FACT SHEET: The Financial Stability Oversight Council and Progress in Addressing Climate-Related Financial Risk

July 28, 2022

In October 2021, the Financial Stability Oversight Council (FSOC or Council) published its *Report on Climate-Related Financial Risk* and issued over 30 recommendations to U.S. financial regulators on how best to identify and address climate-related risks to the financial system.[1] Today, the Council met to discuss accomplishments since the report's publication and committed to continue to advance the work needed to promote the resilience of the financial system to climate risk.

In its climate report, FSOC identified climate change as an emerging threat to U.S. financial stability for the first time. In the United States and across the globe, climate-related impacts in the form of warming temperatures, droughts, wildfires, intensifying storms, and other climate-related events are already imposing significant costs on the public and the economy. As climate change continues, economic costs from climate change are expected to grow, and climate-related risks to the financial system are also expected to increase.

Since the report's publication, FSOC and its members[2] have made considerable progress in advancing the recommendations identified in the report, including significant actions taken by members to address capacity building, disclosure, data, and assessment and mitigation of risks. The FSOC also established a new staff-level interagency committee to serve as a coordinating body to share information, facilitate the development of common approaches and standards, and foster communication across FSOC members. FSOC and its members recognize the critical importance of continuing to assess climate-related risks to the financial system and promote the resilience of the financial system to those risks.

Enhancing interagency coordination to support climate-related financial risk monitoring

Consistent with the recommendation in the FSOC's climate report, the FSOC formed a new staff-level committee, the Climate-related Financial Risk Committee (CFRC), with representation from all 15 FSOC members. The group began meeting regularly in February 2022 and serves as an active forum for interagency information sharing, coordination, and capacity building. Given the known gaps in climate-related financial data, the continuing evolution in methodologies to assess risk, and the challenges of translating climate data into potential financial impacts, the CFRC plays an important role in enabling FSOC members to learn from one another on emerging best practices.

[1] The FSOC's October 2021 Report on Climate-Related Financial Risk can be found here, along with the associated fact sheet.

[2] As used in this fact sheet, references to members of FSOC include the 15 individual voting and nonvoting members of FSOC, or the agencies and organizations that these individuals represent, as applicable.

Progress on FSOC climate report recommendations by members

FSOC members have made substantial progress since October 2021 on the recommendations set forth in the FSOC climate report. Below are some examples of the members' efforts.

1. Enhancing public climate-related disclosures

Transparency is central to the strength of the U.S. financial system. High-quality climate-related disclosures that offer meaningful information about climate-related financial risks foster increased transparency into those risks. When disclosures are made publicly available, they enable investors and market participants to assess the climate-related financial risks of companies and investments. These disclosures can also facilitate market efficiency by allowing climate-related risks to be better priced into financial markets.

The Securities and Exchange Commission (SEC) proposed rules to enhance and standardize climate-related disclosures for investors on March 21, 2022. Additionally, the SEC proposed amendments to rules and reporting forms to promote consistent, comparable, and reliable information for investors concerning funds' and advisers' incorporation of environmental, social, and governance (ESG) factors.

On April 6, 2022, the Executive Committee of the National Association of Insurance Commissioners approved the updated Climate Risk Disclosure Survey for insurance companies to align with the Financial Stability Board's Task Force on Climate-related Financial Disclosures framework. In addition, the Federal Insurance Office (FIO) will provide an analysis of existing climate-related disclosure requirements for insurers in a report it intends to publish by the end of 2022 on climate-related issues or gaps in the supervision and regulation of insurers.

2. Assessing and mitigating climate-related risks that could threaten U.S. financial stability

An assessment of climate-related financial risks and their implications for financial stability requires new data and analytical tools, and progress will require building on the growing set of domestic and international analyses. Analytic tools continue to be developed, and future climate-related financial risks may manifest in new ways because of the changing nature of the climate, suggesting that assessments based on past experience are likely insufficient.

While it will be important for FSOC members and the private sector to develop a range of tools as they assess climate-related financial risks and financial stability, scenario analysis is one useful tool that has been deployed by some regulators in other countries and within the private sector. The Board of Governors of the Federal Reserve System is developing a program of climate-related scenario analysis to evaluate the potential economic and financial risks posed by different climate outcomes.

In June 2022, the Commodity Futures Trading Commission (CFTC) published a request for information on all aspects of climate-related financial risk, including scenario testing and risk management, related to derivatives markets, underlying commodities markets, and market participants.

Several FSOC members have taken steps to improve the management of climate-related financial risks as part of supervisory practice. These include:

- The Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) have proposed principles on climate-related financial risk management for large banks, published in December 2021 and March 2022 respectively, that include draft guidance on the development and implementation of scenario analysis by supervised firms;
- the Federal Housing Finance Agency (FHFA) announced that the 2022 Conservatorship Scorecard will hold Fannie Mae and Freddie Mac accountable for ensuring resiliency to climate risks; and
- the North American Securities Administrators Association (NASAA) has provided its members with model rules to address the resiliency of state-registered investment advisers to physical climate risks, and it anticipates the development of examination models to evaluate how well securities issuers are responding to such risks.

To support interoperability of standards, keep pace with emerging best practices internationally, and avoid market fragmentation, FSOC members are also participating in international work on climate-related financial risk. FHFA, FIO, the OCC, the Federal Reserve, and the FDIC are members of the Network of Central Banks and Supervisors for Greening the Financial System. The FDIC, the Federal Reserve, and the OCC also participate in the Basel Committee's Task Force on Climate-related Financial Risks. Treasury, the Federal Reserve, the OCC, and the SEC are also participating in discussions on climate-related risk at the Financial Stability Board. The SEC participates in discussions on international developments in climate risk disclosures through the SEC's role on the International Organization of Securities Commissioners (IOSCO) and as a member of the International Sustainability Standard Board's jurisdictions working group. In addition, FIO and NAIC are members of the Sustainable Insurance Forum and the International Association of Insurance Supervisors' Climate Risk Steering Group.

3. Building capacity and expanding efforts to address climate-related financial risks

The FSOC and its members have accelerated their efforts over the past year to assess and mitigate climate-related financial risks, and further efforts to build capacity and increase expertise are underway.

FSOC members are making progress in building capacity, including investing in staffing and training. All FSOC members have assigned staff to work on climate-related financial risk, and many members have developed internal working groups to support these efforts. Many members have included climate-related financial risk in their annual reports.

The adverse effects of climate change disproportionately impact financially vulnerable populations, such as lower-income communities, communities of color, and other underserved communities. Financially vulnerable populations may also have fewer resources to recover from or adapt to adverse impacts. Addressing the impacts of climate change on financially vulnerable populations will require a coordinated approach involving stakeholders across the public and private sectors to develop thoughtful and balanced policy responses.

Multiple FSOC members support these efforts as members of the Financial Literacy and Education Commission, which has been working to assess and address the impact of climate change on households and communities.

4. Filling climate-related data and methodological gaps

Measurement of climate-related financial risks requires additional data and methodologies that may be new to financial institutions, investors, market participants, and regulators. In addition, there may be gaps in available data, or data may not be in a readily usable format, as has been concluded in several recent analyses by international regulatory or financial stability forums.[3] Consequently, FSOC members have identified work on data and methodologies as a priority.

Many FSOC members are in the process of collecting and analyzing climate-related data, which is a key area of focus for the CFRC.

To support this, the Office of Financial Research announced the launch of its Climate Data and Analytics Hub pilot program today, a new tool to help financial regulators assess potential risks to financial stability stemming from climate change. This collaborative environment provides agencies with access to public climate data, high-performance computing tools, and analytical and visualization software. The Hub will allow participants to integrate wildfire, crop condition, precipitation, and other climate-related data with financial data for a more precise view of the relationship between climate change and financial stability risk. The Hub is also equipped with statistical and visualization applications that will allow regulators to share data and collaborate on analysis.

Next steps: Continuing to enhance coordination and build capacity on climate-related financial risks

As part of its statutory mission to identify and respond to emerging threats to U.S. financial stability, the FSOC remains committed to building on and accelerating efforts to address climate-related financial risks and safeguarding the financial system from those risks. The FSOC and its members will continue its work to enhance coordination, build capacity, and promote the resilience of the financial system to the risks posed by climate change.

[3] See Chapter 3 of FSOC's *Report on Climate-Related Financial Risk* for a full discussion