What Congress Needs to Know About Corporate Climate Risk, Resilience, and Disclosures
EESI Briefing, September 20, 2022

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Boston University
The Biden Administration’s ”Whole of Government” Approach to Climate Change: Executive Order 14030

- *All* financial regulatory agencies now have a climate risk mandate
- Some are farther along than others in rulemaking proceedings, notably SEC with three rules in works
- Several agencies, in addition to the Federal Reserve (not covered by EO 14030), have joined the international Network for Greening the Financial System
# 2022 Climate Risk Scorecard

This table assesses more than 230 public actions that federal financial regulators have already implemented to address climate-related financial risk.

<table>
<thead>
<tr>
<th></th>
<th>FED</th>
<th>FDIC</th>
<th>OCC</th>
<th>NCUA</th>
<th>SEC</th>
<th>MSRB</th>
<th>CFTC</th>
<th>FHFA</th>
<th>Treasury</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Publicly affirm climate as a systemic risk</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tr>
<tr>
<td>2. Produce research and data on climate change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>3. Assess climate risks on “financially vulnerable communities”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td>n/a</td>
<td>X</td>
<td>✓</td>
</tr>
<tr>
<td>4. Appoint senior staff to focus on climate change</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>5. Improve climate-related disclosure</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Include climate risk in supervision and regulation</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Legend:**
- **Green:** Notable progress or action completed
- **Yellow:** Some progress
- **Red:** No progress
- **Gray:** Not applicable

Source: Ceres (2022)
Three ESG-related SEC Rules in the works:

• Proposed Rule to Enhance and Standardize Climate-Related Disclosures for Investors - comments closed June 17, 2022

• Proposed Investment Company Names Rule - comments closed Aug. 16, 2022

• Proposed ESG Disclosure Rules for investment funds and advisers - comments closed Aug. 16, 2022
Physical risk
- Changing climate conditions
- Extreme weather events

Transition risk
- Policy changes
- Technological innovation
- Social adaptation

Liability risk
- Stakeholder litigation
- Regulatory enforcement

- Direct damage to assets or property
  - Lower asset values
  - Defaults on loans
  - Increased insurance claims
- Disruption from adjustment to low-carbon economy
  - Impacts on pricing and demand
  - Stranded assets
  - Supply chain disruption
- Not considering or responding to the impacts of climate change
  - Business disruption resulting from litigation
  - Penalties resulting from litigation

Climate Risk and Analytics is a Big & Growing Business

By Greg Ritchie +Follow
September 15, 2022 at 12:01 AM EDT

The fallout from climate change will be felt across industries, eroding asset values and forcing investors to make new risk assessments, according to a fresh data analysis tool launched by a unit of S&P Global.

Accelerating M&A Activity Involving Climate or ESG Firms

<table>
<thead>
<tr>
<th>Buyer</th>
<th>Target</th>
<th>Target Type</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goldman Sachs</td>
<td>NN Investment Partners</td>
<td>Asset Manager</td>
<td>Aug. 21</td>
</tr>
<tr>
<td>Moody’s</td>
<td>RMS</td>
<td>Data/Analytics</td>
<td>Aug. 21</td>
</tr>
<tr>
<td>AMG</td>
<td>Parnassus</td>
<td>Investment firm</td>
<td>Jul. 21</td>
</tr>
<tr>
<td>Blackstone</td>
<td>Sphera</td>
<td>Software/FinTech</td>
<td>Jul. 21</td>
</tr>
<tr>
<td>AXA</td>
<td>ClimateSeed</td>
<td>Marketplace</td>
<td>Jul. 21</td>
</tr>
<tr>
<td>JPMorgan</td>
<td>OpenInvest</td>
<td>Software/FinTech</td>
<td>Jun-21</td>
</tr>
<tr>
<td>BlackRock</td>
<td>Baringa Climate Change Scenario Model</td>
<td>Data/Analytics</td>
<td>Jun. 21</td>
</tr>
<tr>
<td>KKR</td>
<td>ERM</td>
<td>Consulting</td>
<td>May-21</td>
</tr>
<tr>
<td>Deutsche Börse</td>
<td>ISS</td>
<td>Data/Analytics</td>
<td>Feb-21</td>
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<tr>
<td>McKinsey</td>
<td>Vivid Economics &amp; Planetrics</td>
<td>Data/Analytics, Consulting</td>
<td>Mar-21</td>
</tr>
<tr>
<td>Perpetual Asset Management</td>
<td>Trillium</td>
<td>Asset manager</td>
<td>Jul-20</td>
</tr>
<tr>
<td>Morningstar</td>
<td>Sustainalytics</td>
<td>Data/Analytics</td>
<td>Apr-20</td>
</tr>
<tr>
<td>MSCI</td>
<td>Carbon Delta</td>
<td>Data/Analytics</td>
<td>Sep-19</td>
</tr>
<tr>
<td>Moody’s</td>
<td>Four Twenty Seven</td>
<td>Data/Analytics</td>
<td>Jul-19</td>
</tr>
</tbody>
</table>

Selected deals; list not exhaustive
Table: Shrvan Bhat • Source: Center for Climate-Aligned Finance • Created with Datawrapper
Greenwashing concerns at corporate level?

• Are net-zero goals achievable? Based on science? Do they over-rely on unproven or unreliable technologies like carbon capture, removal, or offsets?
• Are “Scope” emissions reporting accurate? Audited?
• Are emissions scenarios used by the company for assessing transition risks reasonable and do they represent a reasonable range of plausible energy demand futures?
• Physical risk has received less attention so far but needs to be a bigger concern, proposal asks for disclosure of location-based risks
Concerns at the fund level?

• Did the fund simply rebrand as ESG with no substantive change to methodology?

• Is the composition of the fund consistent with the prospectus description?

• Do fund investors understand what ESG metrics mean and how they are used? Is the misunderstanding substantial enough to be misleading?

• Fund shareholder voting record on ESG issues?
Types of ESG Funds

- ESG Integration - ESG considered as one of many factors with no special weight
- ESG Focused - with ESG metrics or other factors determining fund strategy and composition
- ESG Impact - seeks to engage and push for change at certain companies in certain ways