

U.S. DEPARTMENT OF THE TREASURY

Remarks Prepared for Delivery by Under Secretary of the Treasury Nellie Liang at the Office of Financial Research's Climate Implications for Financial Stability Conference

September 9, 2022

I'm very pleased to be here today to help open this OFR research conference on a very timely and consequential topic – climate-related financial risks and its implications for financial stability.

At the outset, I'd like to thank the papers' authors, the panelists, and the OFR team that are contributing to this program. It is a great forum for us to learn from each other, stimulate new ideas, and help policymakers and financial regulators design policies to make the financial system more resilient to climate change, and to help produce the data that financial market participants need to make better informed decisions.

Studies document that the economic and financial costs of climate change have been increasing significantly, especially in recent years. In 2021, the National Oceanic and Atmospheric Agency documented that there were twenty billion-dollar-or-more weather and climate disasters, which caused a combined \$145 billion in damage. That was a 50 percent increase in damage costs from 2020. Scientific consensus indicates that the world must cut emissions in half by 2030 to avoid the most extreme consequences of climate change. In an executive order last year, President Biden has put forward a US emissions reduction target in line with that imperative.

The financial system has a critical role to play in the broader economy-wide strategies to reduce emissions. Financial regulators and standard setters have a responsibility to make the financial system more resilient to climate change. With Treasury, they are taking important steps. The Financial Stability Oversight Council (FSOC) issued a report in Oct 2021 with more than 30 recommendations for its members to address emerging threats to financial stability from climate change. The recommendations were aimed at two objectives: to increase the resilience of the financial system and to improve information. Specifically, the report recommended that financial regulators take actions so that they and the financial firms they supervise can better assess and measure climate-related financial risks. It also recommended

that regulators improve data quality and disclosures so that investors could have the information they need to make better-informed investment decisions.

Since then, Treasury and the domestic financial regulators have been working to implement these recommendations. For example, FSOC has created inter-agency working groups to bring together the agencies and leverage their efforts to improve data quality and availability, data infrastructure, climate risk metrics, and scenario analysis. The OFR is co-leading the groups related to data, and also is rolling out a climate data hub and analytics pilot program to help FSOC agencies gain more efficient access to climate data and analytical tools.

In addition to FSOC efforts, Treasury has a number of other initiatives. For example, at the federal government level, Treasury is engaged with other agencies to assess risks to the federal government budget from climate risk and incorporate shocks arising from weather-related events and climate change into government macroeconomic forecasts. In addition, it is assessing climate risks and challenges faced by households, especially in low-income and historically disadvantaged communities, through the Financial Literacy and Education Council, and will publish a report on climate risk as a challenge to American household finances.

As Treasury works to measure and address climate-related financial risks, we're also actively involved in broader efforts to use fiscal policy to address the root causes of climate change and accelerate the transition to a net-zero economy. The Inflation Reduction Act recently passed is the largest investment the US has made to fight climate change. The Act will strengthen incentives to help mobilize private capital to accelerate a transition to clean energy. It puts us on a credible path to reduce emissions by around 40% by 2030.

Research, such as that presented here today, are important for regulators and policymakers to better understand private behavior and how incentives can help to manage climate-related financial risks. For example, papers today will study how a bank's climate commitments, the tax code, or borrowers' scope disclosures affect their cost and availability of credit, and the sensitivity of market-based measures of financial firms' stress to climate risks. In terms of economic activity, papers today will look at how climate events are affecting revenues and productivity, and methods for how to estimate the effects on global GDP of transition risks away from coal. In addition, the presentations will bring out advancements in how to understand sustainability in the social cost of carbon calculations, a key knowledge input for moving our investments and our economies toward net zero.

Thank you again to the organizers of today's program and to the researchers and panelists who are participating today. I look forward to the presentations and discussions.

