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Resource Paper

On Disclosure of Climate-Related Financial Risk:

EO 14030 – May 20, 2021

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More Details on The Biden-Harris Climate Crisis Policy & Program Actions to Address Challenges at Federal, State, Regional & Local Levels

Important: Consider that the policies and actions taken by the Biden Administration, including possible regulatory updates that focus on the financial services sector, could have short and longer-term affects on many business entities in the United States. The current (May 20) presidential actions direct key agencies to analyze and mitigate the risk that climate change poses to the financial system, federal government, businesses, workers, homeowners, and consumers.

The White House positioning: Agency policy changes and actions taken to "better protect worker's hard-earned savings, create good paying jobs, position America to lead the global economy". This is embodied in the new **EO 14030, May 20, 2021: "Executive Order on Disclosure of Climate-Related Financial Risk".**

The latest set of policy updates and proposed actions of the Biden-Harris Administration in the "Whole of Government" approach to the climate change crisis (the administration's message positioning) are going to affect most businesses in the U.S. in various ways. The details are set out for us in EO 14030 as well as the January 27th order – EO 14008.

Some actions prescribed in these two and other EOs will over time reshape important parts of government oversight of financial services sector institutions (in focus are potential reforms for banking, insurance, investing, fiduciary duties oversight).

Other actions will directly and indirectly affect many companies doing business with the public sector – from not only the federal / national level but also down to state, region, tribal, city and municipal levels (influenced by Federal policy and financing).

The administration's broad agenda was initially set out for us on January 27, 2021 with Executive Order #14008 – "Tacking the Climate Crisis at Home and Abroad".

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In this series of resource papers, and in our G&A Institute Sustainability Update blog posts, we continue to share news and perspectives about the administration's ongoing policy moves. This paper summarizes key points of the May 20, 2021 executive action: "Executive Order on Climate-Related Financial Risk" – EO 14030.

The White House signaled in the EO the order reads "...consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk" is imperative. The drive to create greater transparency at many levels is intended to help the nation address physical and transition risks; to act to mitigate risk and drivers of risk; to account for and address disparate impacts on disadvantaged communities and communities of color.

All of this is consistent with the details in EO 13985, signed January 21, 2021 ("Advancing Racial Equity and Support for Underserved Communities Through the Federal Government").

The various actions taken since January 20th are intended to "spur creation of well-paying jobs and achieve a target of a net-zero emissions for the U.S. economy by no later than 2050". The new presidential actions are also intended to "bolster the resistance of financial institutions and rural and urban communities, states, tribes, territories ... by marshalling the creativity, courage and capital of the United States to address the climate crisis and "not exacerbate its causes and [to] position the U.S. to lead the global economy to a more prosperous and sustainable future."

These are three parts of the May 20 EO 14030: Section One is policy positioning to send clear signals to the nation and the world; Section two is about climate-related financial strategy, which is where comprehensive, government-wide strategies can affect many business and financial services sector industries; Section three is all about creating greater transparency in the capital markets and policies and actions related to oversight of financial institutions. We present top line points below.

Addressing Financial Regulations & Regulatory Agencies:

EO 14030 directs the Secretary of Treasury, as the Chair of the Financial Stability Oversight Council, to engage with other FSOC members to (1) assess climate-related financial risk to the stability of the U.S. financial system; (2) facilitate sharing of climate-related financial risk data among the member agencies; (3) publish a report in six months on actions and recommendations to better address climate-related risk and possible new or revised regulatory and supervisory actions by the respective agencies.

The FSOC members include the head of the Federal Reserve System; head of Federal Reserve System; Comptroller of the Currency (an independent bureau of the Treasury Department overseeing U.S. national banks and agencies of foreign banks); heads of SEC, FDIC, CFTC; a state insurance commissioner, a state banking commissioner, and a state securities commissioner.

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Publicly-traded Companies/Entities

The Beverage & Diamond law firm, commenting in The National Law Review, notes that the new EO will bolster the Securities & Exchange Commission's current actions in re-evaluating corporate disclosure and reporting rules (and agency guidance) that could expand corporate ESG disclosure to include more data and information on climate risk matters.

In March 2021, the SEC issued a request for public feedback on what may be needed to expand existing corporate ESG disclosures, and possible new rules, particularly for addressing the rising risks associated with climate change. (The SEC staff has been meeting with a parade of organizations to gather their input as well. Few details of these meetings have been disclosed to date. The public disclosure period ends June 14th.)

> **For companies doing business with the Federal government, the EO instructs the Federal Acquisition Regulatory Council to mandate important providers of goods and services to disclose GHG emissions data and climate risk information, and to set and then disclose their Science-based emissions reduction targets.**

Prioritizing Federal Spending

For companies doing business with the Federal Government, the EO instructs the Federal Acquisition Regulatory Council to mandate important providers of goods and services to disclose GHG emissions data and climate risk information, and to set and then disclose their science-based emissions reduction targets. This is intended to help guide the acquisition activities of many federal agencies, looking more favorably on bidding companies with more robust climate change policies, actions, and targets in place.

Insurance Industry

For the most part, the insurance industry is regulated at the state level. The EO instructs the Secretary of the Treasury Department through the Federal Insurance Office to assess climate change-related issues or gaps in the supervision and regulation of insurers, including as part of the FSOC's analysis of financial stability, and to assess the potential for major disruptions of private insurance coverage in U.S. regions that are vulnerable to climate change impacts. (This will be "in consultation with" state regulators; there is state representation on the FSOC.)

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The Treasury Department through its Office of Financial Research will work with the members of the FSOC to assess and identify climate-related financial risk to financial stability (including data collection) and development of research on financial system risk. This will include the insurance industry exposure as a key part of the financial services sector.

Worker Savings and Pensions

The U.S. Secretary of Labor is ordered to identify actions that can be taken under ERISA (addressing fiduciary duties of private plan managers) and the Federal Employees' Retirement System to protect the life savings and pensions of U.S. workers and families from the threats of climate-related financial risk.

The Department of Labor by September 2021 shall consider a proposed rule to suspend, revise or rescind existing rules addressing fiduciary duties and proxy voting and shareholder rights that were see-sawing guidance for fiduciaries – being first negative and then positive, negative again and now positive (under different administrations over the recent decades) for fiduciaries considering ESG factors in retirement plan investment decision-making.

Federal Lending / Underwriting

The directors of the White House's Office of Management and Budget (OMB) and National Economic Council will develop recommendations for consideration of the National Climate Task Force for integration of climate-related financial risk into federal financial management and reporting. This will help to guide federal lending programs and enhance federal financial accounting and reporting related to lending activities.

Such agencies as the Departments of Agriculture, HUD and Veterans Affairs will consider approaches to better integrate climate-related financial risk in their underwriting standards, loan terms and conditions, and asset management and servicing. This could affect a range of corporate and institutional entities that rely on these agencies (and others) for financial loans, grants, and other types of support.

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The Federal Budget

"Federally-related" climate risk exposure will be examined by the OMB, Treasury, Council of Economic Advisors, National Economic Council, and National Climate Advisor; there will be annual assessments of Federal government climate risk exposure built into the President's budget and oversight of budget execution going forward. The primary sources of Federal long-term climate-related financial risk are to be identified and quantified to provide leadership guidance.

The new Executive Order leverages, amplifies, grounds policy and actions in, a number of existing EOs that have been guiding policy and actions for years (ERISA law, for example, dates back to 1974 and there have been related EO actions ever since, including by Presidents Bush, Obama, Trump, and now Biden).

Note: The May 20th EO cites a number of prior executive orders such as EO 13707, September 2015 – "Using Behavorial Science Insights to Better Serve the American People". And EO 13690, January 2015 – "Establishing a Federal Flood Risk Management Standard"; that was revoked by President Donald Trump in 2017 and then reinstated in 2021 by President Biden. That action re-established the Federal Flood Risk Management Standard (FFRMS). The Biden White House also issued EO 13985 in January – "Advancing Racial Equity and Support for Underserved Communities through the Federal Government".

These perspectives shared by Governance & Accountability Institute, Inc., are not intended to be taken as legal or financial advice by the readers. We analyzed the current and recent related Biden-Harris Administration policies and actions taken or to be taken by federal agencies and present our views to the best of our abilities as part of the ongoing sharing through our communication channels.

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