Climate Change Poses Major Risks to Financial Markets, Regulator Warns

By Coral Davenport

June 11, 2019

*Want climate news in your inbox? Sign up here for **Climate Fwd:**, our email newsletter.*

WASHINGTON — A top financial regulator is opening a public effort to highlight the risk that climate change poses to the nation's financial markets, setting up a clash with a president who has mocked global warming and whose administration has sought to suppress climate science.

Rostin Behnam, who sits on the federal government's five-member Commodity Futures Trading Commission, a powerful agency overseeing major financial markets including grain futures, oil trading and complex derivatives, said in an interview on Monday that the financial risks from climate change were comparable to those posed by the mortgage meltdown that triggered the 2008 financial crisis.

"If climate change causes more volatile frequent and extreme weather events, you're going to have a scenario where these large providers of financial products — mortgages, home insurance, pensions — cannot shift risk away from their portfolios," he said. "It's abundantly clear that climate change poses financial risk to the stability of the financial system."

Mr. Behnam was appointed by President Trump to a seat on the commission that, by law, must be filled by a Democrat. He said that unusual status gave him a measure of political protection that other appointees within the administration might not benefit from.

The commission is designed to operate more independently from the White House than many federal agencies, and legal experts said it would be difficult, though not impossible, for Mr. Behnam's boss to fire or demote him.

"I have a unique bully pulpit," Mr. Behnam said, sitting in his office in downtown Washington.

Experts in government affairs said Mr. Behnam's initiative was unusual. Historically, presidential appointees on panels like the trading commission, the Federal Election Commission or the Securities and Exchange Commission have sometimes quietly pushed back at the presidential policies with which they disagreed, but "rarely do you see a commissioner go rogue and public," James A. Thurber, director of the Center for Congressional and Presidential Studies at American University, said in an email.

On Wednesday, Mr. Behnam plans to detail the formation of a panel of experts at the trading commission assigned to produce a report on how global warming could affect the financial sector, potentially impacting food costs, insurance markets, the mortgage industry and other economic pillars.

Because the report, expected late this year or early next, would be a product of the federal government, it would most likely put Mr. Behnam in direct conflict with the policies of the Trump administration. The report, which Mr. Behnam said he expected would focus in particular on potential harm to the nation's agriculture sector, is likely to emerge at a moment when Mr. Trump will be making the case to farm states, which have already been hurt by his crop tariffs, to re-elect him in 2020.

His interest in the financial effects of climate change, he said, stems from six years working for Debbie Stabenow, a Michigan Democrat, on the Senate Agriculture Committee. He left the agriculture committee in 2017 to join the trading commission. Earlier, he had worked as a financial trader and a corporate lawyer in New York.

A White House spokesman, Judd Deere, declined to comment on Mr. Behnam's plans.

Mr. Behnam is not the first financial regulator to call attention to the market risks posed by climate change.

In 2010, the Securities and Exchange Commission began requiring publicly traded companies to disclose the risks to their bottom lines associated with climate change. Coca-Cola, for instance, has noted in its financial disclosures that water shortages driven by climate change pose a risk to its production chains and profitability, and several insurance companies have put out reports noting the risk to the industry from more frequent extreme weather.

In January, the California electricity provider Pacific Gas and Electric declared bankruptcy while facing billions of dollars in liability costs related to damages from two years of wildfires. Experts said that could be an early indicator of a wider economic toll from climate change, which is making wildfires more frequent and destructive. The same month, the Bank of England said it intended to include climate change in its "doomsday scenario" stress tests, which the bank runs to ensure it has enough capital to withstand major financial shocks.

In April, the financial firm BlackRock, the world's largest manager of financial assets, found that investors in electric utility stocks were quick to sell following extreme weather, setting up a pattern of market volatility.

A coalition of 39 central banks, representing about half the global economy and including the central banks of England, China, Canada Japan and the European Union (but not the United States), has convened a working group to study to study the effects of climate change on financial markets.

“We understand that climate change causes a big systemic risk,” said Stefano Giglio, a professor of finance at Yale University who has published studies with the National Bureau of Economic Research on the financial consequences of warming. “But right now, we don’t have enough information, and we don’t have the right financial products to insure this risk. The CFTC can help give that information and help lay out a global marker for what we need to do.”

Mr. Trump has made it a signature priority to roll back climate change policies. He has announced that he intends to withdraw the United States from the Paris accord, an agreement among the nations to jointly address climate change, and he has set in motion legal efforts to weaken or undo major Obama-era regulations on planet-warming pollution from power plants and vehicle tailpipes.

In addition, a top White House official, William Happer, has sought to discredit the findings of the 2018 National Climate Assessment, a report produced by 13 federal agencies, which concluded that the effects of climate change could cause severe harm across the nation’s physical and economic landscape. The United States Geological Survey has taken steps to limit the use of scientific work that projects the effects of climate change past 2040 — a move that scientists say downplays the long-term consequences of rising greenhouse emissions.

And this month, the White House tried to stop the State Department from including basic climate science in the congressional testimony of an intelligence analyst. On Tuesday, the House Intelligence Committee asked the

State Department for documents related to the White House efforts to exclude the testimony.

Mr. Behnam said he had incidents like these in mind when he decided to commission the financial risk study. “When I see people being shut down and muzzled, it concerns me that we are not taking steps to protect the people of our country with the best facts, the best science, the best numbers,” he said.

For more news on climate and the environment, follow @NYTClimate on Twitter.

Coral Davenport covers energy and environmental policy, with a focus on climate change, from the Washington bureau. She joined The Times in 2013 and previously worked at Congressional Quarterly, Politico and National Journal.
@CoralMDavenport • Facebook

A version of this article appears in print on June 11, 2019, on Page B7 of the New York edition with the headline: Climate Change Poses Risks to Markets, Regulator Warns