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New York to regulate banks for climate change risks, marking breakthrough
By Zachary Warmbrodt
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WASHINGTON — New York's top financial regulator on Thursday directed banks to start taking climate change risks into consideration when managing their operations, marking the boldest move yet by a U.S. official to impose climate-related rules on financial firms.

New York Superintendent of Financial Services Linda Lacewell outlined her expectations in a letter to banks, money transmitters and virtual currency companies operating in the state. She warned that climate change poses major financial risks to companies under her supervision — not only to individual institutions, but to the broader financial system.

"Climate change is happening now, and we have to take steps to manage the financial risks now," said Lacewell, whose jurisdiction includes the financial capital of the nation. "We want to ensure that every institution is managing its own individual risks from climate change, which is critical for the safety and soundness of the financial services industry. By working with the industry and engaging in a dialogue on this serious issue, we are creating a roadmap for a more sustainable future."

New York is putting banks on notice as the industry braces for climate regulations that are under consideration around the globe. The industry has faced less climate-related scrutiny in the U.S. than in other parts of the world, but federal regulators are expected to put more emphasis on the issue, especially if Democrats regain control of Washington.

New York's Department of Financial Services is the sole U.S. member of the Network for Greening the Financial System, an international group of central banks and regulatory agencies developing climate risk safeguards.

In her letter, Lacewell highlighted potential "physical risks," such as disasters that damage property and assets, as well as "transition risks," where fossil fuel investments lose value as the world moves to a lower-carbon economy.

Lacewell, who issued a similar order to insurers in September, said financial institutions should start integrating those risks into their governance frameworks, risk management processes and business strategies. She said they should also start developing approaches to climate risk disclosure.

Virtual currency firms should consider being more transparent about the location and equipment they use in Bitcoin mining, which has become energy-intensive, Lacewell said.

In the letter to industry executives, Lacewell framed her goals as "expectations" for the companies she regulates. She did not threaten specific penalties if firms didn't comply but said the agency is developing a strategy for integrating climate-related risks into its supervisory mandate.

She said the agency understands that the move involves "complex and challenging issues" and that climate change affects firms in different ways depending on their size, complexity and geography. Each organization, she said, should take a "proportionate approach" that reflects its exposure.