DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

August 18, 2021

The Honorable Elizabeth Warren
United States Senate
Washington, DC 20510

Dear Senator Warren:

Thank you for your August 2nd letter emphasizing the need for ambitious action to tackle the climate crisis. The recent Working Group One contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) leaves no doubt of the need for urgent and bold action, and Treasury is pleased to be playing a central role in the implementation of the Biden Administration's historic climate agenda.

Your letter highlights the importance of keeping a keen eye on the impacts of and opportunities to address climate change across all of the Department of Treasury's work. Treasury is fully committed to this approach and sees tremendous potential in engaging in both the domestic and international arenas in which Treasury operates.

To coordinate this broad portfolio of work, Secretary Yellen created the Climate Hub, a small team that John Morton leads as the first Climate Counselor to the Secretary. The Climate Hub coordinates and enhances Treasury's existing climate-related activities by harnessing the tools, capabilities, and expertise across the Department and enabling Treasury to move nimbly and efficiently to take critical climate action.

During its first three months, the Climate Hub has organized its work and established that the overarching goal of the Department's climate-related activities is to support the Administration's aim of achieving net-zero greenhouse gas emissions economy by mid-century, and to do so while working to ensure a just and resilient transition. Achieving this goal will require fundamental adjustments and transitions in the U.S. economy, including systemic shifts in public budgets, tax policy, and private financial market capital flows as well as a full incorporation of climate-related financial risk information in investment decisions and financial valuations.

To that end, the Climate Hub is focused on harnessing Treasury's collective climate expertise to **inform, guide, incentivize, and mobilize** financial flows for climate mitigation and climate adaptation. Broadly, this entails:

- ***informing*** market participants by, through engagement with the Financial Stability Oversight Committee (FSOC) and various international standard-setting bodies, improving the availability of information on climate-related risks and opportunities so that climate considerations can be fully integrated into financial decision-making;
- ***guiding*** the transition to a net-zero world by, through Treasury's co-chair role in the G20 Sustainable Finance Working Group (SFWG) and other multilateral and bilateral engagements, coordinating approaches and developing and promoting best practices to facilitate private investment that supports the transition to net-zero;

- ***incentivizing*** this transition by employing Treasury's tax, budget, regulatory, and oversight authorities to incentivize private capital flows to a net-zero posture; and
- ***mobilizing*** the transition by using Treasury's voice and vote at the multilateral development banks (MDBs) and other climate finance institutions to push for increased levels of climate finance, including by crowding in higher levels of private capital.

At any given moment, the Climate Hub is helping to manage and coordinate dozens of climate-related workstreams across the Department in close coordination with our colleagues in the Offices of International Affairs, Domestic Finance, Economic Policy, Tax Policy, and Treasury Operations. From the development of the U.S. Government's first International Climate Finance Plan to the execution of two Presidential executive orders on climate, to elevating climate change as a top priority in the Department's own strategic plan, the Climate Hub is using every tool at our disposal to ensure that climate change remains a central focus of the Department's efforts.

Specific answers to the questions posed in your letter are included below.

1) *Please describe the role the Climate Hub is playing in helping Treasury meet the requirements of President Biden's May 20th E.O.*

   The Executive Order (E.O.) 14030 called for an assessment of climate-related financial risk to be completed within 180 days, and the FSOC is working diligently to meet that deadline. While the Climate Hub plays a coordinating role in the implementation of the Executive Order, it does not direct the activities of independent regulators. The Climate Hub has instead convened staff in Treasury's FSOC Secretariat, Federal Insurance Office (FIO), Office of Financial Research (OFR), and the broader Offices of Domestic Finance and International Affairs, and liaised regularly between this team at Treasury, the White House Climate Policy Office (CPO), and the National Economic Council (NEC). To that end, the Climate Hub is also coordinating with FIO as it works to implements its directives from the Executive Order. The Climate Hub has also worked with staff in the Office of Domestic Finance and Office of International Affairs to host listening sessions with stakeholders—including private sector companies and civil society organizations—to elicit feedback on what information investors currently lack to integrate climate considerations into all aspects of financial decision-making.

2) *What actions are you taking to coordinate the financial regulators so that they are all aligned on climate risk, and what is your timeline for implementing these actions?*

   Climate change poses substantial risks to U.S. financial stability and to the American economy. The FSOC has an important role to play, helping to underscore the focus on financial stability issues and coordinate regulators' collective efforts to improve the measurement and management of climate-related risks in the financial system. This has been a focus of Secretary Yellen since her first FSOC meeting as Chair in March. As part of these efforts and as specified in E.O. 14030, the FSOC will issue a report to the President on member agency efforts to integrate consideration of climate-related risk in their policies and programs and will include an assessment of climate-related financial risk in FSOC's annual report to Congress.

In line with E.O. 14008, Treasury is also closely coordinating with our domestic regulators as we simultaneously engage in international fora and institutions working on the management of climate-related financial risks, like the G7, G20, the FSB, and the International Association of Insurance Supervisors (IAIS), to identify gaps in data and methods for assessing climate-related financial risks, to discuss approaches to measuring these risks such as scenario analysis, and to share related information and expertise.

3) *Have you provided guidance to the financial sector on how to assess environmental risks? If so, please explain what that guidance was and when it was issued.*

E.O. 14030 directed the Secretary of the Treasury, as Chair of the FSOC, to engage with FSOC members to assess climate-related financial risks to the financial system, including the disclosure of risks by regulated entities. The FSOC is the right body to do this work, as it can leverage the expertise of all its member agencies and offices. Treasury's work with financial regulators on this important issue, as part of the FSOC's climate work, has considered the current state of supervisory and regulatory work across agencies, the nature of data gaps and challenges faced by institutions and regulators in measuring climate-related financial risks, and potential paths to improving assessments of climate-related financial risks. This work is ongoing and will support the report that Secretary Yellen has engaged FSOC members to produce this fall, as requested by E.O. 14030.

One element of the FSOC's work involves assessing the current state of climate-related financial disclosures by regulated entities in the financial sector and considering what enhancements may help in addressing climate-related financial risks, as discussed in E.O. 14030. The FSOC work is ongoing, and its report will be an important step towards improving the assessment of climate-related risks and their impact on the financial sector.

Treasury also contributed to an FSB report on promoting climate-related financial disclosure which was published in July and provides high-level guidance to support financial authorities' development of disclosure frameworks for both the financial and non-financial sectors.

4) *In your view, what are the most significant challenges you foresee in developing and implementing a strong regulatory agenda to ensure the financial system is adequately prepared for climate-related disruptions?*

While the effects of climate change are all around us, translating those effects into specific risks to the financial system is complex and requires significant investment in, and development of, new data, methods, and expertise. With the overarching mission of enabling the net-zero transition, we should consider all possible paths to making inroads into greenhouse gas mitigation and climate adaptation. It will also require supervisors and regulators to update their supervisory and regulatory approaches as we develop new data, methods, and expertise. Both the FSOC work described above and the work of each independent regulatory agency (including any authorities in Treasury) are critical to this effort, as are global efforts by bodies such as the FSB and the Network for Greening the Financial System (NGFS). We see a strong need to work together with a common vision to make progress toward enabling the net-zero greenhouse gas emissions economy. One of the greatest challenges is coordination.

5) Regarding the aforementioned policy goals outlined in Treasury's climate strategy:

a) What is your timeline for implementing these goals?

"Mobilizing financial resources for climate-friendly investments at home and abroad, and prioritizing the expedited transition of high-emitting sectors and industries"

President Biden has pledged to double, by 2024, our annual public climate finance to developing countries relative to the average level during the second half of the Obama-Biden Administration (FY 2013-2016). Treasury engages regularly with interagency partners on the budget process to ensure that we achieve this benchmark by FY 2024.

Treasury also leads U.S. participation in the MDBs and multilateral climate funds such as the Green Climate Fund and Climate Investment Funds, the largest public source of climate finance for developing countries. Treasury has directed MDB leadership to develop a plan by October to catalyze significantly more private climate finance. Treasury also works bilaterally with donor governments to encourage coal-reliant emerging market countries to commit to robust transitions away from coal and other high-emitting sources of energy. Treasury acts with the utmost urgency in seeking to enable the transition away from high-emitting sources of energy in emerging and developing economies.

Treasury is co-chairing the G20 Sustainable Finance Working Group (SFWG), and the SFWG will provide the G20 Finance Ministers and Central Bank Governors with two deliverables in October. The first is the G20 Sustainable Finance Roadmap (Roadmap). The Roadmap has an initial focus on climate that will lay out the G20's priorities for advancing work on sustainable finance and map ongoing international initiatives. The Roadmap will highlight opportunities where the G20 can leverage and accelerate existing international workstreams, as well as identify areas that require further work or international coordination. The second deliverable is an annual synthesis report that will report on the G20's progress against the Roadmap and provide principles, recommendations, and best practices identified by the SFWG on a number of priority focus areas each year. In 2021, the SFWG's Synthesis Report will deliver a set of principles and recommendations on approaches to align investments with sustainability goals; ways to improve the consistency, comparability, and reliability of sustainability information; and actions for the MDBs to align themselves with the goals of the Paris Agreement.

"Leveraging economic and tax policies to support building climate-resilient infrastructure and ensuring the transition to a net-zero decarbonized economy"

Treasury's climate-related economic and tax policy work is ongoing, and the implementation timeline relies on Congressional authorities. Treasury is working with congressional partners on various provisions in the bipartisan infrastructure bill and other legislative efforts aimed at reducing carbon emissions through incentives and investments.

"Ensuring that environmental justice considerations feature centrally in programs, policies, and activities given the disproportionate impacts that climate change has on disadvantaged communities"

This is a foremost consideration in all of Treasury's climate-related policy work. For example, through our participating in the Interagency Working Group on Coal, Oil and Gas, and Power Plant Communities, we are documenting how our Domestic Finance and Recovery Programs—ranging from Community Development Financial Institutions (CDFIs) to broadband to Coronavirus State and Local Fiscal Recovery Funds and small business funding—are supporting energy transition communities. In all of these efforts, we bring an equity lens, supporting lower income households, underserved small businesses and communities, and those affected by historical ethnic and racial injustices.

"Ensuring that policies designed and implemented to assist with the transition to a lower-carbon economy are broadly just and equitable and support well-paying jobs"

Addressing the climate crisis presents an economic opportunity as we seek to support President Biden's goals of creating a carbon-pollution neutral power sector by 2035 and a clean energy economy by 2050. We can fuel an economic recovery, create well-paying, union jobs, strengthen America's working communities, and secure environmental justice. To that end, Treasury has been working across the Administration on legislation such that the financing and technical assistance we provide for climate transition in manufacturing and innovation also ensures that Americans can participate in those opportunities, providing well-paying jobs and equitable opportunities across the country.

"Helping households, businesses, workers, and investors analyze, stay informed about, and adapt to the economic and financial risks and opportunities associated with climate change"

Financial regulators, financial institutions, and market participants need to have access to the best information and data to measure climate-related financial risks. Our pensions, our savings—our future livelihoods—depend on the financial sector to adequately account for climate-related financial risks and to build a more sustainable and resilient economy. We all, therefore, need to have the best tools and the best data to make well-informed decisions.

E.O. 14030 directed the Secretary to engage with the FSOC to consider the need for enhanced disclosure regarding climate-related risks and opportunities. Treasury understands that this work is ongoing as part of the FSOC's assessment of climate-related financial risk, which is expected to be completed within 180-day period specified in the E.O.

"Promoting globally consistent approaches to climate-related financial risks"

Treasury is actively engaged in multiple workstreams at the FSB and IAIS to promote globally consistent approaches to climate-related financial risks. These efforts include Treasury participation in development of the FSB's Report on Promoting Climate-Related Disclosures and Roadmap for Addressing Climate-Related Financial Risks, and work in the FSB's Working Group on Climate Risks to draft a report on the supervision and regulation of climate-related financial risks.

"Understanding and mitigating the risks that climate change poses to the stability of the U.S. and global financial system and economy"

E.O. 14030 directed the Secretary to engage with the FSOC to consider climate-related financial risks to the financial stability of the United States. Treasury understands that this work is ongoing as part of the FSOC's assessment of climate-related financial risk, which is expected to be completed within the 180-day period specified in E.O. 14030.

Treasury is actively engaged in work at the FSB to understand and mitigate the financial stability risks posed by climate change, including in the areas noted above, and through participation in the development of the FSB's report on the Availability of Data with which to Monitor and Assess Climate-Related Risks to Financial Stability. Treasury also participates in related work in forums such as the Coalition of Finance Ministers for Climate Action and OECD. Some U.S. regulators are participating in related work being undertaken by the financial standard-setting bodies and groups such as the NGFS.

b) Which of these do you plan on prioritizing and why?

The magnitude of the climate crisis calls for a simultaneous focus on each of the policy goals outlined above. Treasury is focused on delivering on President Biden's international climate finance commitments, responding in a timely manner to E.O. 14030, pursuing economic and tax policy shifts to reduce carbon emissions domestically, and integrating environmental and economic justice into these and all other climate policy considerations.

Thank you, once again, for your interest in in the integration of climate change considerations into Treasury's work. Treasury applauds your individual and collective leadership on climate change. The Climate Hub would be happy to follow up with you or your staff should you have further questions and looks forward to a close partnership in the months and years ahead.

Sincerely,

Craig Radcliffe
Deputy Assistant Secretary for Banking and Finance
Office of Legislative Affairs

Identical letter sent to:
The Honorable Christopher J. Van Hollen
The Honorable Kirsten Gillibrand