
U.S. Regulator Calls Climate Change a Systemic Risk.

(Reuters) – Climate change poses a "slow motion" systemic threat to the stability of the U.S. financial system requiring urgent action from financial regulators, including the Federal Reserve and the Securities Exchange Commission.

That is one of the findings of a landmark report commissioned by the U.S. Commodity Futures Trading Commission and put together by a panel convened about 10 months ago by Rostin Behnam, one of two Democrats on the five-member CFTC.

The panel's 35 members, including representatives of Goldman Sachs Group Inc , BP Plc, the Dairy Farmers of America, and The Nature Conservancy among others, approved the report on Tuesday.

"The physical impacts of climate change are already affecting the United States, and … the transition to net-zero emissions may also impact many segments of the economy," the 196-page report said.

"Both physical and transition risks could give rise to systemic and sub-systemic financial shocks, potentially causing unprecedented disruption in the proper functioning of financial markets and institutions."

A sudden shift in perceptions of the risks from frequent wildfires and intense hurricanes could bring a sudden drop in asset prices, for instance, that cascades through a community and spill more broadly into markets, the report said.

And because the COVID-19 pandemic has depleted household wealth, government budgets and business balance sheets, the economy is more vulnerable than before, it added, "increasing the probability of an overall shock with systemic implications."

The report's release comes less than two months ahead of a national election that pits Republican President Donald Trump, who says climate change is a hoax, against Democratic challenger Joe Biden, who calls climate change an "existential threat."

Its first recommendation is to "establish a price on carbon" that is hefty enough to push businesses and markets to cut use of carbon dioxide-producing fuels such as oil and gas. Taxing carbon would require action by Congress.

But the report's dozens of other recommendations amount to a call for a sweeping rewrite of financial market rules and norms that could go forward without any new laws and no matter who wins the presidency.

Among the proposals: requiring banks to address climate-related financial risks and listed companies to disclose emissions, and to stress test community banks for their resilience to climate change.

Regulators in Europe have worked for years on efforts to calibrate and mitigate climate risks to financial markets.

Regulators in the United States, where politicians regularly cast doubt on the fact that burning fossil fuels is affecting the earth's climate, have lagged far behind on such work.

Only recently has the Federal Reserve begun to acknowledge the potential for climate change to destabilize the financial system, and to think about possible responses.

The report urges financial authorities to integrate climate risk "into their balance sheet management and asset purchases, particularly relating to corporate and municipal debt."

It also calls for them to do research into the financial implications of climate change and join international climate-focused groups, such as the Network for Greening the Financial System, all of which appear to specifically apply to the Fed.

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(Reporting by Ann Saphir in Berkeley, Calif.; Editing by Clarence Fernandez)