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Creating a climate of change digest

Climate risk regulatory developments in the financial services industry

Leading off

The Group of Seven (G7) Finance Ministers and Central Bank Governors released a joint communiqué detailing, among other topics, their commitment in acting against climate change and for financial sustainability.[1]

The communiqué was issued after the G7's May meeting and identified climate change as one of the main topics for enhancement of global economic resilience. The announcement also underlined the G7's commitment to consistent, comparable, and reliable disclosure of information on sustainability.[2]

Key highlights on the G7's climate-related efforts expressed the following:

- Support for the Financial Stability Board (FSB) Roadmap for Addressing Climate-related Financial Risks and acceptance for the related work by other international standard-setting bodies.
- Support for the potential of high-integrity carbon markets and carbon pricing to foster cost-efficient reductions in emission levels, drive innovation, and enable a transformation to net-zero through the optimal use of a range of policy levers to price carbon.

- Support for the Organisation for Economic Co-operation and Development's (OECD) Inclusive Forum on Carbon Mitigation Approaches (IFCMA) to deepen the understanding of the effectiveness of various policy tools on mitigating emissions.
- Support for the upcoming International Sustainability Standards Board (ISSB) standards for general reporting on sustainability and for climate-related disclosures, and ISSB's future work on disclosure on biodiversity and human capital.
- Commitment to the collective climate finance mobilization goal of $100 billion per year through 2025 for developing countries.
- Commitment to supporting the implementation and monitoring of the G20 Sustainable Finance Roadmap, including the transition finance framework.

The Federal Emergency Management Association (FEMA) is contributing $160 million in additional funding to help climate resilience, including flood mitigation projects.

FEMA will be pouring $160 million into climate resilience projects, including funds to help with flood mitigation.[3] This new installment of funds follows the previously announced $50 million. The new installment includes $136 million for the Building Resilient Infrastructure and Communities (BRIC) program.[4] It also includes $24 million for the Flood Mitigation Assistance Program.[5] In addition, $54 million of this funding is set aside for Tribal Nations that applied.

The May 19, 2023, announcement is part of the Biden administration's five-year Safeguarding Tomorrow through Ongoing Risk Mitigation revolving loan fund program.[6] The program provides low-interest loans, allowing jurisdictions to reduce vulnerability to natural disasters and foster greater community resilience.

FEMA claims that these dollars have the greatest impact at the local level, so the funding is distributed to states, tribes, territories, local communities, and the District of Columbia through the Bipartisan Infrastructure Law. This law has provided funding for a number of FEMA programs aimed at building climate resilience, and the May funding is expected to complement the $60 million already allocated for an initiative involving four states heavily affected by 2021's Hurricane Ida. Louisiana, Mississippi, New Jersey, and Pennsylvania had the highest numbers of repetitively flood damaged, National Flood Insurance Program (NFIP)-insured unmitigated buildings and total number of claims.[7]

"From hurricanes in the east, to wildfires in the west, to tornadoes tearing through America's heartland, every community faces some level of disaster risk. These frequent and intense events fueled by climate change demonstrate that mitigation funding continues to serve as one of our most powerful tools in reducing the impacts we're seeing," stated FEMA Administrator Deanne Criswell.[8]

Biden's November 2021 Bipartisan Infrastructure Law provides $6.8 billion in funding to support FEMA's resilience and mitigation programs. To date, more than $370 million in awards have been announced concerning the BRIC program and the Flood Mitigation Assistance Program from the Infrastructure Law.[9]

Government science agencies forge agreement to form climate risk data and catastrophe modeling center that is expected to serve the insurance sector.

The US National Science Foundation (NSF) and the National Oceanic and Atmospheric Administration (NOAA) have teamed up to embark on the creation of a new catastrophe and climate change data research center to support the insurance industry in its efforts to assess future climate risks and their impact.[10]

An Industry-University Cooperative Research Center (IUCRC) program will look at modeling catastrophic impacts and risk assessment of climate change, the NSF stated May 16 in a news release.[11] The IUCRC program brings together expertise from industry and university academic teams (including students and government agencies) for long-term research projects aimed at bolstering the US economy and advancing innovations in certain focus areas. These consortia were developed by the NSF, and one of the primary areas of research is the environment. The fledgling climate risk data and catastrophe modeling IUCRC program will be co-managed by the NSF and the NOAA, the agencies said.

The NSF cited the need for predicting the damages and risks associated with climate-related perils of all types as catastrophic weather patterns intensify.[12] Whether the climate or catastrophe event is a wildfire, flood, tornado, or hurricane, the IUCRC "will channel basic and use-inspired research for the benefit of the U.S. economy," stated NSF Assistant Director for Geosciences Alexandra Isern.[13]

NOAA also made the point that the data and modeling need to be predictive, or forward-looking, to be effective. "Traditionally, catastrophe modeling looks at past events while climate modeling looks to the future," stated NOAA Chief Scientist Sarah Kapnick.[14] She further illuminated that the combination of climate and catastrophe models would create better risk assessment tools for insurers, reinsurers, and mortgage providers. An additional goal is to not only develop the science, she said, but the workforce, as well, so the United States and industry can "put knowledge into action."[15]

US Treasury hosted meeting on "climate-focused community finance," that highlights the importance of Community Development Financial Institutions (CDFIs).

On May 10, 2023, the US Treasury along with the Community Development Financial Institutions Fund hosted a meeting with several key stakeholders to discuss climate-focused community finance.[16] In attendance were Biden administration officials (from the White House Climate Policy Office, Environmental Protection Agency (EPA), Department of Energy, and Department of Housing and Urban Development), CDFIs, academics, advocates, and others with shared interests. Significant discussion items included explanations of fund earmarking, accessibility, and acquisition.[17]

The meeting follows the EPA's recent release of the implementation framework for the Greenhouse Gas Reduction Fund (GGRF), which is intended to facilitate the provision of additional resources for climate-related challenges across US communities with particular emphasis on communities that are considered underserved.[18]

The GGRF consists of three separate grants that are collectively expected to provide $27 billion in program funding, for which applicants must compete. The grant competitions are defined as follows:

- **National Clean Investment Fund ($14 billion)**—Funding for "two to three national nonprofits that will partner with private capital providers to deliver financing at scale to businesses, communities, community lenders, and others" in support of clean technology projects.[19]
- **Clean Communities Investment Accelerator ($6 billion)**—Funding for "two to seven hub nonprofits with the plans and capabilities to rapidly build the clean financing capacity of specific networks of public, quasi-public, and nonprofit community lenders—including community development financial institutions (including Native CDFIs), credit unions, green banks, housing finance agencies, and minority depository institutions—to ensure that households, small businesses, schools, and community institutions in low-income and disadvantaged communities have access to financing for cost-saving and pollution-reducing clean technology projects."[20]
- **Solar for All ($7 billion)**—Provides "up to 60 grants to states, Tribal governments, municipalities, and nonprofits to expand the number of low-income and disadvantaged communities that are primed for residential and community solar investment—enabling millions of families to access affordable, resilient, and clean solar energy."[21]

The EPA asked for feedback on the grant competitions by May 12, 2023, as the agency plans to issue the finalized Notices of Funding Opportunity in June. In a joint letter dated May 9, 2023, the Community Development Bankers Association (CDBA) and the National Bankers Association (NBA) provided comments on the implementation framework.[22] The letter generally communicated the support of the CDBA and NBA for the GGRF; however, it communicated recommendations in four areas:

1. **Definition of eligible recipient of indirect investments**—The EPA should "explicitly define the eligible recipients of Indirect Investments to include banks that are federally-designated CDFIs or MDIs [Minority Depository Institutions]. In addition, we recommend that the EPA develop a certification to recognize environmental-focused banks as potential recipients of Indirect Investments."
2. **Definition of quasi-public entity**—The EPA should "amend the definition of quasi-public entity to explicitly recognize CDFI, MDI, and environmental banks."
3. **Definition of qualified projects**—The EPA should revise the definition of a "qualified project" to "allow nonprofit Eligible Recipients to disburse monies to an intermediary nonprofit(s) for the purpose of providing capital or facilitating qualified projects that are financed by CDFI, MDI, and environmental banks."
4. **Partnership under the National Clean Investment Fund**—"Eligible Recipients under the National Clean Investment Fund (NCIF) should be mandated to partner with CDFI, MDI, and/or environmental banks to deliver financing on 50% of all qualified projects-funded GGRF monies."

The Network for Greening the Financial System (NGFS) plans to begin a project to develop short-term climate scenarios.

The NGFS's short-term climate scenarios are expected to be used in conjunction with the existing long-term scenarios and to provide a more comprehensive view of the adverse impacts of both physical and transition risks.[23] In order to develop the scenarios, the NGFS is initiating a project and soliciting the input of specialists with demonstrated expertise in modeling, the analysis of model output, and overall climate-related risk assessment. The project is scheduled to begin during the third quarter of 2023, with the duration of the project or timeline for final issuance of the scenarios unclear at this point.

The NGFS's most recent issuance of climate scenarios for central banks and supervisors occurred in 2022 and is currently being leveraged by some US financial organizations in climate scenario analysis activities.[24] It is likely that the short-term scenarios would similarly be used in entity-specific climate-related financial risk analyses upon finalization. Federal banking regulators such as the Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and US Federal Reserve are members of the NGFS.[25] The Federal Housing Finance Agency and US Federal Insurance Office are also members.

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Additional Deloitte US perspectives on climate risks

For additional insights, please see our ongoing series on how climate risks are shaping US financial regulatory initiatives and the impact these developments may have on the financial services industry and the broader economy:

- Deloitte 2023 *CxO Sustainability Report*
- 2023 financial services industry outlooks
- Ingraining sustainability in the next era of ESG investing
- The CIO's call to action: Driving an environmentally sustainable tech agenda to accelerate organizational change
- Climate Change and Financial Risk Digest | Deloitte US
- Center for Regulatory Strategy - Sustainability, climate & equity | Deloitte US

Endnotes

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