

United States Senate

WASHINGTON, DC 20510

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The Honorable Janet Yellen
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U.S. Department of the Treasury
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Dear Secretary Yellen and Counselor Zindler:

We are following up on the August 2021 and March 2023 letters¹ sent by several of us to once again urge the U.S. Department of the Treasury (Treasury) to address the dual economic and environmental crises caused by climate change. Some of us recently wrote to Secretary Yellen ahead of the Senate Banking, Housing, and Urban Affairs Committee hearing on “Perspectives on Challenges in the Property Insurance Market and the Impact on Consumers,” highlighting the recent withdrawals of major insurance companies from states that have a high and growing risk of climate disasters, the impact of this insurance crisis on homeowners, and the need for increased transparency from insurance companies.² Assessing and addressing the impacts of climate on our insurance system and the underwriting of the climate crisis by the insurance industry³ should be a priority of the Treasury Department. We highlight here other critical areas pertaining to climate and climate-related financial risk where Treasury can and must take urgent action to avert the impending crises. As a recent report noted, while “no US Treasury secretary has made climate change a higher priority” than has Secretary Yellen, Treasury leadership is also “running out of time to make a difference on climate.”⁴

As Secretary Yellen recently expressed, Treasury has a key role to play in protecting our natural and financial ecosystems, as it works to “implement key components of the Inflation Reduction Act, further spur on historic clean energy investments across the United States, and work

¹ Letter from Senator Elizabeth Warren to Climate Counselor John E. Morton, August 2, 2021, <https://www.warren.senate.gov/imo/media/doc/Letter%20to%20Climate%20Counselor%20Morton%20re%20Climate%20Policy%20Strategy.pdf>; Letter from Senator Elizabeth Warren to Treasury Secretary Janet Yellen, March 9, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.03.09%20Letter%20to%20Treasury%20re%20Counselor%20Morton%20&%20Climate%20Hub.pdf>.

² Letter from Senator Elizabeth Warren to Treasury Secretary Janet Yellen and Federal Insurance Office Director Steven Seitz, September 15, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.09.06%20Letter%20to%20Treasury%20re%20climate%20impacts%20on%20home%20insurance.pdf>.

³ WWF, “WWF urges insurance companies to take responsibility for their underwriting business,” September 13, 2023, <https://wwf.panda.org/?9548441/WWF-urges-insurance-companies-to-take-responsibility-for-their-underwriting-business>; Business Green, “‘Urgent responsibility’: Insurers urged to stop ‘fuelling’ nature and climate crises,” Cecilia Keating, September 13, 2023, <https://www.businessgreen.com/news/4125004/urgent-responsibility-insurers-urged-stop-fuelling-nature-climate-crises>.

⁴ Bloomberg, “Janet Yellen Is Running Out of Time to Make a Difference on Climate,” Christopher Condon and Saijel Kishan, September 19, 2023, <https://www.bloomberg.com/news/features/2023-09-19/janet-yellen-defends-climate-progress-as-critics-push-harder>.

internationally to help countries meet their own climate goals.”⁵ Through its climate work, Treasury seeks to “[leverage] finance and financial risk mitigation to confront the threat of climate change... [to] position the economy for strong and sustainable growth consistent with a net-zero emissions future.”⁶

Since the Biden Administration issued its Executive Order on climate-related financial risk in May 2021,⁷ Treasury and financial regulators have initiated important efforts to better understand the serious threat climate change poses to the financial system. While Treasury and U.S. regulators have made some progress, they still lag behind the progress in other countries.⁸ And unfortunately, recent climate disasters and financial disruptions reveal that climate change is outpacing efforts to get ahead of the risk.⁹ Across the country, skyrocketing insurance costs and insurer retreat are clear signals that “today’s climate disaster is tomorrow’s banking crisis.”¹⁰ As Banking and Budget Committee hearings have shown, “systemic” risks to the economy include coastal property values crash, insurance market failures, uninsurable wildfire risk, and collapse of the carbon bubble.¹¹ Companies need to address not just the cost to them and to their industry

⁵ U.S. Department of the Treasury, “Treasury Announces New Climate Counselor,” press release, July 27, 2023, <https://home.treasury.gov/news/press-releases/jy1650>.

⁶ *Id.*

⁷ The White House, “FACT SHEET: President Biden Directs Agencies to Analyze and Mitigate the Risk Climate Change Poses to Homeowners and Consumers, Businesses and Workers, and the Financial System and Federal Government Itself,” press release, May 20, 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/05/20/fact-sheet-president-biden-directs-agencies-to-analyze-and-mitigate-the-risk-climate-change-poses-to-homeowners-and-consumers-businesses-and-workers-and-the-financial-system-and-federal-government/>.

⁸ Ceres, “Climate Risk Scorecard: U.S. Department of the Treasury,” <https://www.ceres.org/accelerator/regulation/scorecard/treasury>.

⁹ Public Citizen, “Letter – FSOC Must Mitigate Climate-Related Financial Risk – Sept. 2023,” September 18, 2023, <https://www.citizen.org/article/fsoc-must-mitigate-climate-related-financial-risk/>.

¹⁰ Better Markets, “The Unseen Banking Crisis Concealed Behind the Climate Crisis,” Dennis Kelleher, August 23, 2023, p. 2, https://bettermarkets.org/wp-content/uploads/2023/08/BetterMarkets_Report_Unseen_Banking_Crisis_Behind_Climate_Crisis_08-23-2023.pdf.

¹¹ Office of Senator Elizabeth Warren, “At Hearing, Warren Highlights How Climate Investments in Inflation Reduction Act Will Bring Down Public Health and Natural Disaster Costs,” press release, August 4, 2023, <https://www.warren.senate.gov/newsroom/press-releases/at-hearing-warren-highlights-how-climate-investments-in-inflation-reduction-act-will-bring-down-public-health-and-natural-disaster-costs/>; Office of Senator Elizabeth Warren, “At Hearing, Senator Warren Highlights Heightened Risk from Climate-Related Disasters, Calls for Transparency, Oversight from Insurance Industry and Regulators,” press release, September 8, 2023, <https://www.warren.senate.gov/newsroom/press-releases/at-hearing-senator-warren-highlights-heightened-risk-from-climate-related-disasters-calls-for-transparency-oversight-from-insurance-industry-and-regulators/>; Senate Committee on the Budget, “Rising Seas, Rising Costs: Climate Change and the Economic Risks to Coastal Communities,” March 1, 2023, <https://www.budget.senate.gov/hearings/rising-seas-rising-costs-climate-change-and-the-economic-risks-to-coastal-communities/>; Senate Committee on the Budget, “A Burning Issue: The Economic Costs of Wildfires,” March 8, 2023, <https://www.budget.senate.gov/hearings/a-burning-issue-the-economic-costs-of-wildfires/>; Senate Committee on the Budget, “Risky Business: How Climate Change is Changing Insurance Markets,” March 22, 2023, <https://www.budget.senate.gov/hearings/rising-seas-rising-costs-climate-change-and-the-economic-risks-to-coastal-communities/>; Senate Committee on the Budget, “Left Holding the Bag: The Cost of Oil Dependence in a Low-Carbon World,” March 29, 2023, <https://www.budget.senate.gov/hearings/left-holding-the-bag-the-cost-of-oil-dependence-in-a-low-carbon-world>.

of the transition to clean energy, but also the viability of their business models post-transition and their ability to withstand these systemic economic shocks, all of which could co-occur. Treasury must quicken its pace and begin using all of the tools at its disposal, including its leadership of the Financial Stability Oversight Council (FSOC), to address the rising challenges, and align the financial system with a net-zero emissions future.

During her Senate confirmation hearing in January 2021, Secretary Yellen described climate change as an “existential threat”¹² and announced her intention to appoint a “very senior level” official to lead Treasury’s climate efforts,¹³ and in April 2021 Treasury established a Climate Hub, with Climate Counselor John Morton leading a new coordinated climate strategy.¹⁴ In March 2023, several of us wrote to Secretary Yellen after Climate Counselor Morton stepped down from his role at the end of last year.¹⁵ We expressed concern about the Climate Hub’s progress under Counselor Morton’s tenure, as well as of Treasury’s leadership of FSOC and at the International Monetary Fund (IMF) in working towards tackling the climate crisis and the goals of the Paris Agreement, and sought more aggressive efforts as Secretary Yellen identified a new Climate Counselor.¹⁶

On July 27, 2023, Treasury announced the appointment of Ethan Zindler as the new Climate Counselor and head of Treasury’s Climate Hub.¹⁷ We were pleased to see this position filled, after a seven-month vacancy,¹⁸ and hope to see more progress on various climate-related priorities under Mr. Zindler’s leadership.

Inflation Reduction Act (IRA) Implementation

In Treasury’s response to our March 2023 letter the Department noted that “Approximately three-quarters of the [Inflation Reduction] Act’s climate investments – or an estimated \$270 billion – is delivered via tax incentives,” and that “Treasury is therefore taking a leading role in

¹² Bloomberg, “Janet Yellen Is Running Out of Time to Make a Difference on Climate,” Christopher Condon and Saijel Kishan, September 19, 2023, <https://www.bloomberg.com/news/features/2023-09-19/janet-yellen-defends-climate-progress-as-critics-push-harder>.

¹³ Politico, “Yellen vows to set up Treasury team to focus on climate, in victory for advocates,” Zachary Warmbrodt, January 19, 2021, <https://www.politico.com/news/2021/01/19/yellen-treasury-department-climate-change-460408>.

¹⁴ U.S. Department of the Treasury, “Treasury Announces Coordinated Climate Policy Strategy with new Treasury Climate Hub and Climate Counselor,” press release, April 19, 2021, <https://home.treasury.gov/news/press-releases/jy0134>.

¹⁵ Reuters, “U.S. Treasury's Morton steps down, sees growing recognition of climate change risks,” Andrea Shalal, December 16, 2022, <https://www.reuters.com/world/us/us-treasurys-morton-steps-down-sees-growing-recognition-climate-change-risks-2022-12-16/>; Letter from Senator Elizabeth Warren to Treasury Secretary Janet Yellen, March 9, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.03.09%20Letter%20to%20Treasury%20re%20Counselor%20Morton%20&%20Climate%20Hub.pdf>.

¹⁶ Letter from Senator Elizabeth Warren to Treasury Secretary Janet Yellen, March 9, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.03.09%20Letter%20to%20Treasury%20re%20Counselor%20Morton%20&%20Climate%20Hub.pdf>.

¹⁷ U.S. Department of the Treasury, “Treasury Announces New Climate Counselor,” press release, July 27, 2023, <https://home.treasury.gov/news/press-releases/jy1650>.

¹⁸ Reuters, “U.S. Treasury's Morton steps down, sees growing recognition of climate change risks,” Andrea Shalal, December 16, 2022, <https://www.reuters.com/world/us/us-treasurys-morton-steps-down-sees-growing-recognition-climate-change-risks-2022-12-16/>.

implementing this historic law.”¹⁹ We are glad to hear that the Climate Hub is helping ensure that the investments from the IRA enable us to meet our climate goals while creating good-paying jobs, providing energy security, and investing in communities across the country, particularly those that have been historically underserved. Treasury and the Climate Hub should work closely with the White House, the Environmental Protection Agency, and the financial regulators to help coordinate and disseminate broadly information about IRA opportunities so that the objectives of climate change mitigation and capital mobilization are met, while addressing environmental justice, consumer protections, labor and equitable workforce development, and community engagement, accountability, and benefits.

Designating Systemically Important Nonbanks and Addressing Drivers of Climate Risk

Large nonbank financial institutions played a critical role in causing the Global Financial Crisis of 2007-2009 through their origination and securitization of toxic subprime mortgages.²⁰ In the aftermath, Congress sought to fill obvious gaps in the regulatory framework through the Dodd-Frank Act and gave Treasury additional tools and responsibilities to monitor and address financial stability risks, including within the nonbank sector.²¹ It is shortsighted that Treasury has not effectively used these tools in recent years, even as nonbank assets have ballooned to make up nearly half of all global financial assets²² and nonbanks are driving the growth of climate-related financial risk through their investment and underwriting of excessive fossil fuel expansion that drives rapid climate change and threatens financial stability.²³

FSOC must finalize and immediately begin using its recently proposed new analytic risk framework and designation guidance for nonbank systemically important financial institutions (SIFIs) to allow for adequate federal supervision of nonbanks that are driving the unchecked growth of climate-related financial risk.²⁴ As Secretary Yellen has stated, these are “an important preventative tool to address systemic risks that may arise from a nonbank financial firm whose

¹⁹ Letter from Treasury Assistant Secretary for Legislative Affairs Jonathan C. Davidson to Senators Warren, Whitehouse, and Markey, May 19, 2023, <https://www.warren.senate.gov/imo/media/doc/05.19.2023%20Response%20to%20Senator%20Warren.pdf>.

²⁰ Center for American Progress, “Strengthening the Regulation and Oversight of Shadow Banks,” Gregg Gelzinis, July 18, 2019, <https://www.americanprogress.org/article/strengthening-regulation-oversight-shadow-banks/>.

²¹ U.S. Department of the Treasury, “Financial Stability Oversight Council Approves Rule To Designate Nonbank Financial Companies For Enhanced Oversight, Help Prevent Future Financial Crises,” press release, April 3, 2012, <https://home.treasury.gov/news/press-releases/tg1521>.

²² IMF Blog, “Nonbank Financial Sector Vulnerabilities Surface as Financial Conditions Tighten,” Antonio Garcia Pascual, Fabio Natalucci, Thomas Piontek, April 4, 2023, <https://www.imf.org/en/Blogs/Articles/2023/04/04/nonbank-financial-sector-vulnerabilities-surface-as-financial-conditions-tighten>.

²³ WWF, “WWF urges insurance companies to take responsibility for their underwriting business,” September 13, 2023, <https://wwf.panda.org/?9548441/WWF-urges-insurance-companies-to-take-responsibility-for-their-underwriting-business>; Business Green, “Urgent responsibility’: Insurers urged to stop ‘fuelling’ nature and climate crises,” Cecilia Keating, September 13, 2023, <https://www.businessgreen.com/news/4125004/urgent-responsibility-insurers-urged-stop-fuelling-nature-climate-crises>.

²⁴ U.S. Department of the Treasury, “FSOC Issues for Public Comment Proposed Analytic Framework for Financial Stability Risks and Proposed Guidance on Nonbank Financial Company Determinations,” press release, April 21, 2023, <https://home.treasury.gov/news/press-releases/jy1432>; Financial Stability Oversight Council, Federal Register Notice, “Authority To Require Supervision and

activities or distress could threaten the financial system” and will help create a “supervisory and regulatory regime that can help prevent financial disruptions from starting and spreading in the first place.”²⁵

Climate Scenario Analysis and Data Needs

The climate risk of nonbank financial institutions such as insurance companies can easily spread to other parts of the financial system, “[flowing] from insurers to consumers when insurer capacity is exceeded, then on to lenders and municipalities when individuals cannot pay their bills and taxes.”²⁶ And as Secretary Yellen has warned, “natural disasters and warming temperatures can lead to declines in asset values that could cascade through the financial system.”²⁷ Treasury must continue to work with and make ambitious recommendations to the banking regulators to analyze how disruptions in markets will affect banks and consumers. The Federal Reserve has yet to finalize its supervisory principles for climate-related risk management, and unfortunately, its initial climate scenario analysis exercise for the largest banks includes a narrow set of physical and transition scenarios²⁸ that fall far short of capturing the full scale of these risks.²⁹ Treasury should play a role in developing and encouraging the uptake of higher quality climate scenario analysis exercises for banks, grounded in the realities of climate science and using a qualitative and narrative approach that is better suited for analyzing climate-related financial risk.³⁰

Additionally, the Office of Financial Research (OFR) should quickly expand access to the Climate Data and Analytics Hub beyond staff of the OFR, the Federal Reserve, and the Federal Reserve Bank of New York to which the pilot is currently limited. The pilot was launched in July

Regulation of Certain Nonbank Financial Companies,” Friday, April 28, 2023, <https://www.govinfo.gov/content/pkg/FR-2023-04-28/pdf/2023-08964.pdf>.

²⁵ U.S. Department of the Treasury, “Remarks by Secretary of the Treasury Janet L. Yellen at Financial Stability Oversight Council Meeting,” press release, April 21, 2023, <https://home.treasury.gov/news/press-releases/jy1431>.

²⁶ Public Citizen, “Letter – FSOC Must Mitigate Climate-Related Financial Risk – Sept. 2023,” September 18, 2023, <https://www.citizen.org/article/fsoc-must-mitigate-climate-related-financial-risk/>.

²⁷ CNBC, “Treasury Secretary Yellen warns that losses tied to climate change could ‘cascade through the financial system’,” Emma Newburger, March 7, 2023, <https://www.cnbc.com/2023/03/07/yellen-warns-climate-change-is-causing-major-financial-losses-in-us-.html>; Reuters, “Yellen warns climate change could trigger asset value losses, harming US economy,” Andrea Shalal, March 7, 2023, <https://www.reuters.com/world/us/yellen-warns-climate-change-could-trigger-asset-value-losses-harming-us-economy-2023-03-07/>.

²⁸ Board of Governors of the Federal Reserve System, “Pilot Climate Scenario Analysis (CSA) Exercise: Participant Instructions,” January 19, 2023, <https://www.federalreserve.gov/publications/climate-scenario-analysis-exercise-instructions.htm>; E&E News, “Explaining the Fed’s Climate Test,” Avery Ellfeldt, February 15, 2023, <https://www.eenews.net/articles/explaining-the-feds-climate-test/>.

²⁹ Project Syndicate, “The Fed’s Climate Complacency,” Mark Cliffe, February 7, 2023, <https://www.project-syndicate.org/commentary/federal-reserve-climate-scenario-planning-falls-short-by-mark-cliffe-2023-02>; NBER, “The Economics of Immense Risk, Urgent Action and Radical Change: Towards New Approaches to the Economics of Climate Change,” Nicholas Stern, Joseph E. Stiglitz, and Charlotte Taylor, February 15, 2021, <https://www.nber.org/papers/w28472>; UNSW Sydney, “Financial Risks of Climate Change: Piranhas or Red Herrings?,” Alex Pui and Sebastian Werner, May 16, 2023, <https://www.unsw.edu.au/news/2023/05/financial-risks-of-climate-change-piranhas-or-red-herrings>.

³⁰ Capital Monitor, “Climate scenarios: ‘Narratives eat modelling for breakfast’,” Vibeka Mair, August 3, 2022, <https://capitalmonitor.ai/factor/environmental/climate-scenarios-narratives-eat-modelling-for-breakfast/>.

2022 with a goal to provide FSOC member agencies with access to public climate and financial data, high-performance computing tools, and analytical and visualization software.³¹ Once access is expanded to the full suite of FSOC members, they will be better poised to assess the vulnerabilities and needs of their respective regulated entities, and share data collected from those entities with the Hub.

Aligning Financial Institutions with the Net Zero Transition

As Secretary Yellen recently indicated, Treasury seeks to “position the economy for strong and sustainable growth consistent with a net-zero emissions future,”³² which is crucial given her warning that “A delayed and disorderly transition to a net-zero economy can lead to shocks to the financial system.”³³ Achieving that goal—and doing so in a way that maintains financial stability—requires financial institutions to adopt and implement credible net zero transition plans, which also serve as valuable transition risk management tools. Many U.S. financial institutions have made commitments to reach net zero emissions by 2050 with “very little action...to reduce their real / financed emissions or financing of the fossil fuel industry”³⁴ and limited to no plans for actually reaching those goals.³⁵ U.S. banks are currently among the largest financiers of fossil fuels, accounting for 28% of all investment in 2022.³⁶ In March 2023 we noted that Treasury had met with banks, insurers, and asset managers to discuss net zero transition plans, and we urged Treasury to “follow the global trend and publicly propose standards for such transition plans and monitor the financial system’s progress towards achieving them,” in line with the U.S.’s Paris commitments.³⁷

We were glad to see Treasury follow this recommendation and publish the *Principles for Net-Zero Financing & Investment* (the Principles) yesterday, along with the announcement of a “\$340 million commitment by leading philanthropic organizations to support the continued development of research, data availability, and technical resources intended to help financial

³¹ U.S. Department of the Treasury, “Office of Financial Research Pilots Cutting-Edge Data Hub to Assist with Climate-Risk Assessments,” press release, July 28, 2022, <https://home.treasury.gov/news/press-releases/jy0895>; Office of Financial Research, “Office of Financial Research Pilots Cutting-Edge Data Hub to Assist with Climate-Risk Assessments,” July 28, 2022, <https://www.financialresearch.gov/press-releases/2022/07/28/office-of-financial-research-pilots-cutting-edge-data-hub-to-assist-with-climate-risk-assessments/>.

³² U.S. Department of the Treasury, “Treasury Announces New Climate Counselor,” press release, July 27, 2023, <https://home.treasury.gov/news/press-releases/jy1650>.

³³ CNBC, “Treasury Secretary Yellen warns that losses tied to climate change could ‘cascade through the financial system’,” Emma Newburger, March 7, 2023, <https://www.cnbc.com/2023/03/07/yellen-warns-climate-change-is-causing-major-financial-losses-in-us-.html>.

³⁴ Sierra Club, “Memo on Financial Institutions and Fossil Fuel Financing Ahead of Yellen Roundtable,” press release, September 18, 2023, <https://www.sierraclub.org/press-releases/2023/09/memo-financial-institutions-and-fossil-fuel-financing-ahead-yellen>.

³⁵ Time Magazine, “As More Companies Make Net-Zero Pledges, Some Aren’t as Good as They Sound,” Eloise Barry, November 15, 2021, <https://time.com/6117635/companies-net-zero-greenwash/>.

³⁶ Sierra Club, “Banking on Climate Chaos Report: World’s Biggest Banks Continue to Pour Billions into Fossil Fuel Expansion,” press release, April 12, 2023, <https://www.sierraclub.org/press-releases/2023/04/banking-climate-chaos-report-world-s-biggest-banks-continue-pour-billions>.

³⁷ Letter from Senator Elizabeth Warren to Treasury Secretary Janet Yellen, March 9, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.03.09%20Letter%20to%20Treasury%20re%20Counselor%20Morton%20&%20Climate%20Hub.pdf>.

institutions develop and execute robust, voluntary net-zero commitments.”³⁸ This step forward helps in closing the gap we highlighted in our March 2023 letter between U.S. action and that of other countries on transition plan guidance.³⁹ In announcing these Principles during Climate Week in New York, Secretary Yellen noted that without considering the significant financial impacts of a changing climate, “financial institutions risk being left behind with stranded assets, outdated business models, and missed opportunities to invest in the growing clean energy economy,” and expressed that the Principles would “affirm the importance of credible net-zero commitments and...encourage financial institutions that make them to take consistent approaches to implementation.”⁴⁰ These voluntary standards will help promote sustainable investment while “discouraging the practice of misleadingly marketing business activities as environmentally friendly, known as greenwashing.”⁴¹ The guidance includes nine principles for financial institutions with net-zero commitments, including that the commitments “should be in line with limiting the increase in the global average temperature to 1.5 degrees Celsius” and that financial institutions should “develop transition plans with clear practices, targets, and metrics” and “account for environmental justice and environmental impacts.”⁴²

We were also glad to see that the Principles included guidance on transparency around the use of carbon offsets or credits—namely that “A financial institution should provide sufficient information to give stakeholders a clear understanding of whether and/or the extent to which the voluntary use of carbon credits is part of its commitment” and that “Any voluntary use of carbon credits should be accompanied by sufficient detail on the nature and integrity of those credits.”⁴³ Recent findings have underscored that the unregulated voluntary carbon markets still feature high levels of overcrediting and fraud despite decades of efforts to improve quality; Treasury itself notes that voluntary carbon markets have transparency and integrity issues.⁴⁴ Leading standards setters like the Science-Based Targets Initiative and the Voluntary Carbon Markets Integrity Initiative have indicated through their guidance that voluntary carbon offsets or

³⁸ U.S. Department of the Treasury, “Treasury Releases Principles for Net-Zero Financing & Investment, Applauds \$340 Million Philanthropic Commitment and Other Pledges,” press release, September 19, 2023, <https://home.treasury.gov/news/press-releases/jy1744>.

³⁹ *Id.*

⁴⁰ U.S. Department of the Treasury, “Remarks by Secretary of the Treasury Janet L. Yellen in New York, New York on Treasury’s Principles for Net-Zero Financing & Investment,” press release, September 19, 2023, <https://home.treasury.gov/news/press-releases/jy1750>.

⁴¹ The Hill, “Yellen to outline voluntary sustainable investment principles,” Zack Budryk, September 19, 2023, <https://thehill.com/policy/energy-environment/4211927-yellen-to-outline-voluntary-sustainable-investment-principles/>; Financial Times, “NY climate week: Yellen warns of ‘significant economic costs’ of climate change,” Aime Williams and Brooke Masters, September 20, 2023, <https://www.ft.com/content/91bf10ce-3aa1-4965-b31c-68fc022530d7>.

⁴² *Id.*; U.S. Department of the Treasury, “Principles for Net-Zero Financing & Investment,” September 2023, p. 3, <https://home.treasury.gov/system/files/136/NetZeroPrinciples.pdf>.

⁴³ U.S. Department of the Treasury, “Principles for Net-Zero Financing & Investment,” September 2023, p. 13, <https://home.treasury.gov/system/files/136/NetZeroPrinciples.pdf>.

⁴⁴ The Guardian, “Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows,” Patrick Greenfield, January 18, 2023, <https://www.theguardian.com/environment/2023/jan/18/revealed-forest-carbon-offsets-biggest-provider-worthless-verra-aoe>; Grist, “Carbon offsets are ‘riddled with fraud.’ Can new voluntary guidelines fix that?” Joseph Winters, August 2, 2023, <https://grist.org/regulation/carbon-offsets-are-riddled-with-fraud-can-new-voluntary-guidelines-fix-that/>; U.S. Department of the Treasury, “Principles for Net-Zero Financing & Investment,” September 2023, p. 13, <https://home.treasury.gov/system/files/136/NetZeroPrinciples.pdf>.

credits are not reliable enough to be used to offset emissions as part of net zero transition plans for financial institutions.⁴⁵ While the inclusion of guidance on transparency around carbon credit use is a start, Treasury should go further in acknowledging the issues in the market and make clear that financial institutions must meet their net zero commitments by actually cutting their emissions through “credible science-aligned transition plans,” not simply buying offsets.⁴⁶ Treasury should also make clear that transition plans are a critical risk management tool that can promote financial stability, and that all large financial institutions should aim to have a credible transition plan.. Overall, there are gaps in the guidance that Treasury must address in order to fulfill its role and steer the financial sector towards alignment with Treasury’s climate goals.

Investigating Obstruction to Climate Action

In February 2021, some of us wrote to Secretary Yellen to call for “stronger IRS enforcement of important rules governing political activity by nonprofit organizations,” the lack of which has “enabled special interests to skirt campaign finance laws to spend enormous sums of anonymous ‘dark money’ in federal elections.”⁴⁷ This dark money has fueled climate change denial and the obstruction of action on climate.⁴⁸ Treasury would be well served to investigate the extent to which abuse of 501(c)(3) and 501(c)(4) authorities is used to anonymize fossil fuel political obstruction of measures that could open a pathway to climate safety.

Conclusion

As climate financial impacts grow, the Climate Hub and Treasury must pursue with added urgency all available measures to address the climate crisis and its threat to the stability of our financial system. This includes through leadership of FSOC, which must do more to protect the economy from the climate crisis.⁴⁹ In its net-zero transition guidance announcement yesterday, Treasury noted that “Climate change is a shared, global, and existential challenge that poses a severe risk to the productive capacity of the economy and requires an economy wide response to safeguard U.S. economic growth and energy security.”⁵⁰ Particularly with its responsibilities for financial oversight and implementation of the IRA, Treasury is uniquely positioned to tackle

⁴⁵ Science Based Targets, “SBTi Corporate Net-Zero Standard,” April 2023, p. 31, <https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf>; The Guardian, “Drop carbon offsetting-based environmental claims, companies urged,” July 10, 2023, <https://www.theguardian.com/environment/2023/jul/10/carbon-offsetting-environmental-claims-aoe>.

⁴⁶ Public Citizen, “Letter – FSOC Must Mitigate Climate-Related Financial Risk – Sept. 2023,” September 18, 2023, <https://www.citizen.org/article/fsoc-must-mitigate-climate-related-financial-risk/>; Public Citizen, “Treasury’s Voluntary Principles for Private Sector Net-Zero Efforts are Strong, but Leave Large Loophole,” press release, September 19, 2023, <https://www.citizen.org/news/treasury-net-zero-efforts-are-strong-but-leave-large-loophole/>.

⁴⁷ Senator Sheldon Whitehouse, Whitehouse, Warren Urge Yellen to Review IRS Enforcement of Dark Money Groups, press release, February 3, 2021, <https://www.whitehouse.senate.gov/news/release/whitehouse-warren-urge-yellen-to-review-irs-enforcement-of-dark-money-groups>.

⁴⁸ Penn Today, “How dark money fuels climate denialism,” Marilyn Perkins, December 14, 2022, <https://penntoday.upenn.edu/news/dark-money-climate-denialism-whitehouse>.

⁴⁹ Public Citizen, “Groups Call on Sec. Yellen to Retool FSOC’s Approach to Financial Risks Caused by Climate Crisis,” press release, September 18, 2023, <https://www.citizen.org/news/groups-call-on-sec-yellen-to-retool-fsocs-approach-to-financial-risks-caused-by-climate-crisis/>.

⁵⁰ U.S. Department of the Treasury, “Principles for Net-Zero Financing & Investment,” September 2023, p. 2, <https://home.treasury.gov/system/files/136/NetZeroPrinciples.pdf>.

challenges faced while promoting the opportunities of a clean energy economy. As Secretary Yellen highlighted in her remarks yesterday, “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.”⁵¹ In order to better understand Treasury’s plan to fulfill these goals, we ask that you provide answers to the following questions no later than October 12, 2023:

1. Please describe the changes in approach that Climate Counselor Zindler plans to take in helping Treasury meet the requirements of President Biden’s May 20, 2021 EO.
2. Please describe the status and expected timeline for completing the FIO data call, any plans to make the report public and to analyze the racial justice implications of the data.
3. Please describe any efforts made to develop and encourage implementation of high quality climate scenario analysis exercises across FSOC members.
4. Please describe the status of development of OFR climate data hub and when it will be made accessible to all FSOC members.
5. Many of the largest institutions act as significant drivers of climate-related financial risk through their underwriting and investment in carbon-intensive industries, while the burdens often fall disproportionately on smaller financial institutions with fewer resources and opportunities for diversification. As the FSOC convener, how is Treasury recognizing and addressing how FSOC members’ regulated entities carry uneven climate-related risk responsibilities and burdens?
6. How effectively is the economy prepared for predicted systemic risks from climate upheaval, and are existing corporate risk reporting requirements addressing the full array of risks?
7. Please describe Treasury’s plan to address transparency and integrity issues within voluntary carbon credits markets, in the context of net zero transition plan guidance.
8. Please describe Treasury’s plan to make clear that transition plans are an effective risk management tool that can promote financial stability, and what work it will do to ensure that all large financial institutions have a credible transition plan.
9. To what extent is abuse of 501(c)(3)/501(c)(4) entities to manipulate politics contributing to risk and blocking pathways to safety?

We also ask that you respond to these questions from our March 2023 letter which were not addressed in the May 2023 response from Treasury:⁵²

⁵¹ U.S. Department of the Treasury, “Remarks by Secretary of the Treasury Janet L. Yellen in New York, New York on Treasury’s Principles for Net-Zero Financing & Investment,” press release, September 19, 2023, <https://home.treasury.gov/news/press-releases/jy1750>.

⁵² Letter from Senator Elizabeth Warren to Treasury Secretary Janet Yellen, March 9, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.03.09%20Letter%20to%20Treasury%20re%20Counselor>

10. What actions are Treasury and the Climate Hub taking to help close the gap between banking regulators in the U.S. and other countries regarding climate risk?
11. Describe your engagement with frontline communities – those that experience the “‘first and worst’ consequences of climate change”⁵³ and are “‘most often communities of color, Indigenous, and low-income”⁵⁴ – both domestically and abroad, and your continued plan for engagement with civil society.
12. How will you ensure that U.S. financial institutions have science-based plans in place to meet their public net zero by 2050 commitments without the use of voluntary carbon offsets? What will you do to encourage institutions that do not have such plans in place to implement them?

Sincerely,



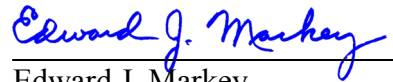
Elizabeth Warren
United States Senator



Bernard Sanders
United States Senator



Martin Heinrich
United States Senator



Edward J. Markey
United States Senator



Sheldon Whitehouse
United States Senator



Jeffrey A. Merkley
United States Senator

[%20Morton%20&%20Climate%20Hub.pdf](#); Letter from Treasury Assistant Secretary for Legislative Affairs Jonathan C. Davidson to Senators Warren, Whitehouse, and Markey, May 19, 2023, <https://www.warren.senate.gov/imo/media/doc/05.19.2023%20Response%20to%20Senator%20Warren.pdf>.

⁵³ State of Vermont Agency of Administration, “Established Examples of Frontline Communities,” p. 1, <https://aoa.vermont.gov/sites/aoa/files/Boards/VCC/Frontline%20%20Impacted%20Communities%205.4.21.pdf>.

⁵⁴ Care About Climate, “What is a frontline community?,” Gabrielle Gundry, February 11, 2021, <https://www.careaboutclimate.org/blog/what-is-a-frontline-community>.