

On Thursday the White House issued an [Executive Order on Climate-Related Financial Risk](#) that outlines a key plank in the Biden Administration's whole-of-government approach to addressing climate change. Whereas the Trump Administration sought to [actively block consideration of environmental factors](#) in investment decision-making, the Biden Administration is directing financial and climate regulators to develop strategies to address the physical and transition risks that climate change poses throughout the economy.

The Administration has also provided something of a template for state leaders seeking to sustain California's economy—the world's fifth largest, home to both a clean energy industry that can propel the decarbonization transition and agricultural and tourism industries that face severe climate risks—through coming decades of transition and disruption.

The order's core provisions include:

- Developing a government-wide strategy to assess, mitigate, and disclose climate-related financial risks facing federal programs and assets, and to identify financing needs for a transition to net-zero emissions economy.
- Assessing climate-related financial risks to the stability of the US financial system and crafting proposals for requiring disclosure and mitigation of climate-related risks by financial institutions, including insurers.
- Identifying regulatory actions to protect private savings and pensions from climate-related financial risks, including reversal of the prior administration's ESG rules.
- Integrating climate-related financial risk considerations into federal lending and procurement programs.
- Quantifying climate-related financial risk in long-term budget outlooks.

These directives represent a number of vital first steps in evaluating and managing what Treasury Secretary Yellen (among many others) [has called](#) an “existential risk” to the economy. This risk—encompassing loss of agricultural production due to drought; threats to property and communities from sea-level rise, extreme storms and wildfires; supply chain and infrastructure disruption; and the devaluation of entire investment and asset classes as the economy transitions away from fossil fuels and incumbent sectors are forced to remake their operations—has become increasingly clear over the last decade. And yet last week's order (following and incorporating recommendations contained in a groundbreaking [climate risk report](#) last fall by a committee of the CFTC, on which CLEE Climate Risk Initiative director

[Dave Jones](#) was a contributor) represents some of the first major federal action since the SEC issued [non-binding guidance](#) for climate risk reporting in 2010.

Given the federal government's ability to steer the national economy with tools like the regulatory authority of the Securities and Exchange Commission, the supervisory and rate-setting capacity of the Federal Reserve, and the spending power of Congress, a centralized approach to assessing, disclosing, and mitigating climate-related financial risk is a logical and welcome development.

But state governments can also play a vital role in this process, in addition to and in support of potential federal legislation and regulation. California has led some pioneering but piecemeal efforts on this front over the past decade, including:

- Requirements for the major public employee pension funds CalPERS and CalSTRS to [begin divesting from coal](#) and [report their climate-related risks](#).
- Requirements for insurers to [disclose their climate-related risks](#) and [fossil fuel investments](#) (and a first-of-its-kind [climate scenario analysis](#) of insurer portfolios).
- A 2019 [Executive Order](#) from Governor Newsom directing actions to reduce climate-related financial risks within the state's pension funds, align state transportation investment with climate goals, and align state purchasing and real estate policies with emission reduction and climate risk mitigation goals.
- The Department of Finance's 2020 [California Climate Investment Framework](#), which identified climate risk strategies and priorities for state pension funds and institutional investors.
- The recently created [Climate-Related Risk Disclosure Advisory Group](#), a group of climate risk experts in the private and academic sectors, which has a mandate to develop a climate-related financial risk disclosure standard for state procurement, investment, and asset stewardship.

Building on these efforts, three bills introduced in the State Legislature this year would institute some form of climate-related disclosure requirement:

- [Senate Bill 260](#) (Wiener), which would require large corporations doing business in California to disclose their Scope 1, 2, and 3 emissions and prepare a plan to achieve a 1.5-degree emission scenario.
- [Senate Bill 449](#) (Stern), which would require climate-related financial risk disclosure by large corporations and financial institutions licensed or incorporated in California, using the [standard developed by the Task Force on](#)

[Climate-Related Financial Disclosures](#) (TCFD). (*Disclosure: CLEE provided technical assistance with the drafting of SB 449.*)

- [Assembly Bill 766](#) (Gabriel), which would require large corporations based in California to disclose emissions and climate-related financial risks and conduct climate change scenario analyses.

As of this writing, each of these bills has hit a pause in the legislative process, meaning President Biden's order offers a point of reflection for state policymakers looking to ensure that California's economy remains vibrant (and becomes more equitable) in coming decades. The order is just a first step; the reports and assessments it directs, not to mention any substantive regulation, will take months if not years to materialize. However, a few broad insights for state action stand out.

Federal standards will necessarily take a national perspective, and may not adequately address the specific risks that individual states like California face – so state policymakers should pay special attention to how, if at all, federal rules address the singular risks facing communities, businesses, and workers in our coastal, agricultural, high-heat, and high-fire risk areas. (The order directs the Treasury Secretary to consider “the necessity of any actions to enhance climate-related disclosures by regulated entities,” which may or may not result in a federal risk disclosure standard – so state leaders should be ready to implement one here or supplement a federal standard if necessary.)

Federal regulations will take months if not years to materialize, and may not materialize at all depending on priorities in DC and the 2022 elections – so state leaders should continue to push forward with their own policies, with carefully crafted provisions that defer to later-enacted federal requirements as appropriate.

In addition, while the federal government is the major player here, its regulatory authority is still somewhat limited to federally chartered/insured financial institutions and publicly traded companies – so states will need to take parallel or supporting actions in addition to any federal action, in particular on issues like state-level investment, asset stewardship, spending and procurement; state licensed financial institutions including banks, credit unions and insurance companies; and support/oversight of communities and small businesses.

As the federal government begins to address climate-related financial risks, state leaders can still develop parallel and complementary policies to address gaps in the federal framework and pass new legislation to require disclosure and mitigation of

climate risks. (CLEE's 2020 [California Roadmap](#) outlines a number of potential state-level regulatory and legislative actions to address ESG and climate-related risks.) It's a role the state has played throughout the evolution of US climate policy, and one it should be ready to play again.