Remarks by Secretary of the Treasury Janet L. Yellen in New York, New York on Treasury's Principles for Net-Zero Financing & Investment

September 19, 2023

As Prepared for Delivery

Good afternoon and thank you for being here.

The physical impacts of climate change are impossible to ignore. We've seen record-breaking heatwaves that have led to a tragic spike in heat-related deaths and hospitalizations. Unprecedented storms and wildfires are destroying homes and undermining livelihoods. Vulnerable populations globally are disproportionately affected because of where they live and the industries in which they work, and low-income Americans are no exception.

Such events impose significant economic costs. Global economic losses from natural disasters amounted to almost $200 billion during the first half of this year. Households face increasing challenges, and firms have assets and business models that may be at risk in a world with substantial climate damage.

It's no surprise, then, that the climate crisis is propelling a massive economic shift. There's increasing demand for technologies, products, and services that will reduce greenhouse gas emissions and support a clean energy future. This demand is fueling growth in new industries and business models. In the United States, government support is playing a role in accelerating this transition. President Biden's Bipartisan Infrastructure Law provides funding for wide-ranging investments, including $7.5 billion in electric vehicle charging, $10 billion in clean transportation, and over $20 billion to upgrade the power grid. The Inflation Reduction Act, the most ambitious climate law in U.S. history, expands demand- and supply-side incentives for clean energy investment and production. At the Treasury Department, our economists, lawyers, and other experts are working tirelessly to support implementation, including through issuing rules on wide-ranging tax incentives. And private sector companies are responding – quickly. Over the past two and a half years, they've committed $240 billion in new clean energy manufacturing investments.

And there's more untapped opportunity, in the U.S. and globally. In my remarks today, I'll focus not on our Administration's historic climate investments but on another part of the story: the significant global economic opportunities for private-sector financial institutions, and the ways that these institutions are already taking into account market demand and supporting the net-zero transition. I'll also introduce the Treasury Department's most recent effort to support this momentum: the Principles for Net-Zero Financing and Investment.

I. THE ROLE OF PRIVATE-SECTOR FINANCIAL INSTITUTIONS

Researchers have estimated that there are over $3 trillion in global investment opportunities associated with the transition to net zero each year between now and 2050. In the U.S., this means hundreds of billions in investment opportunities to enhance power generation and the electrical grid, retrofit buildings, and make advancements in agriculture, manufacturing, and transportation.

Financial institutions have been taking note. They are monitoring shifting consumer preferences and new technologies. They are projecting how industries – from oil and gas to automotives to construction – will change in the future. In some jurisdictions, they are subject to policies and regulatory frameworks that require climate-related action. But across jurisdictions, they are responding to the demands of their investors and to their own business judgment and prudent risk management to consider climate-related factors. There is extensive evidence showing that the changing climate has significant financial impacts. Without considering these factors, financial institutions risk being left behind with stranded assets, outdated business models, and missed opportunities to invest in the growing clean energy economy.

Many financial institutions – including some in the audience today – recognize the business case for action. And they have taken a key initial step. As part of initiatives like the Glasgow Financial Alliance for Net Zero, more than 650 institutions representing roughly 40 percent of global financial assets have made commitments to support the goal of net-zero greenhouse gas emissions by 2050 or sooner. In the U.S., there is no requirement that these institutions make such commitments. Yet more than 100 U.S. financial institutions have voluntarily done so. Many of them have also developed plans to take these commitments forward and started reporting on their progress.

II. THE NET-ZERO PRINCIPLES

Over the past year, the Treasury Department has surveyed how financial institutions are setting and meeting net-zero commitments. We've engaged in discussions with market participants, research organizations, and civil society organizations. We've tracked the substantial body of research, guidelines, and voluntary standards on net-zero financing, investment, and advisory services. And through this work, we've identified the need for greater clarity on best practices around these commitments.

We are proud to launch the Net-Zero Principles in response. Our goal is to affirm the importance of credible net-zero commitments and to encourage financial institutions that make them to take consistent approaches to implementation. Our work will also help institutions that have not yet made commitments see what doing so might entail.

The Principles draw on the emerging best practices that we are seeing in the financial sector. They establish that financial institution net-zero commitments should be in line with limiting the increase in the global average temperature to 1.5 degrees Celsius. They affirm that financial institutions that have made these commitments should develop transition plans with clear practices, targets, and metrics. And that they should support their clients and portfolio companies in adopting their own transition plans.

The Principles also outline specific activities that are particularly important to effective net-zero commitments. These include providing transition finance, such as for clients pursuing decarbonization in high-emitting sectors. And focusing on climate solutions, such as making investments in cutting-edge clean energy technologies. The "how" matters too. The Principles emphasize that these activities need to be rigorously managed. I congratulate those financial institutions that have already put in place robust governance processes and shown transparency on progress.

Finally, we've designed the Principles to be flexible. We know that a one-size-fits-all approach won't work. How smaller firms apply the Principles may look quite different than how larger ones do. Approaches will vary depending on business model, client base, products and services, and jurisdiction. And approaches should evolve to reflect developments such as improved methodologies for target-setting and higher-quality emissions data.

III. CONCLUSION

We know that moving forward the clean energy transition at the needed pace will not be easy. We are still working to overcome challenges related to technological advancements and new business models, among others. But the progress we're making is important. Financial

institutions have already made – and are continuing to make – significant net-zero commitments. Research and civil society groups – including Center for Climate and Energy Solutions, Ceres, GFANZ, the Partnership for Carbon Accounting Financials, and the Rocky Mountain Institute Center for Climate-Aligned Finance – have committed to new technical work that will advance concepts in the Principles. And leading philanthropic organizations – including Bezos Earth Fund, Bloomberg Philanthropies, Climate Arc, ClimateWorks Foundation, Hewlett Foundation, and Sequoia Climate Foundation – have pledged $340 million to support this and other work related to the Principles.

Going forward, the Principles we are launching today will support implementation of net-zero commitments and shape accompanying technical work. And of course, they are a part of Treasury's and this Administration's broader work to enhance both our public-private and our global cooperation on climate. We remain committed to co-leading the G20 Sustainable Finance Working Group and supporting the delivery of the Net-Zero Data Public Utility. And we will continue to implement the tax provisions in the Inflation Reduction Act; carry out analytical work on the impact of climate change on household finances and insurance affordability and availability; and engage with community development financial institutions on their climate-related priorities, among other ongoing work.

As Treasury Secretary, I and my colleagues at the Treasury Department are charged with the task of identifying risks to our economy and opportunities for building our economic strength. Climate change creates both. And as the impacts on our lives and our economies mount, the risks and opportunities increase. The net-zero transition can bring about a world in which our well-being and the well-being of future generations is less threatened by heatwaves and storms. In which our livelihoods, and the livelihoods of the most vulnerable among us, are more secure. In which our communities and our economies can prosper. Without accelerating our progress toward a clean energy future, we will see increased physical devastation and dire economic impacts. The need for action is urgent, and I thank all of you here today for being part it.

###