Secretary of the Treasury Janet L. Yellen's Remarks to the Institute of International Finance

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I first started working on climate change in the 1990s, advising President Clinton as Chair of the Council of Economic Advisers in the runup to the 1997 Kyoto Conference of Parties. We understood that the potential cost of climate change was significant.

Of course, we know what the trajectory has been ever since. Over the past 30 years, the incidence of natural disasters has dramatically increased and the actual and future potential cost to the economy has skyrocketed. We are now in a situation where climate change is an existential risk to our future economy and way of life. If left unaddressed, climate change will leave us grappling with fundamental questions like: What are the consequences for our coastal cities and communities? What will happen to our farmers and cost of food after droughts and flooding decimate farmland? How will families, cities, and businesses secure long-term financing for mortgages and investments?

Climate scientists have unambiguously told us how to avoid the grimmest consequences of climate change—to achieve net-zero emissions by 2050. And the Paris Agreement has given us a roadmap to get there through ambitious Nationally Determined Contributions.

Delivering those contributions will require bold and urgent action—nothing less than transforming important sectors of the global economy, especially when it comes to how we generate power and move people and goods.

Many stakeholders have been working tirelessly towards this goal, including several of our international partners, the private sector, and some U.S. states. After sitting on the sidelines for four years, the U.S. government is fully committed to rejoin the fight against climate change. President Biden has outlined an ambitious strategy to transition the United States to net-zero emissions and has mobilized the entire government to achieve it.

At Treasury, our goal is to take this "whole-of-government" approach and turn it into a "whole-of-economy" approach. We recognize the importance of public sector investment, particularly in green infrastructure, to facilitate the transition to net-zero emissions. The

policy steps the Administration has proposed provide clarity on the path forward, helping households, businesses, and investors plan and invest. We also recognize the financial sector has an opportunity to play an important role in financing and leading the transition of the global economy to a net-zero economy.

Today, I would like to provide an overview of what Treasury intends to do—and, in some cases, is already doing. We're engaged in both public and private sector efforts and are working closely with international partners on both fronts. Let me take each in turn.

GREEN INFRASTRUCTURE AND INNOVATION AT HOME

First, the public sector.

The American Jobs Plan is the cornerstone of the Administration's approach to address climate change. It will be the most significant public investment in America since the 1960s, dramatically reducing U.S. emissions by greening the electricity and transportation sectors. It also includes retrofitting U.S. buildings to be more sustainable, clean energy manufacturing, and climate research and development.

The plan builds the infrastructure for the economy of the future.

In particular, the plan adopts a technology-neutral Clean Electricity Standard, which puts us on the path to achieving 100 percent carbon-free electricity by 2035. This approach—setting a standard that lays out the share of electricity that needs to come from clean sources and increasing that share over time—has been adopted in a number of states and is already successfully helping to green the electricity sector. The plan also proposes extending tax credits for clean electricity production to support the Clean Electricity Standard.

An important feature of this approach is that it is technology neutral. That is, it allows the market to determine the best way to meet the Clean Electricity Standard. We can continue to leverage the carbon pollution-free energy provided by existing sources like nuclear and hydropower. And, since 2010, many renewable energy sources have become nearly price competitive with their more carbon-intensive alternatives: the cost of offshore wind power has fallen 29 percent; onshore wind by 39 percent; solar power, as much as 82 percent. The plan provides companies with maximum flexibility to choose the sources that work best for them.

To help move clean electricity to where it is needed the most, the plan creates a targeted investment tax credit that incentivizes the buildout of at least 20 gigawatts of high-voltage

power lines.

The plan also encourages greener transportation with electric vehicles. It supports electric vehicle manufacturing and adoption. It will establish grants and incentives for building a national network of half a million new electric vehicle chargers by 2030, while promoting strong labor, training, and installation standards.

Finally, it removes tax subsidies for fossil fuels, which today cost taxpayers roughly $4 billion a year and incentivize the use of higher-emission fuels. In addition to contributing to climate change, subsidized fossil fuels have negatively impacted air and water quality in U.S. communities—especially in communities of color.

These climate policies largely involve existing technologies, but we know we are also going to have to innovate new ones to meet the climate challenge. We do not have all the tools we need yet, which is why the President's plan includes support for R&D and for nascent technologies like direct air capture of carbon dioxide.

The transition will create many new job opportunities. But the plan recognizes that it could adversely affect firms and workers in some industries. The President is coordinating the delivery of Federal resources to revitalize economies in impacted communities and leveraging opportunities to protect coal and power plant workers. He is also calling for funds for workforce development so those workers can respond to new opportunities.

GREEN INFRASTRUCTURE AND INNOVATION ABROAD

This is just what we are doing domestically, and clearly no nation can reverse climate change alone.

As large as the United States is, we account for about 13 percent of global emissions, and that share is falling each year. We are committed to working closely with our international partners—particularly other large emitters, such as Europe, India, and China—in our shared responsibility to implement ambitious emissions reduction measures.

Developing countries are particularly vulnerable to climate change, with food security, health outcomes, and poverty impacted by extreme weather shocks. In this context, we are supporting low-income countries' economic development efforts, so that new infrastructure investments are low-emission, resilient, and sustainable. The strategy is anchored around the ambitious collective goal to mobilize $100 billion per year from a wide variety of public and private sources to support developing countries' mitigation efforts.

Multilateral Development Banks are one of the largest sources of climate finance for developing countries, reporting over $39 billion collectively in 2019. Efforts to increase MDB climate finance targets, align their lending with the Paris Agreement, and discourage new investments in fossil fuel-based power generation are important steps. MDBs also help catalyze private finance in developing countries by supporting a robust enabling environment and facilitating private co-financing.

PRIVATE FINANCING FOR THE GREEN TRANSITION

This brings me to our initiatives to mobilize the private sector. After all, the investment needed to green our economy is enormous. The Jobs Plan provides critical funds via direct investments and tax credits—but meeting the total cost over the next ten years will require substantially more. One estimate placed the needed incremental investments at over $2.5 trillion for the United States alone. Private capital will need to fill most of that gap.

In theory, it should not be very challenging to mobilize capital. Investor demand for climate-aligned investments, including green bonds and sustainable assets, is rapidly increasing. A key challenge though, as you know, is that the current financial reporting system is not producing the reliable, consistent, and comparable disclosures needed for investors to accurately compare climate-related risks and opportunities across companies.

Reliability of climate-related disclosures is the threshold issue. Investors fundamentally need accessible and credible information to be able to properly assess the risks and opportunities. We also need *consistency* of reporting frameworks across sectors, as well as *comparability* across jurisdictions. Different reporting frameworks reduce the effectiveness of data, making it challenging or impossible for investors to make informed decisions.

It will be important to build on existing work to improve climate-related financial risk disclosure, so that it can better promote investment. In particular, the Financial Stability Board's Task Force on Climate-related Financial Disclosures provides a solid framework for climate disclosures. The TCFD has done important work to improve the information that financial institutions and investors have when they decide how to allocate capital. There are now more than 2,000 organizations—including 904 financial firms responsible for $178 trillion in assets—that support the TCFD. Momentum behind the TCFD is also demonstrated by several jurisdictions moving towards mandatory climate reporting in alignment with the TCFD, as well as the support of 110 financial regulators including 50 central banks. The FSB is working to further improve climate reporting in line with the TCFD and recently

encouraged "national or regional authorities that are developing requirements or guidance for climate-related disclosures to consider using the TCFD recommendations as a basis." This is an important step towards ensuring against fragmentation.

To this end, the SEC is currently reviewing its 2010 guidance on climate-related disclosures. Treasury will work with the SEC as part of its participation in international discussions to promote effective and consistent approaches to disclosure. We are closely following progress of and support the International Financial Reporting Standards Foundation establishing a Sustainability Standards Board that will focus first on developing a climate disclosure standard.

Furthermore, recognizing that international coordination on these issues is critical, I am pleased that Treasury is co-chairing the newly relaunched G20 Sustainable Finance Working Group. G20 finance ministries and central banks will together consider how to improve existing international initiatives and approaches to sustainability disclosures, building on the work of the TCFD. The Working Group will also coordinate approaches to identifying investments as climate-aligned or sustainable. This is an effort to counter another potential market friction—the rise of different policies and approaches across the world creates the potential for inconsistencies that lead to market fragmentation, distorting markets or impeding the flow of capital. The G20 brings together the largest world economies and emitters, and I look forward to working with my counterparts to make progress on these critical issues.

MITIGATING CLIMATE-RELATED FINANCIAL RISKS

These are the ways we're helping the private sector seize new opportunities. At the same time, the financial system must also manage the climate-related risks associated with its past and prospective activities. The financial system will be less equipped to speed along our transition to net-zero if it's still susceptible to climate change-related shocks along the way.

One of the financial sector's most essential functions is the distribution of risk—ensuring that it falls across investors and institutions well placed to manage it. Climate change introduces new and increasing types of risk. The risks from more frequent and severe natural disasters—so-called physical risks—have, and will continue to, become more prominent. Then there are the risks that may accompany the technological, market, and policy changes needed to address climate change—the so-called transition risks.

These risks are hard to measure for at least three main reasons. First, there are data gaps limiting the ability of investors, financial institutions, and regulators to make good assessments. The reliable and effective financial disclosures that I just spoke about are a fundamental first step toward better data. Additional steps may be needed for effective regulation and supervision. For example, financial authorities have reported a lack of sufficiently granular data on the location of assets underlying financial sector exposures to climate risks.

Second, the long-term nature and unpredictability of climate change may call for new approaches to assessing risks. For example, risk management practices at financial institutions and among regulators typically focus on relatively short-horizon risks relative to the horizon relevant for climate change. The Network for the Greening of the Financial System and the Bank of England have begun to tackle this challenge by developing and deploying, respectively, scenarios that span decades for analysis of climate risks.

Third, climate change science is relatively new to financial institutions and regulators. And so, at this point, it's hard to translate changes in climate—and climate policy—into economic and financial projections. It is even more difficult to pull together sector-by-sector assessments to form a systemwide perspective.

I know some have argued that this is a reason for us to move slowly. The thinking goes that because we know so little about climate risk, let's be tentative in our actions—or even do nothing at all. This is completely wrong in my view. This is a major problem and it needs to be tackled now.

Treasury is working with a host of U.S. agencies to overcome these issues and is coordinating our efforts globally. Our engagements will build on the progress already underway at U.S. financial regulators. The Federal Reserve has created Supervision and Financial Stability Climate Committees to analyze climate risks and is engaged at the FSB and Basel Committee. The SEC and CFTC are similarly engaged internationally, and the CFTC released a major report on climate-related financial risks last year. The Federal Housing Finance Agency has sought feedback on climate risks and is investing in expertise.

At last month's FSOC meeting, all participants expressed support for further steps to address climate-related financial risks. FSOC will prioritize analysis of climate-related financial risks this year, focusing on bringing together individual regulator's perspectives to accelerate overall progress and understand risks to financial stability.

CONCLUSION

In summary, the Biden administration is taking a whole-of-government approach to aggressively tackle climate change. My goal, at Treasury, is to support this work with a whole-of-economy approach. Specifically, we are committed to directing public investment to areas that can facilitate our transition to net-zero and strengthen the functioning of our financial system so that workers, investors, and businesses can seize the opportunity that tackling climate change presents.

I look forward to collaborating with everyone in this virtual room on this effort. I'm happy to take your questions.

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