How the Financial Regulators can Tackle Climate Risk

Alexis Goldstein
Americans for Financial Reform;
Author of the “Markets Weekly” newsletter
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
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 meet 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* have been done

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

OCC
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.
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”
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