Climate change threat to growth?

Former SEC chairman concerned about water and food security

By Wayne Ezell
For the Times-Union

Climate change and extreme weather events pose risks not fully accounted for in financial markets, and that could adversely affect investors and consumers, according to former Securities and Exchange Commission Chairman Mary Schapiro.

Schapiro

In connection with a visit to Jacksonville last week, Schapiro shared her views about the future of global markets, the lack of retirement savings, possible downsides of falling oil prices and the dim prospects for adequate financial regulation.

Here are edited excerpts from an email exchange between the Times-Union and Schapiro, who spoke to audiences of the Jacksonville World Affairs Council.

Thinking of global markets, what can investors and consumers expect to see in coming years?

. There are risks and opportunities for investors in markets around the world. Readers of the Times-Union will know that the U.S. stock market has been very strong in recent years. Unemployment is down, new job formation is up, the deficit is down. Experts are concerned about slow growth in Europe and slowing expansion of China's economy affecting both U.S. companies and investors. But there are growing economies and opportunities in many places.

What are some of the greater uncertainties?

One area of uncertainty that is not being fully integrated into company plans and activities, and also thus not fully accounted for in market signals, is the increasing impact of extreme weather events and climate change. This a broader concern than worrying about future hurricanes; it means considering the impact of changes in our environment on water and food security, the footprint of human settlements, scarcity of resources and the shape of rapid urbanization in most of the low and middle income countries of the world.

Any positives in that regard?

A positive is the work of a group whose board I have joined that is chaired by Michael Bloomberg. The Sustainability Accounting Standards Board is a private-sector body to establish ways for companies to measure, plan and disclose the risks to their sustainability occasioned by climate and other developments.

For investors, efforts such as this will mean that the sustainability of the company you are investing in is being addressed and the plans to meet those risks are shared with investors and thus priced into the value of the securities.

What longer-term reverberations on global economies should we expect as a result of the recent drop in oil prices?

Participants in financial markets are working overtime to take all these possibilities into account in pricing oil and the stocks of energy producing/using companies, and firms tied to the energy sector are understandably worried about volatility in energy prices. It makes planning difficult, and it has implications for the political stability of energy producing regions that could prompt continued and wider supply and price volatility.

We are all exposed to these issues — happily so for the moment as it costs less to fill the tank, but uncertainly so when we consider the broad pieces of our economy and society that are affected.

You had a strong track record for enforcement while at the SEC from 2009 to 2012; what should be top priorities to further strengthen regulation and enforcement?

The SEC is resource-constrained and so enforcement is one important tool, among others, that can be leveraged to send the message to companies, brokerage firms, advisers, gatekeepers such as auditors, and exchanges about the SEC's expectations for how they conduct their business.

You can expect to see continued focus on rooting out accounting fraud, insider trading, honesty of disclosure in the municipal securities markets, treatment of investors' orders in this world of complex market structure and computer driven trading, and microcap fraud, to name a few. These are all areas where sensible regulation and enforcement bolsters confidence in public markets — adding value for all investors.

Given the political climate, what are the chances to continue or enhance strong financial regulation?

I am afraid I am not very optimistic on this front.

The rate of retirement savings continues to be awfully low. What policy changes could improve that?

Changing our savings habits over an extended working life has to be a key objective

According to the Aspen Institute, the most powerful way to encourage greater saving is through payroll deductions. A range of incentives designed to increase workplace savings include mandatory saving programs or requiring workers to participate in a savings plan unless they formally opt out, or automatically increasing savings deductions over a worker's career.

Tax incentives are also a powerful tool that can further motivate behavior to the saver's benefit.

Education and financial literacy are also critically important to helping people understand why saving is important to their financial security and how to invest their savings thoughtfully.