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Fed Will Not Be a “Climate Policymaker” According to Chair

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The Chair of the U.S. Federal Reserve Board (Fed), Jerome Powell, stated in a **speech** at the Swedish Central Bank’s symposium on January 10 that the Fed is not a “climate policymaker." He stated that it was critical for the U.S. central bank to “[s]tick to [its] knitting” by following its statutory goals and authorities and not expanding its remit to include “other important social issues.” Chair Powell went on to explain that “[t]he Fed does have narrow, but important, responsibilities regarding climate-related financial risks” and that “[t]hese responsibilities are tightly linked to our responsibilities for bank supervision.” He confirmed that the public expects supervisors to ensure that banks understand and manage risks, including those connected to climate change, but that without legislation from Congress it would be “inappropriate” for the Fed to utilize its powers to influence finance and investment decisions by regulated entities.

These statements follow various climate-related actions taken by the Federal Reserve in recent months, including a January 2023 **report** published earlier this month titled “What are Large Global Banks Doing About Climate Change?” The report reflected the Fed’s examination of the approach taken by 30 global systemically-important banks to measure climate risk and their Scope 3 emissions. The report concludes that “despite some progress by large global banks to address climate change considerations, much work lies ahead to properly measure and disclose climate-related risks, and to better align financing activities with their net-zero targets.” The report states that the absence of a global standard or classification system has resulted in “inconsistencies” when assessing transition risks, which may “potentially lead to underestimation of these risks for the banking sector as a whole.” We also **reported** in December on the Fed’s consultation on a proposed “framework for the safe and sound management of exposure to climate-related financial risks for large banking organizations.”

Taking the Temperature: Chair Powell's "stick to its knitting" comment has garnered the most media attention along with his closing remark that "[w]e are not, and will not be, a 'climate policymaker.'" He also observed that the Fed's mandate is narrower than that of many other central banks, and the Fed should "resist the temptation to broaden our scope to address other important social issues of the day" lest it risk the Fed's case for independence. Notwithstanding these comments, and attracting less coverage, Chair Powell emphasized the Fed's role as a prudential regulator and his intention to continue to act in that capacity in relation to climate change risk. That is consistent with the Fed report and consultation discussed above, which fit squarely within the Fed's prudential regulatory mandate but steer clear of policy issues such as attempting to influence banks to finance green transition efforts.