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CHAIRMAN

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RANKING MEMBER

United States House of Representatives
One Hundred Eighteenth Congress
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

September 12, 2024

The Honorable Gene Dodaro
Comptroller General of the United States
Government Accountability Office
441 G. Street, NW
Washington, DC 20548

Dear Comptroller Dodaro:

We write to request that the Government Accountability Office (GAO) assist in evaluating federal banking agencies' memberships in the Network of Central Banks and Supervisors for Greening the Financial System (NGFS).

The NGFS originated from the "Paris One Planet Summit" in December 2017 with a purpose of "strengthening the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments" (i.e., channel credit toward "green" activities and away from others).[1] The Secretariat of the NGFS is provided by the Banque de France, with no budgetary information provided to the public.

The Federal Reserve Board (FRB) formally joined the NGFS as a member in December 2020; the Office of the Comptroller of the Currency (OCC) in 2021; and the Federal Deposit Insurance Corporation (FDIC) in 2022. However, those agencies have informed the Committee on Financial Services (Committee) that there was no formal application submitted to the NGFS. This despite Article 3i of the NGFS charter requiring "submission of an official request" and requisite other information.

Transparency in how the Banque de France-sponsored NGFS is funded is unclear. Moreover, U.S. federal banking regulators do not appear to have insight into its funding mechanisms – let alone the public.[2] This funding structure allows the NGFS's operations, including data compilation and model development, to be financially backed by U.S. adversaries, including China and the Russian Federation, and political activists. The funding structure also generates partisan and activist funding pass-throughs, providing their underlying funders with the ability to obtain "prestige advantages" over others.[3]

[1] See Origin and Purpose, NGFS, at https://www.ngfs.net/en/about-us/governance/origin-and-purpose.

[2] See, for example, responses to funding questions posed to Federal Reserve, FDIC, and OCC regulatory officials during the July 18, 2023 (and to questions for the record), hearing of the Financial Services Committee Subcommittee on Financial Institutions and Monetary Policy, at https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408903.

[3] For monetary policy and the Federal Open Market Committee—FOMC, the Federal Reserve's monetary policymaking committee—the Federal Reserve has an explicit policy on external communications (available at

The FRB, FDIC, and OCC have already begun inserting NGFS models and data into the U.S. regulatory framework, including reference to and use of "plausible" NGFS future climate and economic scenarios, with no identification of who determines what is or is not "plausible.".

Given lack of transparency from U.S. federal bank regulatory agencies, Congress is forced to guess the extent to which officials and researchers from those agencies are actively devoting U.S. federal resources to joint work with the NGFS and related foreign agents, including combing through publications and workstream products on the NGFS's opaque website.[4] The Federal Reserve, including district Federal Reserve bank officials and researchers, OCC, and FDIC have been only minimally responsive to requests from the Committee for details of those agencies' involvement in the NGFS and fulfillment of their commitments as NGFS members, including the commitment to "[r]aising awareness to the work of the NGFS in their jurisdiction."

We respectfully request that the GAO assist the Committee in gaining greater transparency into the opaque interrelationships between the Federal Reserve System, FDIC, OCC, and the global governance body called the NGFS. To that end, please consider the additional background information provided in the Appendix and the following questions that require answers:

1. What record-keeping protocols and information-sharing controls are in place at the Federal Reserve, FDIC, and OCC for collaborative work between agency staff and NGFS participants and associated funding organizations?
    a. Are minutes or notes of collaborations and meetings kept as records?
    b. Is there a regular reporting regime in place for Federal Reserve Board Members, FDIC Board Members, and the Acting Comptroller to be made aware of what staff at the respective agencies are doing at the NGFS, or with associated funding organizations, and how many agency resources are being utilized?
    c. Why is there such little information available to Congress and the American people?
2. Do the Federal Reserve, Federal Reserve district banks, the FDIC, or OCC, have confidentiality agreements with the NGFS?
3. Do any officials or staff from the Federal Reserve, Federal Reserve district banks, the FDIC, or OCC share U.S. confidential supervisory information with anyone at the NGFS or affiliated with the NGFS? How is Congress to know?

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https://www.federalreserve.gov/monetarypolicy/files/FOMC_ExtCommunicationParticipants.pdf). General principles of the policy include that FOMC participants strive to ensure that their contacts with members of the public do not provide any profit-making person or organization with a prestige advantage over its competitors. There is no such explicit policy for Federal Reserve supervision and regulation committees, though symmetry of principles would presumably apply, including that members of such committees who engage with foreign agents funded by profit-making or "non-profit" organizations ought not to be provided with prestige advantages. Presumably, like principles ought to apply to supervision and regulation officials in committees at the FDIC and OCC. That appears not to be the case with interactions with the NGFS.

[4] It is possible that the NGFS is transparent to some in Congress, but not others. For example, the NGFS participated in a "Meeting with the U.S. Senate Democrats' Special Committee on the Climate Crisis," on October 17, 2019—see NGFS press release at https://www.ngfs.net/sites/default/files/medias/documents/2019-043-meeting-with-the-senate-democrats-special-committee-on-the-climate-crisis-opening-remarks-ngfs-frank-elderson.pdf --yet declined to respond to an invitation from the majority in the Financial Services in August, 2024, to testify at a subcommittee hearing on transparency of global governance bodies.

4. How do the Federal Reserve, FDIC, or OCC intend to gauge large bank adhesion to the agencies' "principles" for managing purported climate-related financial risks, including how "plausibility" of possible speculative climate and economic scenarios is to be measured, while at the same time avoiding being arbitrary and capricious in monitoring regulated entities adherence to consideration of whatever are plausible futures?[5]
5. How do the Federal Reserve, OCC, and FDIC internally calculate the definition of climate "transition risk" that is then shared with the NGFS and incorporated into material risks facing financial institutions, including legal, operational, reputational, and credit risks?
6. Do officials from the Federal Reserve's opaque Supervision Climate Committee (SCC), which was established somewhere around March 2021 and continues presently without any acknowledgement on the Federal Reserve's website or public documents, regularly meet with NGFS participants and their associated funding sponsors and devote U.S. resources within NGFS workstreams? How are Congress and the American people supposed to know?
7. Same questions as in 4 above, except applied to officials from the Federal Reserve's opaque Financial Stability Climate Committee (FSCC).
8. How many meetings have Federal Reserve *System* officials and researchers had with NGFS officials and researchers, including in joint research efforts, since formally joining the NGFS in December of 2020?
   a. Similarly for the OCC since joining the NGFS in 2021.
   b. Similarly for the FDIC since joining the NGFS in 2022.
9. Are there any records of the formal applications to join the NGFS, as required by Article 3i of the NGFS charter, submitted by the Federal Reserve, the FDIC, and the OCC, along with the information required by the NGFS in Article 3i to accompany the application?
10. Can any federal banking regulator—most notably, the Federal Reserve, a Federal Reserve district bank, the FDIC, and the OCC—join any international, self-chartered interest group that it wants, including those that base their existence on a global gathering of special interests?
11. How much funding has the NGFS obtained from China, including the NGFS-Member People's Bank of China, and what workstreams, projects, or other expenses were and continue to be funded?
    a. Similarly for funding the NGFS has obtained from the Russian Federation, including the NGFS-Member Bank of Russia.

Continued research into effects of severe weather and climate change is valuable. Prematurely inserting speculation, loose theorizing, and activist-funded data and model-creation imported

[5] The interagency "principles" align closely with those put forward by the Bank for International Settlement's Basel Committee on Banking Supervision and by the NGFS, including need for consideration of severe, yet "plausible," future scenarios, and a need to undertake scenario analyses, public reports, and "media events" on findings to help develop "a story line." Plausibility measurement exists, as in "Plausibility Measures: A User's Guide," by N. Friedman at the Standford Department of Computer Science and J.Y. Halpern at IBM (https://arxiv.org/pdf/1302.4947), though no reference to such measures has been made by the federal banking agencies. Absent measurability to use in gauging plausibility, plausibility would simply be in the eye of the beholder, who could be a bank examiner or supervisor in the future.

from opaque global governance bodies is not. We appreciate the ability and proven record of the GAO to undertake balanced assessments and look forward to your consideration of our request.

Sincerely

Appendix: Further Background

The NGFS originated from the "Paris One Planet Summit" in December 2017 with a purpose of "strengthening the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments" (i.e., channel credit toward "green" activities and away from others).[6] The Secretariat of the NGFS is provided by the Banque de France, with no budgetary information provided to the public.

The Federal Reserve Board (Federal Reserve) formally joined the NGFS as a member in December, 2020; the Office of the Comptroller of the Currency (OCC) in 2021; and the Federal Deposit Insurance Corporation (FDIC) in 2022, though we have been told by those agencies that there was no formal application submitted to the NGFS, despite Article 3i of the NGFS charter requiring "submission of an official request" and requisite other information.

The NGFS charter is flexible, with the NGFS evidently allowed to change the charter at any time; the latest version of the charter is dated April 2023. To our knowledge, U.S. regulators who have joined as members of the NGFS do not regularly, if at all, review whether to continue their participation with the global governance body.

NGFS members include central banks and supervisors, including from countries regarded as adversarial to the United States. "Observers" include representation from a tangled web of global governance bodies and international standard setters whose operations are largely opaque to the U.S. Congress.[7]

According to the NGFS self-generated charter: "The NGFS does not have a separate budget for its activities and is supported by voluntary contributions of the NGFS Members and Observers." However, "[e]xternal funding can also be provided to support projects commissioned for the benefit of the NGFS." While the charter states that "[f]inancial and in-kind contributions do not confer the contributor any right to define the priorities of the NGFS work programme or influence the outcome of the work or the proceedings," such rights are not explicitly denied.[8]

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[6] See Origin and Purpose, NGFS, at https://www.ngfs.net/en/about-us/governance/origin-and-purpose.

[7] A list of members of the NGFS is available at https://www.ngfs.net/en/about-us/membership, including the Federal Reserve, OCC, and FDIC, the Federal Insurance Office, and Federal Housing Finance Agency. A web of global governance bodies with observer status at the NGFS includes bodies in which U.S. officials from the Federal Reserve, OCC, FDIC, and Department of the Treasury have substantive roles.

[8] The INSPIRE network, an "independent and global, philanthropy-supported research network," advertises itself as "a designated research stakeholder of the Central Banks and Supervisors Network for Greening the Financial System (NGFS)." See https://www.inspiregreenfinance.org/. INSPIRE also advertises, *inter alia*, "the joint NGFS-INSPIRE Study Group on Biodiversity and Financial Stability," whose work, INSPIRE makes clear, provided a foundation for an NGFS "Conceptual Framework for Nature-related Financial Risks." The INSPIRE network describes itself as an organization "[driving] a global, purpose driven research agenda for greening the financial system," and "a designated research stakeholder of the" NGFS, and claims that "[o]ne third of INSPIRE commissioned projects have buy-in from central bankers." (See https://www.inspiregreenfinance.org/). INSPIRE is "co-hosted" by the ClimateWorks Foundation (https://climateworks.org/), which describes itself as a "global platform for philanthropy to innovate and accelerate climate solutions that scale". Prior to joining the Biden-Harris administration, John

Given numerous workstreams and publications toward which staff from the federal banking regulatory agencies have contributed, the U.S. has made in-kind contributions, though have not provided information to Congress to gauge the extent of the contributions.

Transparency of funding of the Banque de France-sponsored NGFS is lacking, and U.S. federal banking regulators appear not to have careful insight into the funding or concern over the lack of transparency.[9] The funding structure allows financial backing of NGFS production of data and climate models from U.S. adversaries, including China and the Russian Federation, and political activists. The funding structure also generates partisan and activist funding pass-throughs, and their underlying funders, ability to obtain "prestige advantages" over others. Some underlying funders may stand to obtain pecuniary gain from such advantages.[10]

Given lack of transparency from U.S. federal bank regulatory agencies, Congress is inefficiently forced to ascertain the extent to which officials and researchers from those agencies are actively devoting U.S. federal resources to joint work with the NGFS and related foreign agents by combing through publications and workstream products on the NGFS's opaque website. The Federal Reserve, including district Federal Reserve bank officials and researchers, OCC, and FDIC have been only minimally responsive to requests from the Committee on Financial Services for details of those agencies' involvement in the NGFS and fulfillment of their commitments as NGFS members, including the commitment to "[r]aising awareness to the work of the NGFS in their jurisdiction."

The Federal Reserve, FDIC, and OCC have already begun inserting NGFS models and data into the U.S. regulatory framework, including reference to and use of NGFS "plausible" future climate and economic scenarios, with no identification of who determines what is or is not "plausible," aside from murkily funded unelected "experts" at the NGFS. For examples, consider the following (with *italics* added):

- Interagency (Federal Reserve, FDIC, OCC) principles for purported climate-related financial risks, which prescribe that bank risk management objectives include development and implementation of climate-related scenario analysis including "estimating climate-related exposures and potential losses across a range of scenarios, including extreme but

Podesta, currently President Biden's Special Presidential Envoy for Climate, served as Chair of the Board of the ClimateWorks foundation.

9 See, for example, responses to funding questions posed to Federal Reserve, FDIC, and OCC regulatory officials during the July 18, 2023 (and to questions for the record), hearing of the Financial Services Committee Subcommittee on Financial Institutions and Monetary Policy, at https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408903.

10 For monetary policy and the Federal Open Market Committee—FOMC, the Federal Reserve's monetary policymaking committee—the Federal Reserve has an explicit policy on external communications (available at https://www.federalreserve.gov/monetarypolicy/files/FOMC_ExtCommunicationParticipants.pdf). General principles of the policy include that FOMC participants strive to ensure that their contacts with members of the public do not provide any profit-making person or organization with a prestige advantage over its competitors. There is no such explicit policy for Federal Reserve supervision and regulation committees, though symmetry of principles would presumably apply, including that members of such committees who engage with foreign agents funded by profit-making or "non-profit" organizations ought not to be provided with prestige advantages. Presumably, like principles ought to apply to supervision and regulation officials in committees at the FDIC and OCC. That appears not to be the case with interactions with the NGFS.

plausible scenarios; [11] such guidance almost surely will be followed by supervisory and examination enforcement of adherence of financial institutions to the agencies' "principles;"

- The "pilot climate scenario analysis exercise" by the Federal Reserve's Vice Chair for Supervision, instructions for which contain extensive reliance on NGFS data and models, as well as numerous references to consideration of "a range of *plausible* future outcomes," and references to NGFS scenarios as reflecting "plausible conditions," though not with probabilities attached to them;[12]
- Identification by FDIC Chairman Gruenberg of joint efforts to share best practices of the NGFS, as well as the BCBS's Task Force on Climate-related Financial Risks, with the FDIC, Federal Reserve, and OCC;[13]
- Identification by OCC Acting Comptroller Hsu of the NGFS having "developed a range of policy scenarios and climate 'pathways,'" in the context of what bank Boards should be considering when assessing their banks' "exposures to climate change."[14]

The Committee on Financial Services has held numerous hearings this Congress in efforts to provide greater transparency on U.S. Federal regulators' negotiations and collaborations with global governance bodies, including the NGFS. U.S. regulators have not been transparent, nor have the global governance bodies; especially the NGFS.

Unfortunately, surrounding the lack of transparency from U.S. federal regulators, there has been severe erosion of any sense of "independence" of federal banking supervision and regulation during the Biden-Harris administration. Regulatory proposals have in unprecedented fashion divided regulatory agencies' voting Boards along party lines, and significant policy actions have followed partisan "recommendations" from Executive Orders, partisan agendas pursued by the Financial Stability Oversight Council Chair, and outside partisan activists.[15] As U.S. financial regulators cede independence to partisan interests and become captured by those interests, regulatory uncertainty is magnified, to the detriment of safety, soundness, and stability.

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[11] See p. 74188, Federal Register, October 30, 2023/Notices, at https://www.govinfo.gov/content/pkg/FR-2023-10-30/pdf/2023-23844.pdf.

[12] See "Pilot Climate scenario Analysis Exercise: Participant Instructions," January 2023, at https://www.federalreserve.gov/publications/climate-scenario-analysis-exercise-instructions.htm.

[13] See "Remarks by FDIC Acting Chairman Martin J. Gruenberg on the American Bankers Association Annual Convention 'The Financial Risks of Climate Change,'" October 3, 2022, at https://www.fdic.gov/news/speeches/2022/spoct0322.html .

[14] See "Five Climate Questions Every Bank Board Should Ask," speech by Acting Comptroller of the Currency Michael J. Hsu, November 8, 2021, at https://www.occ.gov/news-issuances/speeches/2021/pub-speech-2021-116.pdf .

[15] For example, with respect to U.S. financial regulation and purported climate-related financial risks, see "Climate Roadmap for U.S. Financial Regulation," March, 2021, Americans For Financial Reform, Public Citizen, in Partnership with ClimateWorks, at https://www.climateworks.org/wp-content/uploads/2021/03/PC-AFR-Climate-Financial-Reg-Report-Finalv2-043021.pdf.

Sincerely,

Patrick McHenry
Chairman
House Committee on Financial Services

Andy Barr
Chairman of the Subcommittee on
Monetary Policy and Monetary Policy