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FACT SHEET

On Earth Day, the Need to Address Climate-Related Financial Risks is More Urgent Than Ever

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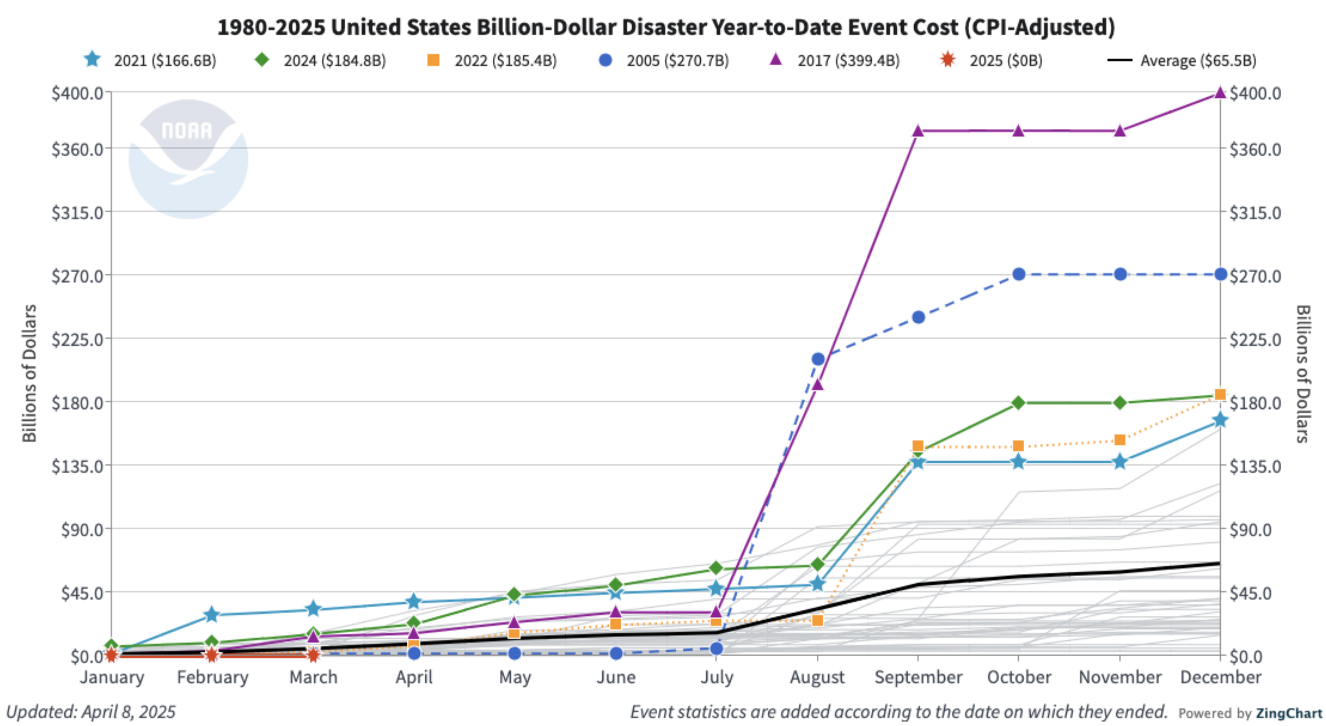
Introduction

From fires engulfing Los Angeles to historic hurricane damage in North Carolina to tornadoes ransacking the Central and Southeastern United States, climate-related risks are impossible to ignore. In 2024, 568 fatalities were associated with extreme weather events—the eighth-highest number of deaths on record. And beyond the devastating cost to human life, climate events also cause extreme stress to our economy and financial system. During 2024, the U.S. experienced 27 weather and climate disasters each incurring losses that exceeded $1 billion, the second highest for the number of billion-dollar disasters in a calendar year. The total cost for these disasters in 2024 was $182.7 billion and was the fourth highest on record.



Source: National Centers for Environmental Information, National Oceanic and Atmospheric Administration; per NOAA, 2025 data has not yet been aggregated to determine total costs

Whether it's headlines dominating national news or simply looking in one's own backyard, climate-risk is rightfully a fear for American families. And it is also an existential risk for households, small businesses and financial institutions' economic health. Through transmission channels such as the growing cost of taxpayer-funded disaster relief, the dramatic rise in underinsured and uninsured homes and businesses, and general economic instability, climate-related financial risk remains a clear and present danger for U.S. policymakers to understand and mitigate.

Unfortunately, with the inauguration of the Trump Administration, it appears that U.S. federal financial regulatory agencies have adopted a posture of willfully ignoring these risks with the hope that they'll magically disappear. But that will not happen, no matter how desperately policymakers try.

This Fact Sheet reviews the retrenchment away from monitoring and mitigating climate-related financial risks by each of the U.S. federal financial regulatory agencies and calls upon agencies to do their jobs to measure and mitigate risks, regardless of its source.

Banking Agencies (Federal Reserve, Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency)

Since President Trump took office, there has been a swift and severe reversal in the banking regulators' approach to protecting the banking system and Main Street Americans from climate-related financial risk. Unfortunately, this comes after the banking regulators were also slow to recognize and hesitant to address climate-related financial risk during the Biden Administration. Since January 2025, there has been further regression, ranging from the banking regulators leaving international cooperative forums that work to address climate-related financial risk (for example, here, here, and here) to rescinding guidance for expectations for banks managing this risk.

At the same time, however, climate risk continues to rage with wildfires, tornados, and floods causing billions of dollars in losses in the first few months of 2025. Wall Street banks themselves have warned of catastrophic climate risk. Financial losses continue to strain insurance companies, threaten the solvency of certain banks, and endanger the livelihoods of Main Street families, small businesses, and financial stability. Simply put, the American people need banking regulators that recognize risk and take action to address it, but the banking regulators are doing the exact opposite.

Management of Banks' Climate Risks

While not as fast and forceful as necessary, the banking regulators have made progress in recognizing and managing climate-related financial risk, since the first Trump Administration. For example:

- In 2019, the Federal Reserve ("Fed") declared that climate risk and society's efforts to limit and adapt to climate change directly relate to "fulfilling [the Fed's] mandate for macroeconomic and financial stability;"

- In 2020, the Fed directed banks to manage all material risks, including climate;
- In 2021, the Financial Stability Oversight Council ("FSOC")—which includes all of the banking regulators— began to discuss climate risk and included it in the FSOC Annual Report that year and every year since (2022, 2023, and 2024); and
- In 2023, the banking regulators issued guidance for the management of climate-related financial risk at the largest banks. Better Markets praised the Agencies for these long overdue principles, but also noted that they were limited in scope—applying only to the largest banks—and application—being only guidance rather than an enforceable rule.

Since President Trump returned to office in January 2025, the banking agencies have abruptly reversed course and undone much of their prior progress. In March 2025, the Office of the Comptroller of the Currency ("OCC") withdrew from the interagency guidance that holds the largest banks accountable for managing climate-related financial risk. Federal Deposit Insurance Corporation ("FDIC") and Fed leadership have also spoken out against the guidance.

The bottom line is that ignoring risk doesn't make it disappear; ignoring risk actually makes the financial system less safe and more prone to bank failures and bailouts.

International Standards and Cooperation

Internationally, banking regulators have engaged in broad efforts to incorporate climate risk into supervisory processes. In July 2021, the Financial Stability Board ("FSB") published a comprehensive roadmap to address climate risk, which was endorsed by finance leaders and central bankers around the world. The FSB continues its work with the recent release of an analytical framework and toolkit to identify climate-related vulnerabilities in the financial system. The Basel Committee also continues to work in this area. Better Markets supported the Basel Committee's work in 2024 to strengthen the analysis of climate-related financial risk at banks and urged the U.S. banking regulators to follow suit.

Unfortunately, the U.S. banking regulators have done the opposite. They have turned against and opposed international efforts to measure, monitor, and control climate-related financial risk. In 2024, reports indicated that U.S. banking regulators, led by the Fed, obstructed progress on rules that would protect citizens and society against climate-related financial risk. Since the beginning of 2025, the Fed, FDIC, and OCC have also left the Network for Greening the Financial System, indicating the abandonment of climate risk vigilance by U.S. banking regulators.

The Banking Crisis Behind the Insurance Crisis

Climate disasters place immense financial strain on individuals, businesses, and the broader banking system. This has created a ticking time bomb for banks and the broader economy. The mass exodus of private insurers out of certain areas in recent years has left families increasingly vulnerable, forcing many to rely on high-cost, limited-coverage public insurance programs. However, even those who still have private insurance may find the coverage to be inadequate for rebuilding after a disaster, as shown by the recent Los Angeles fires. And, for families with total losses, the decision of whether to abandon their homes and default on mortgage payments is all too real. This all leads to a cascading social and financial impact: families lose their homes, communities are devastated, banks are left holding the bag, and taxpayers will ultimately bear the cost of government-backed mortgage loans in default.

The situation is very serious for banks, both megabanks that operate throughout the nation as well as smaller, community banks that operate exclusively in areas that are vulnerable to climate disasters. A December 2024 Senate Budget Committee report detailed how escalating climate risks threaten the stability of the entire financial system, with climate disasters triggering a financial crash rivaling the 2008 financial crisis and exacerbated by a lack of insurance protection.

Securities and Exchange Commission

Since January 2025, the Securities and Exchange Commission ("SEC") has not only ignored climate-related financial risk but taken brazen steps to deny investors access to information related to environmental, social and governance (ESG) factors that they may use to make capital allocation decisions.

ESG investing refers to a strategy where investors weigh factors such as climate change and labor conditions in their financing decisions. The idea is that ESG investing positions investors for higher long-term returns because companies that consider the ESG factors are poised to be more resilient, and therefore more successful, than peers. So money managers who oversee ESG portfolios don't aim to sacrifice investment returns for the sake of pursuing an environmental or social agenda. Instead, they believe that investing according to ESG principles ultimately boosts risk-adjusted returns for long term investors. In other words, the goal of ESG investing is to reduce a portfolio's long-term risk.

From this perspective, it is hard to understand why the SEC would want to prevent investors from getting information about how companies and funds approach the ESG factors. But that is exactly what the SEC has done in the past few months, undoing progress that has been made on this issue over the last several years.

Climate-Risk Disclosure Rule

The SEC's most significant actions have been with respect to its climate risk disclosure rule. In March 2024, the SEC adopted the climate risk disclosure rule "to respond to investors' demand for more consistent, comparable, and reliable information about the financial effects of climate-related risks" on a company's operations and "how it manages those risks." After the rule was challenged in court, the SEC filed a brief defending the rule, as did other parties that recognized the merits of the rule. But after the change in administration, then-Acting Chair Uyeda announced he had directed the staff to ask the court to pause the challenge to the rule because he had voted against the rule's adoption. And on March 27, 2025, the SEC voted to end its defense of the rule. The court is likely to vacate the rule as a result, which will leave investors without critical information about the climate-related risks that companies face that are material to their investment decisions.

Climate Disclosure for Investment Advisers and Investment Companies

The SEC took a less drastic but no less consequential step recently with respect to its investment company names rule, which it adopted in September 2023 and which was set to go into effect in 2025. The names rule requires truth in advertising: funds whose names include terms indicating that the fund's investment decisions incorporate one or more ESG factors must have a policy to invest at least 80% of its assets in the type of investment its name suggests. The SEC recognized that "fund names can play a critical role in investment decisions" and stated that the rules it adopted were designed to "provide greater assurance that a fund's investments will be consistent with its name." This prevents "greenwashing," where a fund exaggerates the extent to which it considers the ESG factors. Again, though, after the change in administration, the SEC extended the compliance dates for the rule, so that larger funds are now not required to comply with the rule until June 11, 2026, and smaller funds are not required to comply until December 11, 2026. Investors thus now continue to lack assurances that a fund's name is consistent with its ESG investment strategy.

Additionally, the SEC has indicated it is unlikely to adopt a proposed rule that would have required funds and advisers to provide more information about their ESG practices. The SEC proposed the rule in 2022 to ensure that investors received consistent, comparable, and reliable information about the extent to which funds and advisers incorporated the ESG factors into their decision making processes. Without the rule, investors will lack material information they have sought to guide their investment decisions and will remain unprotected from misleading and abusive claims regarding ESG investment strategies.

Other Restrictions on Investor Information

The SEC's actions have also extended beyond rulemakings. It recently issued guidance making it harder for institutional investors such as large index funds to engage with companies on critical ESG issues without triggering restrictive disclosure requirements. As a result, BlackRock and Vanguard halted some shareholder engagement meetings.

Other guidance allows companies to more easily exclude shareholder proposals, especially those relating to ESG concerns, from the proxy process, or the ability of shareholders to demand a vote on certain practices at the companies they own. Under the guidance, companies may exclude such proposals unless there is a direct, significant link to a company's business. The new guidance is already having an effect, as the number of shareholder proposals making it onto banks' proxy statements is down sharply this year. The impact is most pronounced in the realm of ESG proposals, as shareholders have withdrawn 95% of requests related to environmental issues and 62% related to social issues. This means that shareholders are less able to get the corporations that they own to consider ESG issues that may actually enhance the long-term success of the company.

The SEC's retreat from various ESG initiatives is especially troubling because ESG has never been more financially relevant. Investors are increasingly considering ESG factors in their investment decisions. A 2024 survey found that investors consistently indicated that ESG factors had become more material to their investment decisions in the past five years and that they expected this trend to continue, including 61% of investors in North America.

The simple fact is that ignoring, criticizing, or attacking ESG will not make it go away. Indeed, despite continued attacks on ESG investing from some quarters the last few years, global sustainable fund assets reached an all-time high of $3.2 trillion at the end of 2024, an 8% increase from the previous year and more than quadruple the size in 2018. So instead of attacking ESG, regulators should ensure that investors have the critical information they need about how companies and funds approach the ESG factors.

The Commodity Futures Trading Commission

Voluntary Carbon Markets at a Crossroads

The Commodity Futures Trading Commission ("CFTC") can play a central role in helping market participants manage climate-related financial risks through its oversight of the derivatives markets where Voluntary Carbon Credit ("VCC") derivatives are increasingly traded. These markets hold promise as mechanisms to finance real emissions reductions and carbon sequestration, but they remain vulnerable to manipulation, fraud, and greenwashing without strong regulatory guardrails.

In late 2024, the CFTC finalized long-awaited guidance for the listing of voluntary carbon credit derivatives. The guidance provides Designated Contract Markets ("DCMs") with a framework to ensure derivative contracts are rooted in credible, verifiable, and transparent carbon credits. It also underscores the importance of robust contract design, accurate disclosure, and safeguards against misconduct.

That momentum is now at risk.

In January 2025, the Trump Administration quickly reversed many of the CFTC's previous climate policies, with Acting Chair Pham publicly emphasizing a narrower focus on the agency's "core mission." This sends a strong signal that the agency may stall or walk back the implementation of its own carbon market reforms. That would be a serious setback for the integrity of financial markets.

The CFTC should stay the course and take bold, measurable action to ensure carbon markets contribute meaningfully to climate solutions. This includes:

- Fully implementing and enforcing the 2024 voluntary carbon credit derivatives guidance. Market participants need regulatory certainty and public trust demands real accountability;
- Developing and publishing "green milestones," a set of clear, time-bound benchmarks for assessing whether voluntary carbon markets are achieving verifiable environmental outcomes; and

- Mandating transparent, standardized disclosures from DCMs and market participants involved in carbon credit derivatives so stakeholders and regulators can spot manipulation, misrepresentation, or failures to deliver promised climate benefits.

Voluntary carbon markets can be part of the climate solution, but only if strong oversight, robust data, and measurable real-world outcomes guide them. The CFTC must not turn away from this challenge. Its continued leadership could help transform these markets from a source of confusion and skepticism into a powerful tool for climate progress.

Conclusion

Though progress in the last few years has been inadequate and uneven, January 2025 marked a moment of significant backsliding in U.S. federal financial regulatory agencies' work to understand and mitigate climate-related financial risks. However, just because climate risk is ignored by regulators doesn't mean it has gone away. Banks and insurance companies remain vulnerable to climate events; investors continue to demand climate-related data to inform capital allocation decisions; and carbon markets continue to develop to provide for market-based incentives to manage climate risk. Better Markets will continue to track and highlight policymakers' actions, even and especially when they threaten fragile progress on managing climate-related financial risks.

Better Banks | Better Businesses
Better Jobs | Better Economic Growth
Better Lives | Better Communities

Better Markets is a public interest 501(c)(3) non-profit based in Washington, DC that advocates for greater transparency, accountability, and oversight in the domestic and global capital and commodity markets, to protect the American Dream of homes, jobs, savings, education, a secure retirement, and a rising standard of living.

Better Markets fights for the economic security, opportunity, and prosperity of the American people by working to enact financial reform, to prevent another financial crash and the diversion of trillions of taxpayer dollars to bailing out the financial system.

By being a counterweight to Wall Street's biggest financial firms through the policymaking and rulemaking process, Better Markets is supporting pragmatic rules and a strong banking and financial system that enables stability, growth, and broad-based prosperity. Better Markets also fights to refocus finance on the real economy, empower the buyside and protect investors and consumers.

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