Federal Government and Private Sector Climate Change Developments

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The implications of climate change have gone from an esoteric topic that a very limited number of companies focused upon just a few years ago to one that is becoming more mainstream by the day. President Biden campaigned on requiring companies to provide more detail on environmental risks and greenhouse-gas emissions as part of a broader agenda to combat climate change. Since late January, the Biden Administration has suspended oil and gas leases on federal land, his energy secretary effectively reopened a dormant $40-billion loan program for clean energy projects and the administration has begun to push Congress for trillions in infrastructure spending.

Even departments that are not traditionally thought of as playing a role in addressing climate change are being mobilized. For example, the U.S. Department of Agriculture may deploy incentives to farmers and agricultural companies to adopt climate-friendly practices without the need for additional regulation and could make U.S. food more attractive on export markets. This alert provides some background on the developments underway at the federal government and in the private sector to address climate change.

A Possible Move to Mandatory Climate Change Disclosure

The acting Chairwoman of the Securities and Exchange Commission (SEC) in late February stated, "Now more than ever, investors are considering climate-related issues when making their investment decisions… It is our responsibility to ensure that they have access to material information when planning for their financial future..." The SEC's 2010 guidance suggested that companies disclose in filings how their businesses could be affected by climate change, including from severe weather, demand for carbon-heavy products and environmental regulation. Few companies currently disclose much about climate change in their SEC filings, though many large corporations voluntarily publish sustainability reports that sometimes disclose their greenhouse gas emissions, water use and other environmental metrics. The SEC staff is said to be exploring whether it might propose standardized disclosure for public companies and move to a mandatory climate change disclosure in the next four years. In addition, the SEC is also purportedly closely watching developments in the European Union and other jurisdictions.

Major US Automobile Manufacturers Pledge to Produce Zero-Emission Vehicles

Many companies with global reach are now integrating climate issues into their operations and business dealings. For example, General Motors has become the first of the big U.S. automakers to announce a plan to sell only zero-emission cars and trucks by 2035. Ford announced recently that it will produce 100% of its passenger vehicles in Europe as zero-emissions capable, all-electric or plug-in hybrid by mid-2026 before ultimately moving to all electric by 2030.

Major Banks Pledge Net Zero and Commit to Bring Clients Along

Banks are also investigating the impact of climate on their loans. Citigroup, for example, announced on March 1, 2021 that it will seek to achieve net-zero greenhouse gas emissions from its own operations and the activities of its clients by 2050. Citigroup CEO Jane Fraser said in a blog post that "Net zero means rethinking our business and helping our clients rethink theirs. For banks, what some don't realize is that net zero includes not just our own operations but also our core business impacts — in other words, our financing. . ." Fraser also wrote, "As the world's most global bank, we are interconnected with many carbon-intensive sectors that continue to help drive global economic development. We are committed to bringing as many clients as we can along with us on this journey and working with them relentlessly to get it right. . ." Morgan Stanley, Bank of America and JP Morgan Chase had previously announced plans to reach net-zero emissions. As an example of Citigroup's commitment to this goal, it is one of many large banks to have halted financing for Artic fuel drilling projects.

Climate Change and Insurance

The escalating frequency and severity of extreme weather-related events — from wildfires in the U.S., to record heat waves in Europe, to floods in Japan — have shone a brighter regulatory spotlight on insurance risk and climate change. As rising climate-related losses threaten the viability of insurers' books of businesses and investment portfolios, many regulators either aren't aware of how prepared carriers are to deal with this threat or they aren't fully confident that carriers are indeed prepared. Aviva, an international savings, retirement and insurance business located in the UK, serving nearly 32 million customers plans to be a Net Zero company by 2040, and in early February 2021 threatened to unload its stock and bond holdings in 30 of the world's largest corporate emitters of carbon if their boards failed to take sufficient action over climate change. Aviva said that it expects these large corporate emitters to commit to net zero carbon emissions by 2050 and ensure their plan to do so is in line with the guidelines established by the Science-Based Targets Initiative, an NGO-led group that signs off on corporate climate plans. Increases in extreme weather events are reflected in the number of people moving to insure their assets from weather-related losses. Insurance companies have responded by developing tools to better understand climate risks and vulnerabilities. This includes products such as microinsurance, catastrophe bonds and index-based insurance.

Climate change issues are becoming increasingly diverse and complex, drawing upon expertise in many technical and legal disciplines. To address, in a comprehensive manner, the full range of implications that exist with this burgeoning topic requires access to professionals with the appropriate expertise and experience.

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