
SEC Should Force Municipal Issuers to Disclose Climate Risk, Says Former Fidelity President.

The SEC has taken action in recent months to increase public companies' disclosure of climate risk.

But no such movement exists in the long-term municipal bond market, despite being particularly exposed to climate risk.

Robert C. Pozen, Senior Lecturer at MIT and former president of Fidelity Investments, writes at MarketWatch:

> Current disclosures on climate-related risks are minimal by most municipal bond issuers, even those that have recently experienced severe flooding and wildfires. Therefore, the SEC should work together with the Municipal Securities Rulemaking Board (MSRB) to require more extensive disclosures on the material climate risks of municipal bonds as well as the efforts by municipal issuers to mitigate these risks.
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> Since municipal bonds typically have long maturities, they are highly vulnerable to adverse changes in climate changes, even if they do not materialize for a decade or longer. Much of the revenue underlying these bonds comes from infrastructure projects and commercial properties, which are likely to be impacted by severe climate events. Yet, unlike many public companies, municipal issuers cannot easily respond to these climate risks by moving their facilities to higher ground or cooler geographies.
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> Examining 590 U.S. counties with populations over 100,000, a recent Brookings Institution study found that the offering statements of just 10.5% of municipal revenue bonds mentioned climate change. Yet these bonds are based on revenues from specific physical projects — such as tunnels, roads and treatment facilities — that would likely suffer from adverse climate events. Even worse, the Brookings study found that only 3.8% of general obligation municipal bonds mentioned climate change. But most municipalities issuing these bonds derive the bulk of their revenues from taxes on real estate, whose value would materially decline in the event of more hurricanes or wildfires.
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> Consider the revenue bonds issued in 2020 by the City of Phoenix Improvement Corporation, maturing in 2045. The offering statements for these bonds do not mention risks related to "climate change", "drought" or "heat". Yet Phoenix, Ariz. is already hot, and is one of the fastest-warming big cities in the US. According to a study from Climate Central, the average number of 100-degree days per year for Phoenix will increase to 132 by 2050 — likely leading to a water crisis.
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> One consequence of these low disclosure levels is that municipal bond markets aren't

> pricing in climate-related risk. For example, compare the municipal bonds recently issued by Middletown Unified School District and Red Bluff Unified Elementary School, both in California. Both bonds mature in 2048 with AA ratings and similar pricing. Yet the risk of serious property damage from wildfires is more than five times higher in Middletown than in Red Bluff.

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