Climate risk 'looms even larger' than pandemic

Avery Ellfeldt, E&E News reporter  Published: Monday, November 9, 2020

Fed Chairman Jerome Powell warned last week that climate change is increasing financial risks. Federalreserve/Flickr

Two top financial regulators last week affirmed the United States' responsibility to address climate risk in capital markets. The declarations come amid plans by the incoming Biden administration to more aggressively confront global warming.

Federal Reserve Chair Jerome Powell said at a press briefing Thursday that the U.S. central bank remains in the early stages of understanding climate-related financial risk. Even so, he noted the Fed is getting up to speed on the issue by monitoring how central banks and regulators around the world are integrating climate change into their work.

"These tend to be longer-term risks, but of course the longer term does arrive over time," Powell said. "We take it as our obligation to understand these risks and incorporate them into the way we supervise and think about the overall financial system and economy."

Powell and the Fed have taken heat from sustainable finance advocates who say the regulator has failed to take meaningful steps on the issue. Specifically, they say the central bank
should join the Network for Greening the Financial System, a group of international regulators working to address climate risk in financial markets.

The U.S. central bank has refrained from becoming a full member, though Powell has hinted the Fed is considering the move (*Climatewire*, Feb. 12).

Reporters last week pressed Powell on the issue. He didn't answer directly but said the central bank is monitoring what the Fed's global peers are doing to measure and mitigate climate-related risk.

According to financial regulatory expert Graham Steele, of the Stanford Graduate School of Business, the Fed joining the Network for Greening the Financial System would be the "last piece of the puzzle that needs to fall into place" to accelerate the international regulatory community's efforts to address climate change.

In a recent interview, Steele said that's in large part due to the Fed's "stature among their fellow institutions, but also because they impact so much of the world's economy through the various market operations that they do by setting monetary policy."

Commissioner Allison Herren Lee of the Securities and Exchange Commission also said she believes the U.S. needs to more assertively address the financial threats posed by climate change. In a *speech* Thursday, she said global warming is a risk that "looms even larger than the pandemic" and could "have even more grave human and economic costs than we have witnessed in these last eight months."

Lee, one of two Democratic SEC commissioners, has in recent months opposed several moves by the agency that she said may stymie investors' attempts to better understand climate risk. On Thursday, she said it's imperative the agency begin handling global warming as a potentially catastrophic systemic threat.

The agency could start, she said, by spearheading a risk disclosure framework to ensure public companies — and the institutions that finance them — provide "standardized, comparable and reliable" information about their exposure to climate change.

Notably, that's a move Biden plans to make. The president-elect's environmental platform says he would issue an executive order on day one to require public companies to disclose their climate risks and carbon footprints (*Climatewire*, Oct. 2).

It's among a series of steps green groups want the new administration to take — especially given Biden's emphasis on climate action in the *final days* of his presidential run.

"We expect his financial regulatory agency appointees to live up to those promises starting on day one, by using existing regulatory powers to address the climate risk [caused] by the financial industry's continued investment in the very industries driving climate change — fossil fuels and deforestation-risk commodities — as well as the harm that those investments have caused to frontline communities," climate finance campaigner Moira Birss, of Amazon Watch, said in a statement.