United States Senate

May 17, 2023

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Powell,

We are growing increasingly frustrated with the Federal Reserve's (Fed) engagement on environmental policymaking and research far outside of its statutory mandate, all while there is persistent inflation and a crisis of confidence in the banking sector. We urge you to rein in the Fed's regional banks and its economists who are seemingly ignoring your leadership. The Fed's credibility hangs in the balance, and without a course correction, history will find you either complicit or ineffective as Chairman.

During your confirmation process and throughout your tenure as Federal Reserve Chairman, you have continuously reiterated your commitment to remain focused on the Federal Reserve's statutory mandate, and to leave social and political policies to Congress. In fact, you just reiterated this point in January on a panel saying, "[i]t is essential that [the Federal Reserve Board] stick to our statutory goals and authorities, and that we resist the temptation to broaden our scope to address other important social issues of the day."[1] You emphasized the importance of leaving policy decisions to elected officials, and when referring to climate change, noted that the Fed has a very narrow role regarding climate-related financial risks and is not a "climate policymaker."[2]

Despite these comments, just days later on January 17, 2023, the Fed announced a pilot climate scenario analysis exercise that will be collecting information from the financial sector's largest institutions in order to "deep[en] [the] understanding of climate risk-management practices and buil[d] capacity to identify, measure, monitor, and manage climate-related financial risks."[3] Regardless of the clever pilot program marketing, the media quickly identified this announcement for what it is – a "climate stress test".[4] The risks to operations that banks will be required to report include physical risks and transition risks. Physical risks are those from climate-related weather events. Ignoring the fact that banks are perfectly capable of factoring in potential weather or natural disasters to their operational and investment decisions, this reporting requirement is also ironic given that the New York Fed found these physical climate risks to be "insignificant" on U.S. bank performance in a recent staff study.[5] The more concerning requirement is the required reporting on transition risks, which are the political risks on bank operations and investments that would be

[1] https://www.federalreserve.gov/newsevents/speech/powell20230110a.htm
[2] Id.
[3] https://www.federalreserve.gov/newsevents/pressreleases/other20230117a.htm
[4] https://www.americanbanker.com/news/fed-sets-parameters-for-pilot-climate-stress-test
[5] https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr990.pdf

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affected by a move to net-zero greenhouse gas emissions by 2050.[6] This is a curious requirement given that no law passed by Congress and signed by the President defines any net zero goals. This is policy masquerading as "risk analysis." The Fed is actively signaling that bank activities that do not further the goals of net zero by 2050 are inherently risky and disfavored. This drives capital away from traditional energy development at a critical time for our economic and national security, while empowering America's adversaries.

This climate stress test is the logical result of a persistent and growing track record of climate activism at the Fed. In 2020, the Fed joined the Network for the Greening of the Financial System, whose stated goal is to "mobilize mainstream finance to support the transition toward a sustainable economy."[7] The regional reserve banks continuously host climate events and conferences, including the San Francisco Fed last May when they should have been monitoring for tangible risks at banks, like Silicon Valley Bank, within their jurisdiction.[8] Searching the Federal Reserve archives online yields hundreds of policy papers, studies, and documents dedicated to climate change – some of which contain shoddy research at best, and blatant propaganda at worst.[9,10] All of this work is being done and man hours are being spent on climate change by an institution that has no statutory authority to do so, and without any scientific expertise. There is no shortage of work to be done on issues directly within your statutory authority as evidenced by the Fed's recent whiff on inflationary policy and inept oversight leading to the SVB crisis.

The independence of the central bank is a hallmark of our financial system and is crucial to protecting it from partisans with short-term interests, however, this independence has been greatly undermined by the Fed's persistence on entering into the political arena – especially on the issue of climate change. The legitimacy of the institution is on the line, and we again urge you to do everything in your power to ensure that the Fed operates solely within its statutory authority. We hope you understand that failing to do so will not end well for independent monetary policy and the Federal Reserve.

Sincerely,

Dan Sullivan
United States Senator

Mike Crapo
United States Senator

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6 https://www.federalreserve.gov/newsevents/pressreleases/other20230117a.htm
7 https://www.federalreserve.gov/newsevents/pressreleases/bcreg20201215a.htm
8 https://www.frbsf.org/wp-content/uploads/sites/4/SystemClimate_Final-Agenda.pdf
9 https://www.fedsearch.org/board_public/search?text=%22Climate%20change%22%20OR%20%22%20global%20warming%22%20OR%20%22CO2%22
10 https://www.wsj.com/articles/the-feds-climate-studies-are-full-of-hot-air-environment-propaganda-activism-banking-crisis-recession-federal-reserve-c47492e7

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