[DISCUSSION DRAFT]

117TH CONGRESS
1ST SESSION

H. R. ____

To amend the Financial Stability Act of 2010 to establish a climate risk supervision framework, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

M__. ____________ introduced the following bill; which was referred to the Committee on ____________________________

A BILL

To amend the Financial Stability Act of 2010 to establish a climate risk supervision framework, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Climate Crisis Financial Stability Act".

SEC. 2. CLIMATE RISK SUPERVISION FRAMEWORK.

(a) IN GENERAL.—The Financial Stability Act of 2010 (12 U.S.C. 5311 et seq.) is amended by inserting after section 171 the following:

"SEC. 171A. CLIMATE RISK SUPERVISION FRAMEWORK.

"(a) INCORPORATION OF CLIMATE-RELATED RISKS WHEN CALCULATING RISK-BASED CAPITAL.—

"(1) IN GENERAL.—Not later than the end of the 18-month period beginning on the date of enactment of this section, the Federal banking agencies shall issue rules to require the incorporation of acute transition risks when calculating the risk-based capital of a covered institution for purposes of any Federal risk-based capital requirement applicable to the covered institution.

"(2) ACUTE TRANSITION RISKS.—

"(A) IN GENERAL.—In issuing rules to carry out this subsection, the Federal banking agencies shall incorporate acute transition risks by increasing risk weights to 150 percent or more for any loan, bond, or derivative exposure to a borrower or counterparty that derives at least 15 percent of the borrower or counterparty's revenue from the extraction, exploration, transportation, storage, exporting, or refining of oil, natural gas, or coal.

"(B) ESCALATING RISK WEIGHTS.—In issuing rules to carry out this subsection, the Federal banking agencies shall develop escalating risk weights for fossil fuel assets and infrastructure based on the following factors:

"(i) The extent to which the borrower or counterparty generates revenue from fossil fuel-related activities.

"(ii) Differentiation in transition-risk intensity among oil, gas, and coal exposures.

"(iii) The length of the exposure.

"(iv) Such additional factors as the Federal banking agencies determine appropriate to improve the transition-risk sensitivity of the risk weights or otherwise to strengthen the safety and soundness of the banking sector.

"(C) INCREASE OF RISK WEIGHTS OVER TIME.—The Federal banking agencies shall revise the rules issued under this subsection not less than every 2 years to increase the applicable risk weights.

"(3) ADJUSTMENTS BASED ON PHYSICAL RISKS AND ADDITIONAL TRANSITION RISKS.—

"(A) IN GENERAL.—Not later than the end of the 5-year period beginning on the date of enactment of this section, and periodically thereafter, the Federal banking agencies shall revise Federal risk-based capital requirements to incorporate the safety and soundness risks posed by the increase in frequency and severity of extreme weather events and other long-term environmental shifts caused by climate change, as well as additional transition risks not described under this paragraph.

"(B) INCLUSION OF CERTAIN DATA.—In making the revisions required under subparagraph (A), the Federal banking agencies shall take into account data provided from—

"(i) any applicable issuer disclosures and scenario analyses related to climate change; and

"(ii) climate-related stress tests, scenario analyses, or any other exercises conducted by the agencies to evaluate and quantify climate-related risks.

"(4) EXEMPTION.—The rules issued pursuant to this subsection shall not apply to a covered institution with less than $1,000,000,000 in total consolidated assets.

"(b) COVERED INSTITUTION DEFINED.—In this section, the term 'covered institution' means an insured depository institution, a depository institution holding company, and a nonbank financial company supervised by the Board of Governors.''.

(b) MACROPRUDENTIAL CLIMATE RISK CONTRIBUTION CAPITAL SURCHARGE.—Section 165 of the Financial Stability Act of 2010 (12 U.S.C. 5365) is amended by adding at the end the following:

''(l) MACROPRUDENTIAL CLIMATE RISK CONTRIBUTION CAPITAL SURCHARGE.—

''(1) IN GENERAL.—The Board of Governors shall issue rules to require, when calculating the risk-based capital or leverage capital of a bank holding company with more than $100,000,000,000 in total consolidated assets or a nonbank financial company supervised by the Board of Governors, the inclusion of a capital buffer calibrated based on the company's climate risk contribution score calculated pursuant to paragraph (2).

''(2) CLIMATE RISK CONTRIBUTION SCORE.—The Board of Governors shall calculate a climate risk contribution score for each company described under paragraph (1) based on the totality of the greenhouse gas emissions financed by the company, including emissions financed through on-balance sheet exposures, underwriting and trading activities, and any off-balance-sheet activities.''.

(c) CONSIDERATION OF CLIMATE-RELATED FINANCIAL RISKS OF CERTAIN NONBANK FINANCIAL COMPANIES.—Section 113(a)(2) of the Financial Stability Act of 2010 (12 U.S.C. 5323(a)(2)) is amended—

(1) in subparagraph (J), by striking ''and'' at the end;

(2) by redesignating subparagraph (K) as subparagraph (L); and

(3) by inserting after subparagraph (J) the following:

''(K) the extent of the company's contribution to climate-related financial risks; and''.

(d) CLERICAL AMENDMENT.—The table of contents in section 1(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act is amended by inserting after the item relating to section 171 the following:

''Sec. 171A. Climate risk supervision framework.''.

SEC. 3. ADVISORY COMMITTEE ON CLIMATE RISK.

(a) IN GENERAL.—Subtitle A of the Financial Stability Act of 2010 (12 U.S.C. 5321 et seq.) is amended by inserting after section 121 (12 U.S.C. 5331) the following:

"SEC. 121A. ADVISORY COMMITTEE ON CLIMATE RISK.

"(a) ESTABLISHMENT.—There is established in the Council the Climate Risk Advisory Committee, which shall—

"(1) consult with the Council in the drafting by the Council of an annual report on climate risk required under subsection (e) and other climate risk matters; and

"(2) meet with the Council not less frequently than once per year.

"(b) MEMBERSHIP.—

"(1) IN GENERAL.—The Committee shall consist of the following members:

"(A) Four members who are climate science experts, of whom—

"(i) 1 shall be appointed by the Secretary of Energy;

"(ii) 1 shall be appointed by the Administrator of the Environmental Protection Agency; and

"(iii) 2 shall be appointed by the Director of the National Science Foundation.

"(B) Eight members who are experts in climate economics or climate financial risk appointed by the Council, of whom not fewer than 1 member is each an expert in—

"(i) insurance;

"(ii) capital markets;

"(iii) banking;

"(iv) international financial markets;

"(v) housing; and

"(vi) the perspective of asset owners.

"(2) PROHIBITION.—No member of the Committee may be employed by a company within the jurisdiction of a member agency of the Council.

"(c) TERM.—The members of the Committee shall be appointed for 3-year terms, except that the initial terms of the first members of the Committee shall be staggered so that—

"(1) 4 members serve terms of 3 years;

"(2) 4 members serve terms of 2 years; and

"(3) 4 members serve terms of 1 years.

"(d) CONSULTATION.—The Council shall consult with the Committee in carrying out the requirements of this section.

"(e) REPORT ON CLIMATE FINANCIAL RISK.—Not later than 270 days after the date of enactment of this section, the Council shall, in coordination with the Committee and the Deputies Committee of the Council, publish a report that—

"(1) assesses—

"(A) the potential impact of climate risk on the financial stability of the United States;

"(B) the extent to which Federal and State financial regulatory agencies have sufficient expertise on climate risk;

"(C) the quality of data available to Council members to properly assess climate financial risk and any gaps in data that exist;

"(D) the extent to which supervised financial institutions are engaging in sound climate risk management;

"(E) the degree of coordination among Federal and State financial regulatory agencies on climate risk;

"(F) the degree of coordination by Federal and State financial regulatory agencies with international financial regulatory authorities on climate financial risk;

"(G) how U.S. climate financial risk disclosure requirements compare to climate financial risk disclosure regimes in other countries and to other regimes that are available; and

"(H) any other areas the Council believes are important;

"(2) provides recommendations based on the assessments in paragraph (1) to Federal and State financial regulatory agencies and to Congress on how to improve the ability of the financial regulatory system in the United States to identify and mitigate climate financial risk; and

"(3) provides policy recommendations for mitigating climate risk to the Board of Governors, the Commission, the Commodity Futures Trading Commission, the Comptroller of the Currency, the National Credit Union Administration, the Bureau, the Federal Housing Finance Agency, and the Corporation.

"(f) MEMBER AGENCIES.—Each member agency shall develop and make publicly available a strategy to identify and mitigate climate financial risk within the jurisdiction of the member agency.

"(g) COORDINATION.—The Council shall—

"(1) facilitate the sharing of best practices on climate financial risk across agencies; and

"(2) assign the Office of Financial Research to conduct ongoing research into climate financial risk.

"(h) INCLUSION IN ANNUAL REPORT.—The Council shall include a section on climate financial risk in—

"(1) the annual report of the Council to Congress; and

"(2) if relevant, in any other report to Congress.".

(b) TECHNICAL AND CONFORMING AMENDMENT.—The table of contents in section 1(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act is amended by inserting after the item relating to section 121 the following: