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WHAT YOU NEED TO KNOW ABOUT

Biden's Plans for Climate Finance

PRO POINTS

- **The Biden administration is planning to impose** unprecedented climate risk regulations on banks and other U.S. companies.
- **Washington policymakers want more** information on how finance contributes to climate change and the extent to which global warming could destabilize banks.
- **The key agencies pursuing the climate finance** agenda are the Treasury Department, the Securities and Exchange Commission and the Federal Reserve.
- **CEOs see new rules as inevitable, but the Biden** administration faces a major lobbying battle.

HOW WE GOT HERE

The U.S. is playing catch-up in a global push to police financial firms for their exposure to economic dangers linked to rising seas and devastating natural disasters.

While the Trump administration devoted little attention to the issue, central banks and regulatory agencies in the U.K., the European Union and elsewhere developed new rules in recent years, including mandatory disclosures for companies.

The election of Joe Biden as president made climate finance a top agenda item for Washington, with Biden pledging a “whole of government” approach to the climate crisis.

Administration officials and regulators are looking at two categories of climate risk affecting the financial system. One area of concern are so-called physical risks, where collateral underlying bank loans is susceptible to natural disasters, exposing lenders to knock-on effects.

The other focus is on “transition risks,” which account for the costs of society making a concerted effort to reduce its carbon footprint over time. The fear is that the shift could create a shock in which financial institutions’ oil and gas investments are made worthless.



Agencies working on regulating climate risks for banks

Here are U.S. agencies taking the lead on setting climate-related financial regulations.



Federal agencies

TREASURY DEPARTMENT

Treasury Secretary Janet Yellen has put climate at the top of the agenda of the Financial Stability Oversight Council. She is also vowing to create a "climate hub" at Treasury.

SECURITIES AND EXCHANGE COMMISSION

The SEC is expected to impose mandatory climate disclosure rules on public companies. The agency has started taking public feedback on potential transparency requirements.

FEDERAL RESERVE

The Fed has created two internal climate groups. The Supervision Climate Committee will focus on the risks facing individual banks. The Financial Stability Climate Committee will look at climate risks across the financial system.

COMMODITY FUTURES TRADING COMMISSION

The CFTC is creating a "Climate Risk Unit" across agency offices. It will work with industry to highlight climate risks and improve the agency's understanding of financial derivatives that may be used in the transition to a lower-carbon economy.

FEDERAL HOUSING FINANCE AGENCY

The FHFA, which regulates housing finance giants Fannie Mae and Freddie Mac, has hired environmental economists. FHFA Director Mark Calabria, a Trump appointee, says climate change "represents a significant probabilistic risk" and that financial regulators "need to account for it"



Environmental organizations

NETWORK FOR GREENING THE FINANCIAL SYSTEM

The Fed late last year formally joined the Network for Greening the Financial System, an international group of central banks and financial regulators developing rules to address climate risks. It also includes the European Central Bank, the Bank of England and the Bank of Japan. The New York Department of Financial Services was previously the only U.S. member.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The G-20-backed, Michael Bloomberg-led group is developing a framework for companies that want to voluntarily report climate data.

Source: POLITICO staff reports



WHAT'S NEXT

The Biden administration's climate finance effort is triggering a major lobbying battle that will be fought at several agencies. It's also emerging as a fiercely partisan issue.

Treasury Secretary Janet Yellen is taking the lead for the administration. She says climate change is "an existential threat" and the biggest emerging risk to the health of the U.S. financial system. She has vowed to create a "climate hub" at Treasury and to appoint a senior official to coordinate efforts. For the first time ever, she has also put climate on the agenda of the Financial Stability Oversight Council, a body of top regulators that includes the leaders of the Fed and the SEC.

The Fed since late last year has accelerated its work on climate. It has established two internal organizations to tackle the problem. One will focus on the risks that individual banks face. The other will consider dangers looming for the broader financial system.

The SEC has quickly begun work on new rules that would require companies to disclose their contributions and exposure to climate change. Gary Gensler, Biden's pick to lead the agency, is expected to lead the transparency push once he's confirmed by the Senate. He says companies "should not be able to hide" their climate risks from investors.

A growing number of Wall Street CEOs led by BlackRock Founder Larry Fink are joining calls to increase climate reporting. But mandatory disclosure rules will spur a lobbying blitz as companies work to shape the regulations and try to avoid future legal liabilities for inaccurately reporting information.

Banks are preparing to push back on proposed climate "stress tests" that would gauge their ability to remain operational and to lend in the wake of extreme natural disasters.

House and Senate Republicans are rallying against the planned regulations. Sen. Pat Toomey, the top Republican on the Senate Banking Committee, is leading the charge. He says mandatory climate disclosures "would discourage firms from going public, reduce access to capital and slow economic growth."



Top 50 banks financing fossil fuel companies

Banks doing business with 100 key oil, gas and coal companies that are expanding efforts in fossil fuels, ranked by total financing 2016 through 2020, according to a report by six environmental and sustainability organizations.

BANK	HEADQUARTERS	TOTAL FOSSIL FUEL FINANCING 2016-2020, IN BILLIONS
JPMorgan Chase	U.S.	\$142.8B
Citi	U.S.	\$108.3B
Bank of America	U.S.	\$92.5B
Wells Fargo	U.S.	\$69.6B
RBC	Canada	\$61.1B
MUFG	Japan	\$60.1B
TD	Canada	\$59.4B
BNP Paribas	France	\$58.6B
Barclays	U.K.	\$57.8B
Mizuho	Japan	\$53.4B
HSBC	U.K.	\$51.0B
ScotiaBank	Canada	\$48.3B
Morgan Stanley	U.S.	\$47.0B
Bank of Montreal	Canada	\$43.0B
Goldman Sachs	U.S.	\$39.5B
ICBC	China	\$37.3B
Bank of China	China	\$37.2B
SMBC Group	Japan	\$36.1B
Société Générale	France	\$32.3B
Deutsche Bank	Germany	\$30.4B
Crédit Agricole	France	\$29.8B
Credit Suisse	Switzerland	\$28.6B
Agricultural Bank of China	China	\$21.4B
Santander	Spain	\$19.8B
CIBC	Canada	\$18.6B
China Minsheng Bank	China	\$16.6B
China Construction Bank	China	\$16.2B
UBS	Switzerland	\$13.9B
China Citic Bank	China	\$13.0B
Sberbank	Russia	\$11.1B
Industrial Bank	China	\$10.4B
BBVA	Spain	\$9.8B
Shanghai Pudong Development Bank	China	\$9.2B
Standard Chartered	U.K.	\$8.5B
Truist	U.S.	\$8.1B
Unicredit	Italy	\$8.0B
China Merchants Bank	China	\$6.8B
Ping An	China	\$6.7B
BPCE/NATIXIS	France	\$6.4B
Intesa Sanpaolo	Italy	\$6.3B
State Bank of India	India	\$6.2B
ING	Netherlands	\$5.8B
Bank of Communications	China	\$5.2B
ANZ	Australia	\$5.0B
China Everbright Bank	China	\$4.7B
Commerzbank	Germany	\$4.6B
U.S. Bank	U.S.	\$4.4B
NatWest	U.K.	\$4.0B
Lloyds	U.K.	\$3.4B
Postal Savings Bank of China	China	\$3.0B

Source: "Banking on Climate Chaos: Fossil Fuel Finance Report 2021" by the Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change International, Reclaim Finance and the Sierra Club



POWER PLAYERS

- **Didem Nisanci:** Nisanci, the Treasury Department's new chief of staff, previously served on the G-20 Task Force on Climate-Related Financial Disclosures and as the SEC's chief of staff.
- **Satyam Khanna:** Khanna is SEC Acting Chair Allison Lee's senior policy adviser for climate and ESG (environmental, social and governance) issues. He worked earlier as an adviser to Principles for Responsible Investment, an advocacy group calling for greater climate risk disclosure.
- **Rostin Behnam:** CFTC Acting Chair Behnam is one of the key thought leaders behind the current U.S. climate finance push. Last year, he led work on a sweeping report that is now seen as a road map for federal financial regulatory agencies tackling the issues.