There are many aspects to the changing regulatory landscape as the U.S. government (and other authorities) increase their focus on climate change and adopt policies and regulations designed to presumably steer the private sector towards a focus on sustainability.

While direct regulation of ESG issues--such as new disclosure requirements by the SEC, or enforcement actions against significant sources of GHG emissions--is one
aspect of these efforts, it is important to recall that there are also indirect levers that the government can operate, even if it has not yet chosen to do so. For example, as noted below, climate change activists have been pressing the Federal Reserve to stifle the flow of capital to industries perceived as especially damaging to the environment. While neither the Federal Reserve nor other such regulatory institutions have yet embraced this strategy--i.e., imposing onerous terms on loans to carbon-heavy industries--it remains a possible tactic that the government could embrace. Indeed, this type of mechanism could be expanded even further, as climate activists and others could press for companies in related industries (e.g., construction, plastics, etc.) to cease doing business with certain sectors or particular companies, or at least charge such perceived polluters a higher amount to impose costs on specific activities.

Even though such a strategy has not yet been implemented, it is important to monitor developments concerning such an approach, and to plan, if possible, how to respond. Most importantly, this possibility demonstrates and emphasizes that companies cannot adopt a narrow focus when addressing climate change and responding to concomitant regulations, but must always be proactive in identifying potential issues and maintain a broad perspective as to where pressure could be exerted against them.

Climate activists and others on the left have argued that Mr. Powell should be replaced by someone with stronger credentials as a climate hawk. ... [T]hey want the Fed to use its regulatory powers to throttle the flow of bank lending to carbon-producing industries. At the same time, some Republicans are assailing the Fed for mere research efforts involving climate. It is clear there would be a huge outcry on the right if a new Fed chair were to take an activist stance in trying to limit the availability of capital in energy-extraction businesses. So far, Mr. Powell and other leaders at the central bank have taken a middle ground. They've committed to studying the ways global warming will affect the economy and the financial system ... but not trying to manage how loans and resources are allocated.


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