United States Senate

April 20, 2020

The Honorable Jerome H. Powell
Chairman of the Board of Governors
Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Dear Chairman Powell:

We write regarding the steps the Federal Reserve (the Fed) has taken to bolster liquidity and sustain market functioning during the economic disruption caused by the COVID-19 pandemic. As the Federal Reserve Bank of New York (FRBNY) begins to operationalize the Primary Market Corporate Credit Facility and Secondary Market Corporate Credit Facility (together, "the facilities"), we urge you to provide full transparency on the terms and criteria guiding the facilities' corporate debt purchases, as well as timely disclosure of transaction-specific data.

In the *Coronavirus Aid, Relief, and Economic Support (CARES) Act* (P.L. 116-136), Congress mandated stringent oversight and disclosure requirements for Fed facilities. These requirements are central to the *CARES Act*; they reflect Congress's intention to closely oversee the Fed's actions to support market function and to provide the public with timely information about how their taxpayer dollars are being used. Whether or not a facility is initially capitalized with *CARES Act* funding, the Fed should comply with *CARES Act* reporting standards for all of its Section 13(3) lending facilities.

The Fed's disclosures must include: (1) the underlying investment guidelines provided to BlackRock or any other third-party investment manager; and (2) transaction-specific data, such as the identity of all issuers, the terms of any financing provided, and the use of the funds. Given the U.S. Department of Treasury's equity investment in the facilities, it is in the taxpayer interest to fully understand how FRBNY's third-party investment manager, BlackRock Financial Markets Advisory, will make purchasing decisions. There will likely be a high demand for these facilities, but the Fed's funding is finite. It will be important for policymakers, taxpayers, and the market to understand how FRBNY will direct BlackRock to allocate those resources.

The preliminary term sheets for the facilities suggest a broad strategy of providing access to any investment grade U.S. company with financing needs. However, recent reports have indicated that the Trump administration may pursue targeted relief for specific industries[1] with financial weaknesses that are only partially attributable to the COVID-19 pandemic. To assuage concerns that the Fed's facilities will be used to support specific industries, the Fed should publish the full details of any investment guidelines FRBNY provides to BlackRock. That should include the Fed's rationale for the guidelines, as well as any future changes or additions to the guidelines.

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[1] https://www.washingtonpost.com/business/2020/03/10/trump-oil-bailout/

For the duration of the facilities' market operations, until they cease purchasing securities on September 30, 2020, the Fed should also provide ongoing disclosure of all of the facilities' transactions, including disclosing the identity of all issuers, the terms of any financing provided, and the intended use of the funds. The Dodd-Frank Act requires the Fed to release quarterly details of its Section 13(3) lending facilities' open market transactions, and the *CARES Act* requires the Fed to provide weekly transaction disclosures and monthly reports to Congress. In addition to these statutory requirements, the Fed has the authority to report this information in a timely manner to serve the public interest. Considering the substantial investment of taxpayer dollars as a first-loss buffer for the facilities and the clear congressional intent of the importance of transparency reflected in the *CARES Act*, the Fed should disclose these transaction-specific details on a monthly basis, if not more frequently.

Finally, we believe this pandemic serves as a sobering example of the scale of economic disruption when long-term risks are not accurately priced. At J.P. Morgan's global ESG conference last month, BlackRock's vice chairman, Philipp Hildebrand, argued that the COVID-19 pandemic is not an unpredictable "black swan" event—rather, it is a "gray rhino": highly obvious, highly probable, but still neglected.[2] The financial risks from climate change are similar. The timing and scope of climate damages may not fit neatly into existing risk management frameworks, but they will be economy-wide and potentially irreversible. If our financial institutions and their regulators, particularly the Fed, fail to price climate risks, we will knowingly walk into another "gray rhino" event.

The Fed has an obligation to ensure the stability of our financial system, and as you stated in January 2020, "the public has every right to expect and will expect that [the Fed] will assure that the financial system is resilient and robust against the risks from climate change."[3] Fossil fuel companies face an inevitable repricing of their assets as consumer preferences continue to shift and governments around the world act on climate change, with or without the United States. In addition, the continued burning of fossil fuels results in climate impacts—such as extreme weather, sea level rise, and the spread of new diseases—that increase systemic risks throughout our economy and financial system.

The U.S. financial system's blindness to climate financial risks means that our response to the current economic crisis will make a future climate crisis more likely. The Fed's emergency facilities will rely on ratings from nationally recognized statistical rating organizations (NRSRO) to determine eligible issuers for these facilities and to set purchase limits. However, because the NRSROs fail to incorporate climate risks into their core products, there is no reasonable way to account for these risks in the facilities' transactions. As a result, the facilities can use taxpayer dollars to help sustain industries that may drive a future climate financial crisis. The Fed should accelerate its efforts to better understand and price climate financial risks before it is too late.

We appreciate the steps you have taken to mitigate the financial impacts of this public health emergency, and we ask that you ensure the Fed's actions are fully transparent. Further, we urge you to apply the difficult lessons from this unprecedented health and economic crisis to help prevent the climate-driven financial crisis on the horizon.

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[2] https://markets.jpmorgan.com/research/email/-3n9rvl2/MCLvqlKcW0wsYbQFjrb2AQ/GPS-3312768-0
[3] https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20200129.pdf

Sincerely,

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U.S. Senator

SHELDON WHITEHOUSE
U.S. Senator

SHERROD BROWN
U.S. Senator

JEFFREY A. MERKLEY
U.S. Senator

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