more significant, and as the current period of oil and gas profitability makes its inevitable downswing.

Just last week, US Treasury Secretary Janet Yellen warned that climate change is already having a major economic and financial impact on the United States, "These impacts are not hypothetical. They are already playing out. In the United States, there's been at least a five-fold increase in the annual number of billion-dollar disasters over the past five years compared to the 1980s." These disasters herald how mortgage markets are mispricing climate risk. As the risks associated with the volatility of a warming planet grow, banks of all sizes holding mortgage-backed bonds will see their assets drop in value. Worry of exposure to that risk could serve as a spark to an SVB-style run, placing the entire financial system at risk. Moreover, as climate change worsens and the whole U.S. government legislates and regulates to fight against climate-related crises, banks invested in the fossil fuel industry will eventually be saddled with stranded assets.

Experts and regulators have acknowledged that these physical and transition risks raise systemic concerns. Climate-related risks are moving us toward a financial crisis. But regulators have not taken adequate steps to actually mitigate those risks.

Banks cannot be trusted to independently evaluate and protect against the systemic risks of the climate crisis in real time. They also cannot be trusted to avoid creating risks for other institutions and the financial system through their support for fossil assets and greenhouse gas emissions. This process requires regulators to set clear rules and ensure banks and financial institutions do not engage in unsafe behavior and do not create undue risks and costs for the financial system and the economy.

We again urge regulators to:

- Move with urgency and speed to **implement proposed guidance for banks and financial institutions** related to preparation for climate-related financial risks and to follow up with more detailed guidance.
- Rapidly move forward on **rigorous exams for banking institutions,** including for medium sized banks, regardless of industry pressure for light touch supervision of climate related risks.
- Please also see previous coalition letters recommending action on the Federal Reserve's and the Treasury Department's climate guidance.

We appreciate your time and work on this urgent matter.

Sincerely,

International Organizations

Positive Money US

Stand.earth

One Earth Sangha

Earth Guardians

MARBE SA

350.org

Fridays For Future Digital

Greenpeace USA

Earth Guardians

Novasutras

National Organizations

Climate Hawks Vote

7 Directions of Service

Climate Organizing Hub

Climate Hawks Vote

Seeding Sovereignty

Revolving Door Project

Lakota People's Law Project

The Romero Institute

The YEARS Project

Dayenu: A Jewish Call to Climate Action

Mazaska Talks

Third Act

Bold Alliance

Presente.org/Alianza Americas

Oil and Gas Action Network

Sierra Club

State and Local Organizations

Rivers & Mountains GreenFaith

MN350

Coast Range Association

Coastside Jewish Community

Extinction Rebellion Phoenix

350Hawaii

Giniw Collective

Rise and Resist Environmental Group

New Mexico Climate Justice

Climate Families NYC

Third Act Virginia

New York Communities for Change

350Wenatchee

Divest NJ

350NJ-Rockland

350 Conejo / San Fernando Valley

350 New Hampshire

Protect the Planet

FreshWater Accountability Project

Texas Campaign for the Environment

PACAN

Climate First!, Inc.

350NYC

Women Power Our Planet