How the Financial Regulators can Tackle Climate Risk

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Federal Financial Regulators Role in Climate Risk

- In the 5 years after the Paris Agreement, the world's 60 largest banks pumped $3.8 trillion+ into the fossil fuel industry.

- Publicly traded companies will face ~**$3 trillion** in climate-related losses over the next 15 years, even if warming is limited to 2°.

- If we delay acting on climate, the losses of stranded assets will reach **$20 trillion**.

Federal Financial Regulators Role in Climate Risk

- Climate change creates many risks:
  - Financial stability risks
  - Material risks for publicly-traded companies
  - Risks to banks who lend to fossil fuel firms

What's been done thus far

Fed

- Two-page box in financial stability report on climate risk
- Supervisory committee on climate, led by Kevin Stiroh (Jan 25)
- Financial Stability Climate Committee (March 23)

What's *hasn't* been done

Fed

- Divestment of the $1 billion in energy/utility bonds in the Secondary Market Corporate Credit Facility (SMCCF)
- ~$8.7 billion in ETFs also remain
- Bonds include:
  - Enbridge (Line 3), Energy Transfer Operating (Dakota Access), Exxon, Chevron, Marathon Petroleum

What *could* be done

Fed

- Banks are one of the major lenders to fossil fuel firms, which exposes them to risks
- The Fed could create new requirements to account for those risks:
  - Capital requirements
  - Stress tests

What’s been done thus far

SEC

- Acting Director Lee
  - Enhanced focus on climate-related disclosures, using 2010 guidance (Feb 24)
  - Denied requests from ConocoPhillips and Occidental Petroleum to throw out shareholder motions on lowering emissions (March 20)

What *could* be done

SEC

- Mandatory climate disclosures for private firms
- Enforcement actions against firms misstating their risks
    - AT&T, internet infrastructure, and flood zones

What *could* be done

FTC

- Assess mergers for climate harm
- Block mergers that create undue climate harms
- Protect consumers and honest businesses by deterring corporate “greenwashing”

What's been done thus far

Treasury

- Treasury Climate Czar
  - John Morton, main background in international finance, private equity & venture capital
  - Never worked at a financial regulator

What *hasn't* been done

Treasury

- The climate czar didn't met criteria advocates asked for
  - 147 org letter pushing for action

What *hasn't* been done

Treasury

- No serious consideration of BlackRock as a Systemically Important Financial Institution
    - "It's not obvious to me designation is the right tool"
    - NEC head Brian Deese made $4.7 million at BlackRock
    - Other BlackRock alumn in Biden world: Wally Adeyemo, Mike Pyle

What *could* be done

Treasury

- Use bully pulpit to drive other federal financial regulators
  - Push for climate stress tests and the consequences for failing them
- Coordinate across regulators to ensure all are working in synch

What's been done thus far

OCC

- "Fair Access" rule (trying to force banks to loan to fossil fuel firms) put on hold.

What *hasn't* been done

OCC

- Naming a nominee

- March 9: "Mehrsa Baradaran close to locked for OCC"
- March 25: "Three new candidates emerge to head OCC"

What *could* been done

OCC

- Create and Implement Climate Stress Tests
- Climate Risk Aware Capital requirements
- Strengthen the 2016 Oil and Gas Exploration and Production Lending guidelines

What’s been done thus far

The White House

- Jan 20 EO:
    - Rejoined Paris Accord
    - Drilling moratorium in Arctic National Wildlife Refuge
- Jan 27 EO:
    - Creation of Climate Envoy office, led by John Kerry
    - Pause new oil/gas leases on public lands
    - Ratify the Kigali Amendment to the Montreal Protocol within 60 days.
        - 80%+ reduction in hydrofluorocarbons consumption by 2047.

Items for concern

Climate Envoy

- WH Climate Envoy John Kerry Praised "blank check" shell companies, also known as SPACs
  - AFR/CFA letter on concerns about SPACs
- Praised Larry Fink/BlackRock for "new awareness" re: climate
- Seem content with "net zero" commitments

Items for concern

Climate Envoy

- Tapped private equity titan Mark Gallogly
  - Buyer of distressed Puerto Rico and PG&E debt
  - E&E News: "Activists want to sink this pick for Kerry's climate team"

Resources

- In the 5 years after the Paris Agreement was adopted, the world's 60 largest banks pumped $3.8 trillion+ into the fossil fuel industry
  - bankingonclimatechaos.org
- Blackrocksbigproblem.com
- Climate Roadmap for U.S. Financial Regulation