

HOW RISK SECURE IS YOUR BUSINESS TO CLIMATE CHANGE?

RESILIENT REALISM

LINKCO

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This White Paper review is a part of the Resilient Realism series authored by LINKCO. With twenty plus years of broad executive business experience cross industries, LINKCO is well situated to reach out to leaders in California and throughout the United States. LINKCO is an Executive Search and Consultancy servicing top Middle Market CXO and upper management clients and candidates throughout the USA.



In a recent paper published by the CFTC, ** compelling financial/business risk arguments are considered urging enactment of national legislation regarding Climate Change.

The Business argument: why Greenhouse gas emissions must be reduced.

1. Financial markets will operate sub-optimally until an economy wide price on carbon is in place reflecting the true social cost of carbon emissions.
2. Congress must enact the pricing formula.
3. Climate change could pose serious financial risks to the US financial system. It is expected to impact multiple sectors, geographies and assets simultaneously and within a short time-frame. **

Price of Carbon set by Congress at level capturing the true social cost

."This report begins with a fundamental finding—financial markets will only be able to channel resources efficiently to activities that reduce greenhouse gas emissions if an economy-wide price on carbon is in place at a level that reflects the true social cost of those emissions. Addressing climate change will require policy frameworks that incentivize the fair and effective reduction of greenhouse gas emissions. In the absence of such a price, financial markets will operate sub optimally, and the capital will continue to flow in the wrong direction, rather than toward accelerating the transition to a net-zero emissions economy. At the same time, policymakers must be sensitive to the distributional impacts of carbon pricing and other policies and ensure that the burden does not fall on low-to-moderate income households and on historically marginalized communities. This report recognizes that pricing carbon is beyond the remit of financial regulators; it is the job of Congress." p ii

Imminent risk to U.S. Financial systems including climate and non-climate related risks. These include risks to multiple business sectors, regions and asset classes. This could cause climate and non-climate related risks to intersect.

“A central finding of this report is that climate change could pose systemic risks to the U.S. financial system. Climate change is expected to affect multiple sectors, geographies, and assets in the United States, sometimes simultaneously and within a relatively short time-frame. As mentioned earlier, transition and physical risks—as well as climate and non-climate-related risks—could interact with each other, amplifying shocks and stresses. This raises the prospect of spillovers that could disrupt multiple parts of the financial system simultaneously ... A sudden revision of market perceptions about climate risk could lead to a disorderly repricing of assets, which could in turn have cascading effects on portfolios and balance sheets and therefore systemic implications for financial stability.”

The paper is over 180 pages. The executive summary is beneficial in highlighting the key issues of risk concern as is the summary of pragmatic recommendations for Federal regulatory agencies, Financial and Accounting Institutions and oversight bodies, as well as private businesses.

<https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf> p ii.

**Three of the lead summary points of a newly published US Commodity Futures Trading Commission, (CFTC) report from the Market Risk Advisory Committee, entitled, “Managing Climate Risk In The U.S. Financial System, Report of the Climate Related Market Risk Subcommittee. Published 9/9/20. Commissioner Rostin Behnam, Sponsor David Gillers, Chief of Staff, Office of Commissioner Behnam, Bob Litterman, Chairman Leonardo Martinez-Diaz, Editor Jesse M. Keenan, Editor Stephen Moch, Associate Editor

Contact LINKCO for learn more about the challenges and opportunities highlighted in the White Paper. Let us help you build a more resilient workforce ready for the future.

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