Lone Star Resilient Investment Forum Conference:

"ESG and Investing in an Era of Unprecedented Change"

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Interview with **Steven Rothstein**, Managing Director, Ceres Accelerator for Sustainable Capital Markets

Interviewed by **Marianne Dwight**, Of Counsel, Michael Best & Friedrich, LLP

Transcript of interview video (available at https://youtu.be/tx-MUcYwWxg) :

- Hello, everyone. Welcome to the second day of the Lone Star Resilient Investment Forum Conference on "**ESG and Investing in an Era of Unprecedented Change**." My name is **Gabriel Eckstein** and I'm a professor of law at the Texas A&M School of Law. And I'm the director of the Energy, Environmental, and Natural Resource Systems Law Program. I want to recognize and thank Michael Best & Friedrich, LLP and Strategic Insight Group for their support and engagement in organizing this event. In fact, I'd like to turn the podium over to **Dee Smith** from Strategic Insight Group to say a few words of welcome. Dee, please.

- Thank you very much, Gabriel. It's a pleasure to be here again today. And thank you for organizing this. And many thanks to your staff and everyone who has supported the process. I'm Dee Smith. I'm CEO of Strategic Insight Group, which is a private intelligence firm that focuses on services for large investors. I'm also board chair of the Lozano Long Institute of Latin American Studies and Benson Library.

The subject of ESG has emerged and is continuing to emerge as one of the most important and compelling and dynamic forces in the investment world today, but it stretches far beyond that. So this is a really timely opportunity to look at these issues in a more detailed way than has often been presented in the past. And I'm very pleased to turn this over in a moment to Gabriel to introduce Marianne Dwight-- we've known each other a long time-- and Steve Rothstein, who will give a very interesting talk.

And then the two panels that follow will be on Chatham House Rules, which means that they will be not for attribution and that promises a very frank discussion. So with that, and thanks to Michael Best and to also note that we're very proud to be a sponsor at Strategic Insight Group. Let me turn it back over to you, Gabriel. Thank you.

- Thanks so much, Dee. With that, I would like to bring **Marianne Dwight** of Michael Best & Friedrich, LLP to the podium and she will introduce and interview our keynote interviewee. Thank you.

- Great. Thank you, Gabriel. And thank you everyone for joining us for the second day of drilling down more into ESG and its various components. I have the pleasure to introduce a representative, **Steven Rothstein**, from the Ceres Group. Steven is the managing director for the Ceres Accelerator for Sustainable Capital Markets. And I'm sure that he can explain more about what he does on a daily basis in that regard. But Steven draws on his 40 years experience in working in the for-profit and the nonprofit sector.

And he, at this point, is looking at transforming the practices and the policies that govern capital markets in order to accelerate the reduction of the impact of climate and other risks that they have on having a sustainable economy. And in that regard, I want to start, Steven, with talking about-- talk about just the risks of maintaining a sustainable economy. I would like for you to talk with us a little bit about the threats that climate change poses to capital markets.

- Sure. Well first, thanks, Marianne, to you and to Gabriel and Dee and everyone involved with this. I know putting on a session like this takes a lot of work and appreciate the leadership from A&M and Strategic and everyone involved. So thank you. I also want to say that I'm not a lawyer. I'm married to a lawyer. She was a law professor for 22 years. So please do not consider anything that I'm going to say from a legal advice at all.

So why talk about climate risk in the financial perspective? So whether you're a financial regulator, an attorney, a bank, an insurance company and one of the things you think about is the safety and soundness of the financial system. And you might come at it from different angles and say, well, what are those risks? And again, you'd look at the range of risk. Cryptocurrency is clearly a risk-- the foreign currency. In the pandemic, we're now at the final stages, hopefully, but if there's a resurgence. Recession, inflation, it could be a whole-- tax policy. There could be a variety of risks that affect people.

One of the risks that we actually know the most about, that we know more about this than any others, is climate risk. That Texas obviously saw the recent ice storms that were exacerbated by climate. Out West, we have had the worst fires. Last year, 10 times as many acres burned as the year before. In the Gulf, we saw, and other places, 30 named hurricanes last year-- more than any time in the last 15, 16 years. Just last weekend in Tennessee, they had hurricane in one part and a tornado in one part and a flood in another part. So physical risks are growing. And there was just a study that showed, at this time of the year, California has more drought than before. So those physical risks are growing.

The other risks that are growing are transition risks. As we transition to a lower carbon economy, what's the impact? Two examples are that last year, the oil industry, in the first three quarters, they wrote off $145 billion. As my friends say, with a B it's real money-- a billion dollars. Because of the transition risk. We did a report-- I'm happy to talk more about this-- about the top 20 banks around the country and identified about half a trillion dollars of potential exposure. So there is more risk.

And all we're saying is, risk is risk. Again, whether you're a lawyer or an accountant, a regulator, and if you're concerned about whether you're a depositor in a bank or you're the president of a bank or regulator at the state or federal level, to meet your fiduciary responsibilities, we believe you have to look at climate as part of the overall mix. And that need is growing. While we don't know everything, we know more about that than any other risk that our financial institutions can face. Marianne.

- So now you've talked about how the connection between climate and its impact on the capital markets. But tell me, how are folks supposed to address these risks? What are some of the tools within which they can actually address the risk that you discuss?

- So it depends what seat they are. In other words, are they a depositor at a bank? Are they the president of a bank? Are they a state banking commissioner or a lawyer representing one of those entities? So the specifics will vary. But generally, the first approach, Marianne, is disclosure. That if you think about any business problem, there's an expression, you can't manage a business if you can't measure a business. You can't manage the problem if you can't measure a problem. So first is to understand what it is. We've done work in this, many others have.

So we're asking every bank, every insurance company-- the large ones mainly -- but really, to measure what is their climate risk? And the climate risk is not just the energy it takes to run their branches. That's relatively small. It's important, but small. It's more their loans. So looking at their loans to their customers and understanding what are the climate risks to that steel company, to that agricultural company, that whatever it might be. And there are lots of people out there that can help do that kind of analysis and measurement. So measurement is number one.

And whether you're a company that's asking for a loan or a lawyer representing a company asking for a loan or a bank, that's something we think is and is growing. Of the Fortune 500 companies today, Marianne, about almost 90% do some type of climate disclosure. So this is not a radical new idea that we've kind of made up. Most people are doing it. There are different protocols that are used. And we can talk more about that as we continue the conversation. So first is disclosure.

Second is share that disclosure. Publicly share it because then your investors will know it. Your customers will know it. Your employees will know it if you're a bank or whoever. And then you can make decisions. And we can talk more about the impact of that disclosure. There's a French Central Bank study I can talk about in a few minutes if we want.

And then work on a plan. So we, as a country, need to reduce our emissions by 50% by 2030 and dramatically by 2050. So how do you solve these enormous problems? It's like the expression, Marianne, how do you eat an elephant? One bite at a time. So how do you solve climate change? One step at a time. And we think there should be a plan to what the companies, the banks, the lawyers, whoever it is, are going to do between now and 2030 in kind of the shorter term and what their longer term plan. So disclose, publicly share that, and then put plans in place. That's for regulators. For other companies, there are other steps.

- So now we talk about disclosure. So as we know, disclosure is as disclosure does. So there's lots of different ways of presenting it. That's been some of the criticism is that, well, I disclosed. Well, did you disclose enough? Were you transparent enough? And then, of course, you've got the public market and then you've got the private markets. And so disclosure becomes a little bit more iffy and more problematic for those in the private markets. And so how do we create a standard disclosure? How do we do that? Because I think that's kind of an issue right now.

- It is an issue. And first, I should say, Marianne, thank you for all the great work you do. It's so important. You're so thoughtful and so helpful across the board. And then thank you for doing that and, obviously, for today. So it is, as I say, in 2010, Ceres was involved at the Securities and Exchange Commission, and many other people were, advocating for a voluntary climate disclosure guidelines. They put them in place but, unfortunately, they didn't get enforced really rigorously. We've written reports about this. They're on our website. There have been very few enforcement actions. So we believe and have recommended to the SEC that there should be mandatory disclosure. So they should be consistent.

Eventually, we'd love to have a standard internationally using an international standard. So fortunately, the SEC is seriously thinking about this. So there is a 90-day comment period now. So I encourage all of you, if you're interested, to think about it, reach out to us, or if you go to just Google SEC 90-day climate period. It was issued on March I think 15. It's due June 13. And they have 15 very detailed questions there about disclosure. [link: https://www.sec.gov/news/public-statement/lee-climate-change-disclosures]

So first is, I think the voluntary systems. And I can give you the an alphabet soup of them-- GRI, CDP, I mean, there's a lot of them. And they're all great. And they're all thoughtful and they've moved the discussion forward. And I give the people working at all the organizations enormous credit-- just great job. But they're voluntary. And different systems. And so we believe there needs to be a mandatory system, just like there's a mandatory system for financials.

Imagine, Marianne, if the SEC said, oh, you can submit your financials in any way you want. So imagine then, Company A submits a balance sheet and Company B submits an income statement and Company C submits it a year later and Company D does it in Deutsche Marks. You wouldn't be able to compare and we wouldn't really understand our financial system. So they've said that understanding financials is an important element.

And the reality is, as I said earlier, climate is a systemic risk to our economy. The chairman of the Federal Reserve has said it. Actually, 89 central banks around the world and regulators have said it, and I can talk more about that. The president has said it. I mean, it's very clear and growing. Again, Texas just witnessed this. So we believe that there should be this mandatory disclosure. The SEC is looking at it now. And then what will happen is, after these comments, they'll review them and then they may or may not decide to issue a rule making at some point in the future.

As many on this webinar know, right now there's a vacancy. The chairman of the SEC, Gary Gensler, has not been approved yet by the Senate. It is likely he'll be voted on very soon and then have a full complement. So mandatory disclosure at the federal level is important. But there's also work-- we think everybody, again, if they're running a company or advising a company, to advise a company to start doing this because this is coming-- mandatory disclosure is coming. And to get ahead of it and I can talk more about what the insurance industry is doing and along the lines.

- And I do want to get to the other industries like the insurance and the banking and also talk about the French study. But before we get to that, I want to do a little bit more on disclosure because I have some folks who have clients who are companies and they're trying to determine what they disclose and how to disclose it. When it comes to financial statements, there's a standard. There's GAAP. And so they follow GAAP. If it's in the US, it's GAAP. And so this is where it's hard for companies. They don't have a roadmap, if you will, about disclosure. And is that going to be part of what the SEC is going to be looking at?

- Well, just as I'm not a lawyer, I'm not an SEC official. So I would never speak to what the SEC is going to do. But what we are advising, what we are recommending to the SEC is that, yes, that there is a standard system. And I know they're talking about it but, again, what they'll do, it would be presumptuous of me to say. But there are different kinds out now. I mean, so we're not starting at scratch.

There are two kinds. There's what's called a principles based and then a fact based. Principle's-- TCFD is the one that's probably the most known. 1,800 companies all over the world, four countries have mandated it. And it was set up a few years ago and it's grown dramatically. And so that asks questions. Does your governance structure have a system to look at these risks? How do you build it into your management structure? And things like that.

And then there are things, just like they have FASB, there's also a group called SASB, the Sustainability Accounting Standards Board. And the GRI and CDP, the Corporate Disclosure

Project and things like that, a lot of those are more detailed measurement. How many tons of GHG emissions to make that ton of steel or whatever. So there are those systems.

What I'd recommend is look at the voluntary systems out there now. First, I encourage everyone to comment on the SEC [link: https://www.sec.gov/news/public-statement/lee-climate-change-disclosures]. Have your voice. And encourage you do that. And if you have questions, let us know. If you want to get involved, I can share my email, put it in the chat. But then look at the voluntary systems that are out there now, and look at those in your industry. And a lot of banks are looking at one called PCAF. And [INAUDIBLE] steel, they're looking at the Responsible Steel Initiative. So there are others out there.

And then if your company or the company you're representing isn't doing it, start to work on those now because there will be a process soon. There's work at the state level and at the federal level as well as at the international level to start to look at that. But you're right, there's not one standard now and that's holding us back. I also work with-- we work with big companies, the biggest banks and biggest insurance companies. And they're saying they want to have a standard because they're already doing it in Europe. They've been doing it for several years.

And they want to know what the rules are. If they can be the same rules, that's great. But at least know what the rules are because right now, some of them are filling out four, five, six forms and they're each asking a little differently. And we all know businesses want just to be able to plan and to know this is the form, this is what I'm going to be measured on. And then people can work to reduce their emissions.

- Right. And that's fair. It's fair to them and it's also fair to us, right, so we have some kind of standardized and then we can measure that against it. So you spoke earlier about this French study. Would you talk a little bit about that right now, please?

- Sure. Yeah. It's fascinating. So the French Central Bank--. In our country, we have many regulatory agencies. Some would say we have too many. That's a separate topic for another webinar. But we have niche. So we have, at the federal level, 10 or 15 dealing with financial regulatory. The states, we have our banking commissioners, insurance commissioners, securities commissioners. So in other countries, they have one or two or three to cover everything.

So the French Central Bank also does disclosure, kind of like what our SEC does here. So in 2016, the French Central Bank required disclosure for certain types of banks and financial institution investors. Without getting into the details of what they picked-- then, they studied it. And just last December, came out with a study that showed say four years later, what was the impact of having to disclose? I want to be clear. There was not a requirement to divest. There was a requirement to disclose. There was also, obviously, greater public awareness.

The banks and financial institutions and investors that are covered, they had a 40% reduction in their loans to oil and fossil fuel companies-- 40%, $23 billion Euros. And so if you believe that we need to decarbonize our future, our planet, but it's not realistic to say we're going to divest tomorrow. That's not going to happen. Then this disclosure is a very important tool because then investors, directors, public, employees, they understand and then they can make decisions. And if that affects them, which company is doing more in this area, they can vote with their dollars, so to speak.

- That's fair. So now, let's talk about some of the things that you've just been working on. In fact, you just produced a very extensive report. And of course, it has a catchy name, "Turning Up the Heat." And so if you would kind of talk to us a little bit about that report and some of its recommendations.

- Sure. No, I'm happy to. And thank you, Marianne. So it's also available on our website, which is Ceres, C-E-R-E-S.org. And the title is "Turning Up the Heat." And so last summer, June of 2020, Ceres issued a report about the role of financial regulators. At the time, there was no financial regulator that said the climate was material risk. And we had 50 recommendations covering nine federal agencies and the state banking insurance commissioners. This is an update report. And there is good news and bad news.

First, the bad news is climate risk is more profound than it was last June-- more fires, more floods, ice storms, earthquakes, tornadoes, and we have a lot of data on this showing the physical risks are bigger and the transition risks are bigger. The good news is there are several federal financial regulators and state that have taken some big steps forward.

The Federal Reserve, for example, last November, Marianne, said that climate is a material risk and it's something banks need to think about. The SEC has taken some steps, the Federal Housing Finance agency. So several agencies have taken some steps, initial steps. And we have kind of a scorecard in this report about what they can look at. On the other hand, there are many agencies that haven't. And we have a scorecard for them, too, kind of a red, yellow, green.

And so we have very specific recommendations on a lot of agencies. All the agencies we had last time and a lot more, too. We've covered, for example, the National Credit Union Administration that is covering credit unions. For anyone who looks at municipal bonds, every city or town or county or state that borrows money for a road or highway or sewer or whatever it might be-- how municipal bonds are governed. So there's a municipal securities rule making board we address and other agencies.

So this report came out. Since our report last year, we've met with many, many, many regulators and influencers. And we are very optimistic about the changes but we're not going fast enough. That climate is one of those areas. I know that you know this and some of your folks on this webinar know this. Climate's one of those areas that if you win slowly, you lose or our planet loses. That we need to make dramatic changes in our capital markets before 2030.

And if not, there will be repercussions. there will be areas in our country that people won't be able to live in anymore. There will be areas that are too hot. There will be areas where there are droughts. There will be areas-- and there have been lots of studies that show that if we don't make dramatic changes, we'll have, from the US alone, not other countries, just from US, tens of millions, tens of millions of climate migrants. Imagine--

- When you say-- sorry. When you say dramatic change, would you kind of tell everybody what you mean by dramatic, quantify it.

- So we have to find ways to reduce our emissions by 50% by 2030 and then get down to net zero, kind of get back to where we were several years ago in terms of emissions levels to meet the Paris Accord. The president will be announcing in April, maybe on April 22 which is Earth Day, maybe another time-- I'm not sure-- what his plan is to get to by 2030. And we can do it. I mean, give it context. So for some industries, not every industry, the emissions went down by around 8% last year because a lot of people were staying home-- less cars, less things operating. Again, not every industry.

But we need to do that every year but without staying home. That means we need to have more renewable energy. We need to have more electric cars. We need more energy efficiency. And we can do it. I mean, one of the things about this transition, this lower carbon, is that it creates enormous jobs. The fastest growing jobs today, the two categories are solar and wind installers. And there's so many more opportunities. And that was before the current administration that's talking about spending enormous sums and investing in different kinds of renewable energy that will spur the private sector over time. So I think that those are very important steps.

- So there's a couple of things that you said I'd like to follow up on. One is that there's all these opportunities with electric cars and solar and wind, for example. But how does one-- in certain areas of the country have been so much in that oil and gas industry-- how does one just change? Move to that-- they need jobs.

- Yep.

- And so how does that happen?

- So H.L. Mencken, the writer and author, once said-- and there were not exactly his words, but the concept was, for every complex problem, there's a simple answer that's always wrong. And this transition is very complicated. So there is no simple answer, but there are a variety of things. First is, if you think about mother nature problem, one approach is plan ahead. The other is wait and react. React will always cost more and hurt people more. Katrina-- look at all the storms. And one would argue, without getting into debate about what happened in the Texas ice storms, some people say if Texas had prepared more with insulation, it wouldn't have been as bad, not that there wouldn't have been a problem.

So first is, we're not going to stop mother nature unless we change our industrial output. So first is to understand what it is, start planning. Second is that there has to be more support. It's private sector and government and it's at every level-- cities, towns, state, and the federal government needs to help people with the transition.

And I'm not saying it should all happen tomorrow. But if we said, OK, over the next five years, we're going to do this kind of transition and we're going to have these kind of retraining programs for people and these kind of new jobs, then you can-- and there are lots of examples in this country and around the world-- convert areas that had been more focused on fossil fuel to more focused on renewable and create jobs while you're doing it because, clearly, we have to protect people to do that.

Again, if we get 500,000 charging stations, which is what President Biden wants to do, that's going to create a lot of jobs. And the thing about renewable energy is for fossil fuel, a greater percentage of the dollar goes into the ground or goes overseas. Here, more of it goes into domestic jobs for renewable energy. So with time, we can.

And what's the alternative? The alternative is a country that lives through a Katrina one after the other or Storm Sandy or your ice storms or the fires out West. I mean, I have one of my sons lives in the Pacific Northwest. And for weeks, he literally couldn't go outside to walk his dog because of the smoke. And that's probably going to happen this summer, too. And that's just a tiny, tiny example compared to the people who lost their homes and lives because of fires. So the alternative is not just the cost to change, but what is the cost not to change? We're seeing those costs all the time, Marianne.

- Well, Steven, I think that's well put. And I think that's something that we forget is what the cost is if we don't change. But if we turn the Titanic, if you will, and we start turning it and we're going to leave behind in our wake-- and you alluded to this earlier-- some stranded assets.

And so we're going to have to deal with part of the solution is not only are we going to have to make sure that the folks that are in that oil and gas industry or related industries that they are able to have jobs and the other companies-- supposed to be refit themselves, whichever the case may be. But we're still, as we know, going to have stranded assets. And they talked about that that's going to be in the trillions. And so we're going to have to learn how to deal with that. And I mean, this is a large problem. So how do we deal with that issue?

- It is large, and I don't want to oversimplify it. I don't want to sound pollyannaish. There's kind of a fork in the road. One fork is we don't do any action. We just wait and we continue our lifestyles as it is. We know the problem's getting worse. I mean, there are literally now hundreds and hundreds of studies that show-- a year ago, the Dallas Federal Reserve did a study about the economic cost of climate. Why did they do it? The Dallas Federal Reserve is not a environmental group. I'm not saying they don't care about the environment, but that's not their mission.

- Right.

- Their mission is to focus on the safety and stability of the capital markets and banks and employment. They did it because they were two 100-year floods in Dallas in three years. So what we expected to happen over 200 years happened in three years. Now, I'm not saying it's going to happen the next three years, but that's what-- so first is we have to plan. We have to do more research on this. We have to invest. We're investing more in renewables. We have to increase our investments.

We, as a country, need to do that, need more technology out there. Some people believe we have enough technology out there, we need to ramp it up. Others, like Bill Gates, his recent book talks about we need to have new technologies. And all of those can be creating new jobs. And that either we wait until, you know, the proverbial fire is at our door or we prepare. Why do we all have insurance on our homes? Why do we get insurance for our cars? To prepare for things.

If someone had said in 2007 that the bank's going to face the subprime housing crisis and it's going to have a dramatic impact on the economy for 10 years roughly, we would have done something. Well, if someone had told us two years ago that there's a thing called a pandemic and here's the impacts of it, we would have done something. Well, we're being told right now and have been told for years about climate.

And there is every day-- not every day. Every week, there's a new study about the level of detail. So no one will be able to say they didn't know about it. It's like no one can start smoking today and say they don't know about the health effects. And they can decide what to do. And if they decide they don't care, OK.

So if we, as a society, decide, you know, I really don't care about our grandkids and the quality of life, we can go ahead and do that and then there will be cataclysmic problems. Or we can decide, this is going to be really hard, but if we plan, we work together, the government pays some, private sector, we help with the people who are the most in need, those in the oil industry.

And people-- Brown and Black communities that have generally been left behind on transition, they had special initiatives look at them. I believe we can do it. And A, we're a very creative society, very entrepreneurial. And I've seen other nations that are ahead of us that are changing. And this is not a question of caring about the environment and reducing our economy. That is a false dichotomy. You can have a strong economy, growing businesses, growing employment, and have it safe from an environmental perspective.

- Well, Steven, I can tell that you're passionate about this, so I'm glad you're doing what you're doing. And so I want to talk a little bit about the private markets. And I know that part of what the accelerator is to help transform the capital markets, and that includes the private markets. And how do we incentivize, how do we move that needle on the private market side?

- So it relates to the first question of disclosure-- first, sharing information. Ceres has been working for over 30-- we're a nonprofit working over 30 years with private companies. So we work with companies, Fortune 200 companies, Fortune 300 companies, and investors. I'll give you an example of investors.

Two weeks ago, on March 29, we, with a group of international partners, announced that investors representing $33 trillion of assets-- so big numbers-- decided that they all were going to change their portfolio to set short-term interim goals, disclose their emissions, and be net zero by 2050-- $33 trillion. Now, these are all fiduciaries. They literally can be fired, go to jail, whatever it is, if they don't meet their fiduciary obligation. So they didn't do it for a political reason. They did it because they thought it was best for their portfolio and it's best for returns.

So part of it is sharing information and then building momentum. There is a competitive pressure in industry. So if company X does something, company Y do it. So we have a consortium, for example, called CEVA, the Corporate Electric Vehicle Alliance, where we get big companies that have massive fleets, you know, the UPS's and Hertz and others, and work with them to negotiate for better EV deals. We're working in industry. So in steel, we're working with the Responsible Steel Initiative so you can make steel not with no impact but lower impact. There's another group that we didn't work on but others have called the Poseidon Initiative on the shipping industry. So there's a lot of areas that are being done now.

And we had a recent conference-- a lot of this is on our website-- we had Bill Ford from Ford Motor Company come. And Bill Ford talked about, first, their commitment to go all EV like a lot of other car-- which is dramatic. Like that's-- if someone told me five years ago Ford and GM and others would say they're going to make only EVs, some within 10 years, some within 14 years, that's very dramatic. But the steps they're doing along the way-- and we had other, including the CEO of BP, Nestle-- so these are not small companies. These are not fringe players. And they've taken some very big steps in climate water usage because it's good for their company and it's good for their employees short and long term.

- So we've had some folks that have been institutional investors that have been participating with this conference. I'm a former institutional investor myself. And I know that many of those institutional investors are having some additional requirements regarding climate change, especially some in California, CalSTRS and CalPERS do, and some across in some other areas of the US. But part of this issue that many of these institutional investors are in the private markets, they're in private equity and private real estate, which are long term. They're 10, 15 year funds. And so it's difficult for them just to turn that off. They can't just leave or redeem or if they could sell it in the secondary market, they would get pennies on the dollar. So what kinds of things are you telling these institutional investors?

- Yeah. No, that's a really good question, really important. So we're about 2/3 of the way through a project on private equity. We interviewed 25 of among the largest private equity companies, names that you all know. I don't want to say it's the top 25, but it's among the largest in the US and in Europe. And then we interviewed them one on one and just did a focus group.

And we're writing a report that will be out by the end of May. And so happy to get that to anyone who's interested or go to the website when that's out. But basically, what we're saying is that first is, we shouldn't have two standards. We all live in the same communities and we all breathe the same air and use the same water, et cetera. So we have to think about this and it affects everyone's bottom line.

So yes, the rules are different in the private sector and the private equity market, but that they need to look at that. And there's some great companies out there. There's a European private equity firm, Eurazeo, that is a $200 billion or so, and they have set a net zero by 2040 as a commitment. So we're not asking people to do it tomorrow. But again, one of the conversations was set a plan.

So for every new company you bring to your portfolio, what is their climate plan? Just like for private equity, before they bring a company, they ask, what is their management recruitment plan? What are their expansion plans? What are their cash management plans? They may or may not be asking, what are their climate plans? And that should be part of their risk portfolio to look at that. For the existing companies that they sit on the boards of, ask the companies, what are they doing in those areas and are they disclosing and what are their plans.

And again, we're not suggesting they do it because it's good for the community. It is, but we think it's good for the bottom line. It's good for their growth. And there's a lot of evidence that a company-- there will be less risk involved with that. The banks are looking at that, as well. So private equity, some of the rules are completely different, but the underlying issues are the same. And we think that in some ways, they have even a bigger opportunity to make an impact because there isn't the shareholders, like they serve directly on the board and so they can have a direct voice in some of these changes. Great question.

- Well, I think that on the private market side, there's some disclosures to their ADVs. Again, when we talked about disclosures, you have to have some standard and some way in order to be able to have a way to measure it. Now, another concept that we've talked about during this conference, and I know one that you've heard of, is called "greenwashing," "the greenwashing effect," or "rainbow washing effect." And tell me, how is it that we can deal with that effect?

- Yeah. It's an enormous problem where somebody will say they're doing something good for the environment, but they're maybe doing something very small. They're not counting it correctly. Or they're doing something that's not significant in the scope of something. And that's getting back to one of the earlier conversations, Marianne. That's part of the idea of mandatory disclosure. That if everyone discloses in the same way-- imagine if every company said, to produce a ton of steel, we're creating X GHG, greenhouse gas emissions, or every acre of land for farmers. So if everyone has the same standard, you dramatically reduce that.

We've seen it in other industries. During the food, decades ago, every company-- not every-- many companies called their food good quality or something or healthy. And that was before there were rules. Now, there's more rules but what do you call for organic and things like that? And that's what you need. You need to have a level playing field for companies. So we believe this mandatory disclosure with a set of rules will help to-- I don't want to say it's going to eliminate, but will reduce greenwashing as part of that for companies. And then for investment firms, that we should also have a similar set.

- Right. I mean, you can always say you gave it the office, right, but yet you're still doing that. Yeah. The food is an interesting issue, especially when there's the milk industry has been battling almond milk, the designation of almond milk, oat milk, as if it's really milk. And so that's, I think, a real life example of how you can disclose it but yet you're saying you're serving milk when it's something else.

So at this point, we have a few questions that I thought maybe that we can address. And so right now, there is a question here and it's about when we lived in tribes, when a disaster happened, people simply banded together and did what was needed to deal with it. Is it possible we'll have to abandon our fundamental notions of ownership, money, and economy in order to do what needs to be done to deal with global warming?

- Boy, that's a-- you really jump into the tough ones right away. That's a big one.

- It is.

- So I don't believe so, no. I mean, I believe and Ceres believes in the marketplace, in the capitalist system. But the capitalist system only works when there is transparency so people understand those goals. And I think that, clearly, we still need communities. And I, like probably everyone in this, cares about what's happening to my neighbors more than what happens people 500 miles away and focus on it. On the same token, it does all affect us. It's not just people who live on the coast.

As we learned at the beginning of the pandemic, because of the supply chain, that if you couldn't get a truck to go here or a bank to finance that, it affected everything else. So no, I believe, fundamentally, we can keep our economic system, competitive markets. I think that there's an important role for new businesses, startups, entrepreneurs, creativity. And I think it can lead to the greatest resurgence that our country has seen maybe since the founding of our country. But we have to do it carefully and we have to make sure that everyone goes along. As I said earlier, we have to make sure that low and moderate income individuals are brought along and are given support and not left high and dry.

- Well, and that's a great answer. And also, I mean, the whole purpose of your accelerator is to help transform and to create a more sustainable economy. So that doesn't mean we're doing away with the economy. We need that economy to keep it going. So that's a great point.

So this is another question is, what are some of the notable success stories from around the US and the world? And where are lessons to be learned for the post-carbon transition?

- Sure. There are a lot of great success stories. So there are many companies that have-- again, big companies. So if you went to the list of Fortune 25, every one of them has made dramatic changes to reduce their water use. And by reducing their water use, they're keeping it safe for future generations, but they're also saving money.

The banks-- so in the last year, the six largest banks-- and we're working with all of them-- have all committed to be net zero by 2050. Again, they're not doing it because it's a nice thing to do. They believe it's fundamentally in their business interest. The cost of renewable energy, depending on whether it's solar or wind or others, has come down sometimes 80% or 90% in the past decade, just the cost to produce and install. So the reliability of batteries and things like this. There's enormous areas of success.

And on the regulator side, I'll say we have some state regulators that are doing a great job. Some of the federal regulators, like the Federal Reserve and the SEC, are taking the first steps. So I've spent my whole life in non-profits, so I'm an incurable optimist. I think I have to be. But I've seen great opportunity and leadership in the last bit, and I see great momentum. As I mentioned earlier, these $33 trillion of assets under management to have said they're going to be net zero. That includes BlackRock, CalPERS, New York State. These are not just small, liberal ESG investors. They're mainstream investors that have fiduciary responsibilities.

- Right.

- So I absolutely believe that we can make this change. We have to work quickly at it. And I'm excited about what's happened so far.

- So I think we have another question for you. And it is, are asset managers driving ESG awareness in the companies in which they invest? We've heard about onerous ESG, DNI queries as part of their RFPs, et cetera.

- So what we've seen is there are a variety of stakeholders. So asset owners are definitely asking more questions. Because again, why are they doing it? They want to make sure that their dollars are safe. And they believe companies that have thought about these things is an indication that the company's safer. Just like they'll ask questions about, again, the recent issue is cryptocurrency or pandemics or whatever. So asset investors, owners, and managers are very important. But that's not-- I mean, citizen groups are very active in this area.

There are a lot of public elected officials in many states, not as much in Texas, but in many states that have said some bold objectives in these areas. Clearly now under the Biden administration, there's a lot happening and moving things forward there. And then there are corporate leaders. As I mentioned, BP, Nestle, Ford, are just a few of examples, but I can give you insurance companies. I can give you others across. We work with food companies and agricultural companies and water and infrastructure companies. So there are leaders in every sector, and not because it's just a check the box. It's because they believe in this.

- So one of the things that was discussed yesterday was about the SEC and allowing some of the Chevron shareholders to actually bring up some ESG or climate change initiatives. And what do you think about that?

- So I don't know about the details of Chevron, so I can't speak to that. But I can speak generally. I do think that it is an important precept of our economic markets that shareholders be able to have a voice through shareholder resolutions. So there are rules for it and we hope that actually-- we hope that they go back to the old rules because they've increased it.

So it used to be if you had stock-- shareholders worth I think it was $2,000 or $2,500, you could issue a vote-- a resolution, excuse me. Now, it's gone up to $25,000. So we hope it goes back to where it was. But we fundamentally believe in shareholder rights, just like we believe in voting rights. And this is economic voting rights. So we think that shareholders should raise key issues. Shareholder resolutions are not the place for operational things and day-to-day management but big strategic questions and some climate issues are absolutely, we think, appropriate there.

- And should they be able to move the needle? I mean, should they be able to make a final decision about where the corporation stands vis a vis a climate change policy?

- So this is one of those areas there is a whole branch of law about shareholder rights and I don't pretend to know that. But I think that it is important that they should have a big voice. There are rules of when these votes are binding, when they're more guidance. But I think when, as last year, there were many Fortune 500 companies that had over 50% of the shareholders vote a certain way on climate issues. That gives strong guidance to directors and to the CEO. And if the CEO doesn't act, those investors will vote with their dollars. So I think it is important. And I think it would be helpful. It's helpful for the CEO to understand what do his or her shareholders think.

- So I know we have a few more minutes. I didn't know if there were some things that you would like to say before we close our interview for the day?

- So let me give you an example of one of the groups we did, the studies we did. And again, this is all on our website. We did this study back in October. We looked at the top 20 banks and we looked at their syndicated loan portfolios because that's what's public. And we used the same methodology that the the European Central Bank did to look at risk. So we said, OK, looked at the European Central Bank, looked at their risk portfolio, and then we took each sector-- so oil sector, agricultural, cement, et cetera-- and there's a rating based on fossil fuel usage and things like that.

And that study showed, just for transition and just for the syndicated loans, that the big banks-- not all of them-- but big banks have, as I said before, over half a trillion dollars so $500 billion of potential exposure. So it's really important that we're doing this for an economic reason, stability reasons-- sorry I had to turn my phone off-- not just because it's good for the environment. It's also important if you're a small bank on the other side.

Smaller banks, they tend to give loans in a smaller geographic area, in the greater community, wherever it might be. Well, when that area has an ice storm or a flood or a fire or a drought, then the whole area could be wiped out. Just as the literally Paradise, California, when they had the fires, among the things that were devastated was their banks. Not just that the branch literally burned down, but all of the homeowners homes burned down, the school, the businesses. So it was a human tragedy, but it was also an economic one.

So if you leave with no other message, one message, it's that climate is not just a nice thing to work on. If we believe in our economic system, our capitalist system, jobs, we have to work on it today because if not, our kids and grandkids will have less opportunities and there will be less places they can live because of droughts and fires. There will be less opportunities. And it takes time to convert an economy over and so we have to start now doing it. And it's really important, Marianne, what you're doing to share this information and all the participants to think about this in their own work. So I really appreciate that.

- Well, Steven, we appreciate you. We appreciate your time, what you're doing at the Ceres group, and your commitment that you last throughout your career. And so if there's things that we can do for you and to help promote this, you let us know. And I do appreciate all your help.

- Thank you so much. And to everyone, look forward to staying in touch.

- Certainly.

- Great day.