U.S. DEPARTMENT OF THE TREASURY

Remarks by Climate Counselor John Morton at the MSCI Capital for Climate Action Conference on Treasury's Efforts to Promote Transparency and Accountability Around Financial Institutions' Net-Zero Targets

May 17, 2022

Remarks As prepared for Delivery.

Thank you, Henry, for that introduction. MSCI has been a leader in developing the data and information that investors need to assess climate-related risks and opportunities, and the theme of this event – Capital for Climate Action – is very timely.

In recent weeks, the global effort to keep a 1.5-degree warming limit within reach has faced a new headwind. Russia's brutal, unprovoked war in Ukraine has not only caused a humanitarian catastrophe; it has also disrupted energy supplies and threatened energy security across global markets. Governments are increasingly facing difficult questions around investing in new fossil fuel infrastructure and/or keeping older, carbon-intensive assets online for longer. The result is that in the near term we will likely see global emissions higher than otherwise would have been the case.

It would be a mistake, however, to conclude that recent events have thrown the transition to net zero off course. Given the scale and complexity of the transition, some headwinds along the way were always inevitable. And this moment can and should also create a tailwind – an impetus to action. The crisis has once again laid bare the vulnerabilities associated with a dependence on fossil fuels. And it has drawn into stark relief the economic, security, and climate benefits that will result from the transition to clean energy.

While the Biden Administration is working with our allies and partners to take steps to shore up European and global energy security in the face of this crisis, this Administration's position is clear: the global economy must be built on a clean energy system with a path to a net-zero future. And the strongest path to energy security runs through clean energy.

The good news is that we now have it within our reach to make this current crisis the last global fossil fuel supply shock the world has to experience. Let me repeat that: if we respond smartly, this could be the last time the world has to deal with a fossil fuel supply shock like the one we're facing now. A combination of robust policy support, enabling regulatory frameworks, cost declines in key technologies, and private capital commitments have put a clean energy future within our reach. As we grapple with the fallout of Russia's actions in the months ahead, it is my hope – and belief – that the opportunity to free ourselves from these sorts of future disruptions will prove irresistible.

In my role as the Treasury Department's inaugural Climate Counselor, I work with colleagues across the Department to support the Biden Administration's whole-of-government approach to tackling climate change. Under Secretary Yellen's leadership, Treasury's overarching climate strategy is: to enable and expedite the net-zero market transition while helping to ensure the resilience of the financial system to climate-related risks.

Since the start of the Administration, we've made substantial progress in advancing that strategy across a range of areas, from Treasury's role chairing the Financial Stability Oversight Council, to our implementation of domestic economic support programs, to our international engagement, including at the G7, G-20, Coalition of Finance Ministers for Climate Action, and the multilateral development banks.

At the same time, we know that the private sector isn't standing still waiting for government. In many ways, the private sector has led in recognizing both the risks and opportunities associated with climate change. Institutions representing $130 trillion in private financial assets have voluntarily adopted net-zero commitments. And crucially, through the Glasgow Financial Alliance for Net Zero, GFANZ, these institutions have committed to use science-based guidelines in implementing their targets, to set interim targets for 2030, and to report annually on their progress.

While the volume of private financial capital committed to align with net-zero targets is encouraging, a key challenge is how to ensure that these targets are achieved in a transparent manner with credibility, accountability, and high integrity. Many of you are involved in the enormous amount of work underway in the private sector to build the frameworks and metrics that will be used to track progress. Treasury is watching this work with great interest and engaging with stakeholders to explore how to further enhance transparency and accountability around financial institutions' net-zero targets.

Most immediately, we recognize that investors need information. Information on the emissions footprint of your investments. Information on how your investments are impacted by climate-related risks. Information on how the companies you invest in plan to go about achieving their own climate targets. And this information can't just be scattershot – it has to be consistent, comparable, and reliable.

Since taking office, Secretary Yellen has repeatedly emphasized the importance of decision-useful climate-related disclosures. And disclosures were a major theme of the Financial Stability Oversight Council's October 2021 report on climate-related financial risk, where the Council for the first time identified climate change as an emerging threat to U.S. financial stability and set forth over 30 recommendations for financial regulators.

In March, the Securities and Exchange Commission took a major step forward with its proposal to enhance and standardize climate-related disclosures by public issuers. That proposal is now open for comment, and I would note that the comment period has been extended until June 17. It is critical that those who are on the front lines of analyzing and assessing climate-related financial information engage constructively in this process. I think everyone listening in to this conference today believes that information on climate-related risk is going to factor into the investment process for decades to come. This is a unique window of opportunity to lend your experience and expertise to shape how that information could look.

At Treasury, we're focused on additional steps that can improve climate-related disclosures across a range of markets. For example, Treasury recently held a roundtable with state and local finance officials that discussed best practices for climate risk disclosure in municipal debt markets. And Treasury's Federal Insurance Office is analyzing climate-related disclosure requirements in the insurance sector as part of its planned report on climate-related issues or gaps in the supervision and regulation of insurers.

Internationally, Treasury, in coordination with U.S. regulators, is supporting the work at the Financial Stability Board and other forums to promote global adoption of climate disclosure requirements. Through our international engagement, we seek to ensure interoperability among rules and standards, which will enhance market integrity, reduce reporting burdens, and avoid unnecessary market fragmentation.

As we work to strengthen climate-related disclosures, we know that you all – climate-focused investors – aren't just passive receivers of climate-related data and information; you're using that information to develop new frameworks and analytics. Recently, numerous institutions and market-led initiatives have been increasingly focused on quantifying the emissions-reduction trajectories for carbon-intensive sectors. This work on sectoral pathways is important because it can provide a benchmark to assess the climate-alignment of investments in key sectors as the transition to net zero unfolds. At Treasury, we look forward to seeing how this work progresses and how it could help further promote transparency and accountability around net-zero targets.

In many instances, sectoral decarbonization pathways will imply replacing carbon-intensive assets earlier than was expected when these assets were initially financed. In other instances, the pathway to net zero will require investment in technologies that decarbonize existing assets. For investors, it will mean working with clients to develop action-oriented transition plans that practically move industries along a decarbonization pathway without leaving assets stranded or hiding dirtier assets. These are important challenges that both government and the private sector will need to develop strategies to address. At Treasury, we've been thinking through the investment structures and policy framework needed to accelerate the transition away from coal assets in high-emitting emerging markets, as part of our work on the Just Energy Transition Partnerships, or JETPs.

The goal of JETPs is to identify a set of countries that have a strong policy interest in – and political commitment to – expediting their transition away from carbon-intensive energy sources, particularly coal, and towards renewables. In many cases, the financing needed to expedite that transition is larger than an emerging market economy can self-finance or any single donor country can bring to bear. Through JETPs, we are seeking to aggregate development finance, philanthropic resources, and private finance to accelerate the decommissioning of high-emitting assets, invest in renewable energy, and support impacted communities.

This is a new kind of financial model: it expands on the traditional model of using public funds to deploy renewables by also taking dirty assets offline sooner, ensuring we're getting the most emissions reductions "bang" out of our public "buck." We're also intentionally building in engagement with recipient countries on affected communities to support an inclusive and equitable transition.

Over the past year, we've made considerable progress – starting in South Africa and working with key donor government partners – and we're now working with our partners in the G-7 to expand the Partnerships to additional countries including, among others, Indonesia, India, Vietnam, and Senegal. My hope is not only that will we be successful in expediting a just energy transition in these countries, but that our efforts will open up investment opportunities in these important emerging markets and that the lessons learned will help to inform responsible retirement of carbon-intensive assets globally.

All of this work – disclosures, sectoral pathways, and responsible retirement of carbon-intensive assets – collectively points towards the importance of robust transition planning by companies and their investors. Looking ahead, my hope – and expectation – is that within a few years, we’ll be using gatherings like these to discuss and compare transition plans in detail.

To conclude, let me return to where I began. The transition to net zero was never going to be easy or linear; there were always going to be some bumps along the way. But the transition is both predictable and inevitable. Stepping back to take stock of all the progress that has been made, I’m encouraged. We’ve got hard work ahead to turn commitments into action – the theme of this conference. But we’re in a fundamentally different place than we were even 12 months ago, and I’m optimistic about the world’s transition to a net-zero future. Thank you.