CHILDREN'S INVESTMENT FUND FOUNDATION

8th October 2021

The Honorable Janet Yellen
Secretary
U.S. Department of the Treasury
Washington, D.C. 20220
United States of America

Dear Secretary Yellen,

The Financial Stability Oversight Council (FSOC) must show climate leadership by making 5-year Climate Action Plans mandatory for large companies and require banks to disclose the emissions they are financing and take action.

I write as the Chair of the Children's Investment Fund Foundation (CIFF), one of the world's largest grant funders of climate change action. A climate-safe world is vital for a healthy and sustainable future for children. As stated by UNICEF[i], the climate crisis is putting the lives of 1 billion children at severe risk. In 2020 CIFF disbursed over $150mn of climate grants, including to a wide range of NGOs working on finance.

As highlighted recently by the International Energy Agency (IEA)[ii], to meet the goals of the Paris Agreement, investments in new fossil fuels must stop immediately and the share of fossil fuels in energy supply has to fall steeply. The UN Production Gap Report[iii] underlines that this decline must start now: global fossil fuel production should fall by 6% each year from 2020 to 2030.

However, not only are US banks continuing to channel financing to fossil fuels, they are failing to provide basic levels of transparency about the extent of the emissions they are financing. Since the Paris agreement, US banks have provided more than $1.24trn per year of fossil fuel financing, with 6 ranking in the top 60 globally.[iv] 115 investors with assets under management (AUM) of $4.2trn have written to 6 US banks[v] setting out expectations for coal phase-out announcements by COP26 and short-term 5-year targets covering all financing by their 2022 AGMs.

In addition, more than 100 global investment firms representing $20trn of assets under management (AUM) have now set out their expectations for all companies to disclose climate action plans including 5-year targets[vi].

As Chairperson of FSOC, it is imperative that you establish an ambitious roadmap for regulatory action that immediately begins to reduce climate-related financial risk within the US financial system. This must be done through the FSOC report currently being developed in line with the mandate set by President Biden in Executive Order 14030. This Executive Order specifically requests recommendations on regulatory action to be taken to mitigate climate-related financial risk.

In order to meaningfully satisfy this request, the FSOC report must outline bold action to be taken by all financial regulators within FSOC including the following immediate steps:

1. The SEC must include mandatory 5-year Climate Action Plans[vii] as a central element of the mandatory corporate disclosure requirements to be announced before the end of 2021.
2. The SEC should also act on its clear guidance regarding investment fund disclosure and greenwashing by taking clear regulatory measures against all funds claiming climate impact whilst holding high emitting assets and failing to undertake meaningful engagement with companies[viii].
3. The Federal Reserve to mandate banks to disclose the absolute carbon emissions of their loan book and underwriting business by sector, using PCAF or an equivalent framework. Actual data rather than

estimates requires all large corporate clients to disclose the full scope of their emissions. This disclosure should take place alongside new SEC mandated rules for the corporate sector, we cannot afford several years of further delay.

4. Require banks to set and disclose 5-year emissions reduction targets for their loan book and underwriting and provide a Climate Action Plan for achieving those targets. The FSOC cannot supervise an orderly transition without this information.
5. Mandate banks to work with all large clients to develop and finance their own 5-year Climate Action Plans. Without these corporate plans in place banks will not be able to transition their own businesses[ix]
6. The Federal Reserve and Office of the Comptroller of Currency (OCC) should impose additional pillar 2 risk buffer capital requirements to ensure that all lending for fossil fuel expansion is treated as equivalent to equity exposure[x] to reflect the risky nature of this activity per IEA.
7. In line with the G7 decision to end coal financing[xi], take a lead within the BCBS to accelerate work on pillar 1 capital requirements for all coal-related lending, which is incompatible with the Paris agreement. There is clear precedent for rapid action given recent BCBS guidance on cryptocurrencies requiring 1250% risk weightings.
8. Collateral eligibility rules for all Federal Reserve market facilities should be adjusted to allow only assets backed by companies who are delivering on credible 5-year Climate Action Plans[xii]. The Climate Bonds Initiative has issued a 'Transition Bond' framework which will link to investor-backed initiatives such as the CA100+ net zero company benchmark and the ACT framework, providing the basis for assessing the forward-looking Climate Action Plans of major companies.

Whilst individual companies and banks can seek to reduce their own exposure to transition risk in the short-term, without an end to fossil fuel financing and the delivery of Climate Action Plans on an economy-wide basis, the financial system as a whole will be increasingly vulnerable. The private sector cannot be left to manage its own role in the climate transition. Current initiatives such as the COP26 Race to Zero and the newly established Net Zero Banking alliance do not cover all companies and banks, and do not mandate full disclosure, credible action plans and an end to risky fossil fuel activity. 2050 Net Zero commitments alone are meaningless.

We would welcome the opportunity to meet with you and discuss the response of the members of FSOC to climate change, and how civil society can support this critical agenda.

Yours sincerely,

Sir Christopher Hohn
Chairman CIFF

CC: John Kerry, US Special Presidential Envoy for Climate; Jerome Powell, Chair of the U.S. Federal Reserve; Gary Gensler, Chairman of the U.S. SEC; Michael J. Hsu, Acting Comptroller of the Currency; Gina McCarthy, White House National Climate Advisor; Nellie Liang, Undersecretary for Domestic Finance; John Morton, US Treasury First Climate Counselor

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[i] https://www.unicef.org/media/105376/file/UNICEF-climate-crisis-child-rights-crisis.pdf
[ii] https://www.iea.org/reports/net-zero-by-2050

[iii] https://www.unep.org/resources/report/production-gap-2020?__cf_chl_managed_tk__=pmd_6cd6b01716cb7198b38bac5dde3f12400b3cb4e8-1627847715-0-gqNtZGzNAw2jcnBszQeO

[iv] https://www.ran.org/bankingonclimatechaos2021/

[v] https://shareaction.org/investors-call-on-banks-to-strengthen-climate-ambitions-before-cop26/

[vi] https://sayonclimate.org/

[vii] https://sayonclimate.org/climate-action-plans/

[viii] https://fossilfreefunds.org/

[ix] 53 global investment firms representing $14trn of AUM have set out their expectations for all companies to disclose climate action plans including 5-year targets: https://www.iigcc.org/news/usd-14-trillion-investors-call-for-consistency-on-corporate-net-zero-alignment-plans/

[x] https://www.finance-watch.org/publication/breaking-the-climate-finance-doom-loop/

[xi] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/988551/g7-climate-environment-communique.pdf

[xii] https://www.lse.ac.uk/granthaminstitute/publication/net-zero-central-banking-a-new-phase-in-greening-the-financial-system/