

Wall Street is about to start trading futures contracts on California's water supply, helping businesses and investors manage the increasingly dramatic risk of climate change.

Rostin Behnam, a commissioner at the Commodity Futures Trading Commission — which oversees US derivatives markets — said the move underlines a growing focus from regulators on the impact of the environment on the stability of the world's financial system.

CME, which operates the Chicago futures exchange, last week said that it would begin trading the world's first futures contracts for water, tied to prices in California.

The contracts are “a really good thing,” Behnam [told the Financial Times](#).

Water derivatives and other investment products linked to environmental, social and governance factors will “help stakeholders manage the risk that is going to continue to present itself to us,” he was quoted as saying.

CME's contract is based on the Nasdaq Veles California Water Index, which aims to track the spot price of water in the state, based on water rights — entitlements to divert water from natural sources.

The contracts are intended, CME says, to both allow California's big water consumers -- like almond farms and municipalities -- to hedge against surging prices and can act as a benchmark that signals how acute water scarcity is becoming in the state and, more broadly, across the globe.