

FACT SHEET: The Financial Stability Oversight Council's Response to Climate-Related Financial Risk

October 21, 2021

Following the financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act established the Financial Stability Oversight Council (FSOC or Council) to identify and respond to emerging threats to U.S. financial stability. Today, the FSOC has issued its *Report on Climate-Related Financial Risk*.

The report includes over 30 specific recommendations to U.S. financial regulators, laying out necessary actions to identify and address climate-related risks to the financial system and promote the resilience of the financial system to those risks. While FSOC members have already begun to address climate-related risks within their respective mandates and authorities, today's report demonstrates FSOC's and its members' commitment to building on and accelerating existing efforts, while ensuring robust coordination across agencies. These recommendations also ensure that climate-related financial risks will remain a key focus area going forward.

The recommendations in the report will support the ongoing and urgent whole-of-government effort to address climate change, and help the financial system support an orderly, economy-wide transition toward the goal of net-zero emissions.

Recognizing the Emerging Threat

In this report, FSOC identifies 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 upon the public and the economy. The report recognizes that, as climate change continues, climate-related risks to the financial system are increasing and the economic costs from climate change are expected to grow. It also describes how the economic and financial consequences of climate change can be a source of shocks to the financial system and threaten financial stability.

Developing a Common Agenda to Respond

While U.S. financial regulators have already made significant progress in identifying and responding to climate-related risks to increase the resilience of the financial system, there is a substantial amount of work yet to be done. This work will benefit from robust coordination across FSOC members, especially when it comes to expanding capacity, improving data and measurement, enhancing disclosures, assessing the scale of potential vulnerabilities, and making appropriate adjustments in regulatory and supervisory tools. The report's recommendations will serve as a coordinated FSOC agenda, which members can implement in accordance with their respective mandates and authorities. These recommendations include:

- **Building Capacity and Expanding Efforts to Address Climate-related Financial Risks.** The Council recommends that its members prioritize internal investments to expand their respective capacities to define, identify, measure, monitor, assess, and report on climate-related financial risks and their effects on financial stability. This should include investments in staffing, training, expertise, data, analytic and modeling methodologies, and monitoring. The Council also recommends that its members enhance public communication of climate-related efforts, including in annual reports and any relevant risk reports they publish.
- **Filling Climate-related Data and Methodological Gaps.** The Council recommends that its members promptly identify and take the appropriate next steps towards ensuring that they have consistent and reliable data to assist in assessing climate-related risks. Members should perform an internal inventory of currently available data and develop plans for acquiring necessary additional data through data collection, data sharing, or data procurement. FSOC members should also develop consistent data standards, definitions, and relevant metrics, and coordinate as they identify and fill data gaps and address data issues.
- **Enhancing Public Climate-related Disclosures.** The Council recommends that its members review their existing public disclosure requirements and consider updating them to promote the consistency, comparability, and decision-usefulness of information on climate-related risks and opportunities. The Council also recommends that FSOC members issuing requirements for climate-related disclosures consider whether such disclosures should include disclosure of greenhouse gas emissions, as appropriate and practicable, to help determine exposure to material climate-related financial risks. In addition, FSOC members should evaluate standardizing data formats for public climate risk disclosures to promote comparability.
- **Assessing and Mitigating Climate-related Risks to Financial Stability.** The Council recommends that its members use scenario analysis as a tool for assessing climate-related financial risks. The Council also recommends that its members should consider using common scenarios that build on existing work, including scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System and work at the Financial Stability Board.

The Council also recommends that its members should review existing regulations, guidance, and regulatory reporting relevant to climate-related risks, including credit risks, market risks, counterparty risks, and other financial and operational risks, to assess whether updates are necessary to appropriately address climate-related financial risks. FSOC members should also evaluate whether additional regulations or guidance specific to climate-related risks is necessary to clarify expectations for regulated or supervised institutions regarding management of climate risks, taking into account an institution's size, complexity, risk profile, and existing enterprise risk management processes.

Enhancing Coordination across Members

The report calls for enhanced coordination across FSOC members in each of the recommendations described above. To ensure coordination going forward, the report announces that a Climate-related Financial Risk Committee (CFRC) will be formed within FSOC. The CFRC will identify priority areas for assessing and mitigating climate-related risks to the financial system and serve as a coordinating body to share information, facilitate the development of common approaches and standards, and foster communication across FSOC members. This new staff-level committee will also review progress in efforts to address climate-related financial risks. The CFRC will update the FSOC at least twice a year, and the FSOC annual report will report on progress made in addressing climate-related financial risks.

The Council will also form a Climate-related Financial Risk Advisory Committee (CFRAC). The advisory committee, which will report to the CFRC, will help the Council gather information and analysis from a broad array of stakeholders on climate-related financial risks.

Enhancing Cooperation in International Forums

Given the interconnectedness of the global financial system, it will be critical to ensure that FSOC members work with their international counterparts both bilaterally and through relevant international bodies to address collective challenges. This includes work at the Financial Stability Board, the Basel Committee on Banking Supervision, the International Organization of Securities Commissioners, the International Association of Insurance Supervisors, the Sustainable Insurance Forum, and the Network of Central Banks and Supervisors for Greening the Financial System. FSOC members continue to engage with their counterparts at each of these bodies to promote robust responses to the global challenges that climate-related risks pose to the financial system, to ensure a level playing field, and to avoid regulatory arbitrage.

Addressing the Needs of Vulnerable Populations

The report emphasizes that the adverse effects of climate change may disproportionately impact financially vulnerable populations, including lower-income communities, communities of color, and other disadvantaged or underserved communities. The Council and its members are committed to working with stakeholders across the public and private sectors to develop policy solutions within the scope of their mandates and authorities. In addition, the Council specifically recommends that its members evaluate climate-related impacts and the impacts of proposed policy solutions on financially vulnerable populations when assessing the impact of climate change on the economy and the financial system. The report highlights work that is being undertaken, including at the Federal Insurance Office and the Financial Literacy and Education Commission, that will advance this critical priority.

Building on and Accelerating Existing Efforts

FSOC members are already taking actions that will help fulfill the Council's goals on climate-related financial risks and financial stability. For example:

- Securities and Exchange Commission (SEC) staff have begun working on a rulemaking proposal on climate risk disclosure by public issuers. SEC staff have also begun to review whether fund managers should disclose the criteria and data used related to their environmental, social, and governance and green marketing.
- The Federal Reserve Board has [established two committees](#) to bring together senior staff on climate-related issues. The committees focus on developing a better understanding of climate-related risks to supervised institutions and the stability of the financial system.
- The Commodity Futures Trading Commission (CFTC) has engaged on climate-related financial risk issues through its Market Risk Advisory Committee (MRAC). In September 2020, the MRAC's climate subcommittee issued a report entitled [Managing Climate Risk in the U.S. Financial System](#) with recommendations to address the growing impact of climate-related financial risk. The CFTC has also [established a Climate Risk Unit \(CRU\)](#) to support the agency's mission by focusing on the role of derivatives in understanding, pricing, and addressing climate-related risk and transitioning to a low-carbon economy.
- Both the [Federal Housing Financing Agency \(FHFA\)](#) and the [Treasury Department's Federal Insurance Office](#) have requested information on climate-related financial risks from the public to inform their activities.
- The Office of the Comptroller of the Currency (OCC) formed the Climate Risk Implementation Committee to identify weather- and climate-related financial risks to OCC-supervised institutions and provide recommendations to senior OCC leadership on the integration of these risks into OCC policy supervision and research.

The Council's report includes additional detail on the steps being taken by its members, and the report's recommendations will help to build on and accelerate these efforts. [The full report and recommendations can be found here.](#)