# Minutes of the Financial Stability Oversight Council

July 28, 2022

PRESENT:

Janet L. Yellen, Secretary of the Treasury and Chairperson of the Financial Stability Oversight Council (Council)
Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System (Federal Reserve)
Martin Gruenberg, Acting Chairman, Federal Deposit Insurance Corporation (FDIC)
Gary Gensler, Chair, Securities and Exchange Commission (SEC)
Rostin Behnam, Chairman, Commodity Futures Trading Commission (CFTC)
Rohit Chopra, Director, Consumer Financial Protection Bureau (CFPB)
Sandra L. Thompson, Director, Federal Housing Finance Agency (FHFA)
Michael J. Hsu, Acting Comptroller of the Currency, Office of the Comptroller of the Currency (OCC)
Todd M. Harper, Chairman, National Credit Union Administration (NCUA)
Thomas E. Workman, Independent Member with Insurance Expertise
James Martin, Acting Director, Office of Financial Research (OFR), Department of the Treasury (non-voting member)
Steven Seitz, Director, Federal Insurance Office (FIO), Department of the Treasury (non-voting member)
Charles G. Cooper, Commissioner, Texas Department of Banking (non-voting member)
Elizabeth K. Dwyer, Superintendent of Financial Services, Rhode Island Department of Business Regulation (non-voting member)

GUESTS:

Department of the Treasury (Treasury)
Nellie Liang, Under Secretary for Domestic Finance
Sandra Lee, Deputy Assistant Secretary for the Council
Laurie Schaffer, Principal Deputy General Counsel
Eric Froman, Assistant General Counsel (Banking and Finance)

Board of Governors of the Federal Reserve System
Michael Barr, Vice Chair for Supervision
Andreas Lehnert, Director, Division of Financial Stability

Federal Deposit Insurance Corporation
James McGraw, Senior Deputy Director, Division of Complex Institution Supervision and Resolution

Securities and Exchange Commission
Amanda Fischer, Senior Counselor

Commodity Futures Trading Commission
David Gillers, Chief of Staff

Consumer Financial Protection Bureau
Gregg Gelzinis, Advisor to the Director

Federal Housing Finance Agency
Naa Awaa Tagoe, Acting Deputy Director, Division of Housing Mission and Goals

Comptroller of the Currency
Jay Gallagher, Acting Senior Deputy Comptroller for Supervision Risk and Analysis

National Credit Union Administration
Timothy Flynn, Economist, Office of the Chief Economist

Office of the Independent Member with Insurance Expertise
Charles Klingman, Senior Policy Advisor

Federal Reserve Bank of New York
Richard Crump, Vice President, Capital Markets Function

Office of Financial Research
Michael Passante, Chief Counsel

Federal Insurance Office
Philip Goodman, Senior Insurance Regulatory Policy Analyst

Texas Department of Banking
Karen Lawson, Senior Vice President for Policy, Conference of State Bank Supervisors

Rhode Island Department of Business Regulation
Kay Noonan, General Counsel, National Association of Insurance Commissioners

Maryland Office of the Attorney General, Securities Division
Dylan White, Assistant General Counsel, North American Securities Administrators Association

PRESENTERS:

*Hedge Fund Working Group Update*

- *Sandra Lee, Deputy Assistant Secretary for the Council, Treasury*
- *Ron Alquist, Senior Policy Advisor, Office of the Financial Stability Oversight Council, Treasury*
- *Danny Barth, Senior Economist, Division of Financial Stability, Federal Reserve (available for questions)*
- *Phillip Monin, Economist, Division of Monetary Affairs, Federal Reserve (available for questions)*

- *Adam Minson, Lead, Financial Sector Risk, Federal Reserve Bank of New York (available for questions)*
- *Timothy Husson, Associate Director, Division of Investment Management, SEC (available for questions)*
- *Ted Berg, Senior Financial Analyst, OFR (available for questions)*
- *Jay Kahn, Senior Economist, OFR (available for questions)*

*Climate-related Financial Risk Committee Update*
- *Sandra Lee, Deputy Assistant Secretary for the Council, Treasury*
- *Sini Matikainen, Policy Advisor, Office of the Financial Stability Oversight Council, Treasury*
- *Kaitlin Hildner, Senior Advisor, Division of Research and Statistics, FHFA (available for questions)*
- *DJ Purnell, Associate Director, OFR (available for questions)*

*Digital Assets Report Update*
- *Sandra Lee, Deputy Assistant Secretary for the Council, Treasury*
- *Jonathan Rose, Senior Economist, Federal Reserve Bank of Chicago*

*OFR Bilateral Repurchase Agreement Data Collection*
- *James Martin, Acting Director, OFR*
- *Jay Kahn, Senior Economist, OFR*

**Executive Session**

The Chairperson called the executive session of the meeting of the Council to order at approximately 10:01 A.M. The Council convened by videoconference. The Chairperson first noted that the meeting was the 100th meeting of the Council, and she thanked Council members for their contributions. The Chairperson also congratulated Sandra Thompson on her confirmation as Director of the FHFA, and Michael Barr on his confirmation as Vice Chair for Supervision at the Federal Reserve. She then outlined the meeting agenda, which had previously been distributed to the members together with other materials. The agenda for the executive session included (1) an update on the Council's Hedge Fund Working Group, (2) an update on the Council's staff-level Climate-related Financial Risk Committee, (3) an update on the development of the Council's digital assets report, and (4) a presentation on the OFR's bilateral repurchase agreement (repo) data collection.

1. Update on Hedge Fund Working Group

The Chairperson turned to the first agenda item, an update on the Council's Hedge Fund Working Group, which was reestablished in March 2021. She introduced Sandra Lee, Deputy Assistant Secretary for the Council at Treasury, and Ron Alquist, Senior Policy Advisor in the Office of the Financial Stability Oversight Council at Treasury.

Ms. Lee noted that at the Council meeting on February 4, 2022, staff had stated that the Hedge Fund Working Group would develop an interagency hedge fund risk monitoring framework, to expand the Council's understanding of the potential threats that hedge funds may pose to U.S. financial stability. She stated that Council member agencies had drawn upon their collective expertise and resources to develop the framework. She said that through this collaboration, the Council sought to develop a means to assess hedge fund activities and their implications for systemic risk.

Mr. Alquist stated that the working group had proposed four workstreams for 2022: (1) develop an interagency risk monitoring framework to identify financial stability risks related to hedge funds; (2) consider policy options to mitigate identified risks; (3) coordinate with the Inter-Agency Working Group on Treasury Market Surveillance (IAWG) regarding Treasury market resilience; and (4) close data gaps and improve data availability. He noted that his presentation at this meeting focused on the first workstream, the development of an interagency risk monitoring framework. He stated that the risk monitoring framework being developed incorporated a quantitative and qualitative component and drew upon research findings and analysis from agencies participating in the working group. He described the data sources for the quantitative risk monitor. He stated that working group participants had also conducted outreach to industry representatives.

Mr. Alquist stated that the working group found that hedge funds had performed unevenly through recent geopolitical shocks and elevated market volatility but had not caused significant disruptions to the U.S. financial system. He stated that since the default of the family office Archegos Capital Management, bank supervisors' extensive work related to counterparty credit risk management revealed material deficiencies which, despite some improvements, still required corrective action.

Mr. Alquist then discussed recent trends in hedge fund activities, noting that hedge funds' notional exposures to Treasuries and repo borrowing remained elevated, although they were reduced from their peak in 2020. He also noted that hedge fund equity exposures had increased and that prime brokerage borrowing remained high by historical standards. Mr. Alquist stated that banking and broker-dealer supervisors were continuing to work to address vulnerabilities in Treasury markets, and that the IAWG was working to improve Treasury market resilience.

Mr. Alquist stated in conclusion that the Hedge Fund Working Group's risk monitoring framework was designed to be flexible and account for emerging risks and vulnerabilities. He noted that the working group planned to implement the interagency risk monitor by the end of the third quarter of 2022. He stated that the working group expected to provide future briefings to discuss the risks it identifies using this framework, along with existing regulations and mitigants.

Council members then had a discussion about the hedge fund risk monitoring framework and Council member agencies' efforts to collect and analyze data regarding hedge funds.

2. Update on Climate-related Financial Risk Committee

The Chairperson then introduced the next agenda item, an update on the Council's Climate-related Financial Risk Committee (CFRC). She introduced Sandra Lee, Deputy Assistant Secretary for the Council at Treasury, and Sini Matikainen, Policy Advisor in the Office of the

Financial Stability Oversight Council at Treasury. She noted that Kaitlin Hildner, Senior Advisor in the Division of Research and Statistics at FHFA, and DJ Purnell, Associate Director at the OFR, were available for questions.

Ms. Lee stated that the Council's 2021 Report on Climate-Related Financial Risk identified climate change as an emerging threat to U.S. financial stability for the first time and included over 30 recommendations to financial regulators on how best to identify and address climate-related risks to the financial system.

Ms. Lee stated that since the publication of the report, the Council and its members had made progress on these recommendations, including by establishing the new staff-level Climate-related Financial Risk Committee. She stated that the CFRC, which included representatives of all 15 Council members, served as an active forum for interagency information-sharing, coordination, and capacity-building.

Ms. Matikainen stated that the Council's climate report included recommendations to U.S. financial regulators in four categories: building capacity; filling climate-related methodological and data gaps; enhancing climate-related disclosures; and mitigating risks, including through scenario analysis. She noted that the Council had approved the CFRC charter in December 2021. She stated that the CFRC was meeting regularly to provide a forum to advance the report's recommendations. She described the key duties of the CFRC, as set forth in its publicly available charter, including identifying priority areas for assessing and mitigating climate-related risks to the financial system and providing updates to the Council at least semiannually.

Ms. Matikainen then provided an overview of the CFRC's structure. She stated that the CFRC's working groups, which included representatives from every Council member, focused on four areas: data infrastructure, data requirements, risk assessment, and scenario analysis. She noted that the CFRC met regularly to discuss cross-cutting topics, with the four working groups performing more targeted work in key priority areas.

Ms. Matikainen stated that Council members had made progress in each of the four categories of recommendations in the Council climate report. She noted, among other efforts, that all Council members had assigned staff to work on climate-related financial risk; the OFR had launched its Climate Data and Analytics Hub pilot with the Federal Reserve; the SEC had proposed rules to enhance and standardize climate-related disclosures for investors; the OCC and FDIC requested public comment on a draft statement of principles for climate-related financial risk management for large banks; and several Council members had expanded their international engagement on climate-related financial risk.

Ms. Matikainen stated that the climate report recommended that the Council establish a Climate-related Financial Risk Advisory Committee (CFRAC), which would be the Council's first external advisory committee. She stated that the CFRAC was under development and was expected to encompass a range of external stakeholders to support the CFRC and its working groups. She stated that staff anticipated that the Council would vote to establish the CFRAC at a future meeting in 2022.

Ms. Matikainen concluded by summarizing the next steps for the CFRC, including further work to advance the recommendations in the Council climate report, continued regular CFRC meetings, efforts to finalize timelines and deliverables for the CFRC working groups, semiannual updates by the CFRC to the Council, and contributions to the Council's 2022 annual report.

Following the presentation, the Chairperson stated that identifying and addressing climate-related financial risks was a key priority for the Council and noted that the CFRC would play a central part in this effort.

Council members then had a discussion about efforts on climate-related financial risk at various member agencies, including risk-management expectations for large banks; regulators' international engagement; issues in the regulation of insurers; data collections; and public disclosure requirements.

3. Update on Digital Assets Report

The Chairperson then introduced the next agenda item, an update on the Council report being prepared in response to the Executive Order on Ensuring Responsible Development of Digital Assets, which was issued on March 9, 2022. She introduced Sandra Lee, Deputy Assistant Secretary for the Council at Treasury, and Jonathan Rose, Senior Economist at the Federal Reserve Bank of Chicago.

Ms. Lee stated that Council member staff had made substantial progress in the development of the report. She stated that member staff had been collaborating to analyze financial stability risks and regulations and to understand the turbulence in digital assets markets in 2022.

Mr. Rose stated that the Council had convened a staff-level digital assets working group in April 2022 to prepare the report, and that the group had made progress in outlining financial stability risks and identifying regulatory gaps posed by various types of digital assets. He noted that the working group had developed a framework for consideration of these risks organized around vulnerabilities that amplify shocks to the digital asset market. He also described certain risks that may be identified in the Council's report. He concluded by stating that the report would assess the current regulatory system for digital assets and describe specific regulatory gaps.

Council members then had a discussion about the development of the digital assets report.

4. OFR Bilateral Repo Data Collection

The Chairperson then introduced the next agenda item, a presentation on the OFR's work to collect data on non-centrally cleared bilateral repo. The Chairperson noted that the Council's Hedge Fund Working Group continued to highlight the lack of visibility into the repo market, which is one of the primary sources of leverage for hedge funds. She stated that while progress had been made to improve repo market transparency, such as the OFR's existing collection of data on cleared repo, the stresses in March 2020 showed that regulators did not have sufficient visibility into non-centrally cleared bilateral repo transactions. She noted that at the Council meeting on February 4, 2022, the OFR announced it would launch a pilot program that would ask several financial institutions to share data on these transactions, with the goal of the OFR publishing a rule to collect this data on an ongoing basis. She then turned to James Martin, Acting Director of the OFR, and Jay Kahn, Senior Economist at the OFR, for the presentation.

Acting Director Martin stated that repo plays a critical role in lending and securities markets. He stated that while high-quality data is critical to assess these markets, historically little data was available. He noted that after the OFR conducted a pilot project in 2015, the OFR adopted a final rule in 2019 establishing a data collection focused on centrally cleared bilateral repo transactions. He noted that the OFR had now laid the groundwork for data collection on another sector of the market.

Mr. Kahn then described four segments of the repo market: centrally cleared triparty repo, centrally cleared bilateral repo, non-centrally cleared triparty repo, and non-centrally cleared bilateral repo. He stated that non-centrally cleared bilateral repo transaction volumes are not known but represent approximately 60 percent of primary dealer reverse repo and 40 percent of primary dealer repo. He stated that this segment of the repo market lacks transparency, and that the OFR's planned data collection was intended to fill this gap.

Mr. Kahn stated that the OFR met with market participants and industry associations earlier in 2022 to discuss this topic. He stated that the OFR found that data systems among dealers are heterogenous, and he discussed various dealers' approaches to data collection and storage. He said that the OFR pilot data collection was intended to give dealers experience in adapting to transaction-level reporting.

Mr. Kahn stated that the OFR was collecting data from nine pilot program participants over three reporting days in June 2022, and had received the first day of trading data for all participants. He stated that the OFR was drafting a notice of proposed rulemaking regarding the data collection. He noted that the OFR intended to use information learned from the pilot program during the rulemaking process. He concluded by stating that the OFR was developing an internal structure to manage the data once the collection is fully implemented.

Council members then asked questions and had a discussion about the importance of the OFR's repo data collection.

5. Other Business

Council members then had a discussion about potential topics to address in an upcoming Council meeting and other Council priorities.

The Chairperson adjourned the executive session of the meeting at approximately 11:17 A.M.

**Open Session**

The Chairperson called the open session of the meeting of the Council to order at approximately 11:21 A.M. The Chairperson outlined the agenda for the open session, which included (1) an update on the Council's work on climate-related financial risk, and (2) a vote on the minutes of the Council's meeting on April 8, 2022.

1. Update on Climate-related Financial Risk

The Chairperson turned to the first agenda item, an update on the Council's work on climate-related financial risk. She stated that addressing climate-related financial risk was a key priority for the Council. She noted that since the Council published its climate report in 2021, the Council and its members had made significant progress to advance the recommendations set out in the report. The Chairperson stated that the Council was committed to providing updates to the public on its efforts to assess and address climate-related financial risks. The Chairperson then introduced Sandra Lee, Deputy Assistant Secretary for the Council at Treasury, for an update on efforts by the Council and its members to identify and address climate-related financial risks.

Ms. Lee stated that the Council and its members had been working in close coordination to advance the recommendations in the Council's 2021 climate report. She noted that progress had been made in the areas of capacity-building, disclosure, data, and risk assessment and mitigation. She stated the Council's new staff-level interagency committee, the CFRC, was coordinating these efforts. She noted that the CFRC charter was approved during the Council's meeting in December 2021. She stated that the CFRC had representation from all 15 Council members and began meeting regularly earlier in 2022. Ms. Lee stated that the CFRC served as an active forum for interagency information-sharing, coordination, and capacity-building. She stated that, 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 impact, the CFRC enabled Council members to learn from one another on emerging best practices. She stated that the CFRC would continue the Council's work to enhance coordination, build capacity, and advance initiatives necessary to promote the resilience of the financial system to the risks posed by climate change. Ms. Lee concluded by stating that staff would provide the Council with ongoing updates about the CFRC's work to build on and accelerate existing efforts to address climate-related financial risks and safeguard the financial system.

The Chairperson stated that she welcomed the creation of the CFRC and the work of Council member agencies to advance the Council's understanding and cooperation on this topic. She stated that climate change, in the form of higher temperatures, droughts, wildfires, intensifying storms, and other climate-related events, was imposing significant costs on the U.S. economy and the public. She noted that the United States experienced 20 or more separate billion-dollar weather and climate disasters in each of 2020 and 2021. She stated that when adjusted for inflation, the costs attributable to the events of these two years exceeded $111 billion and $152 billion, respectively. She stated that climate change was responsible for economic and also human costs. She noted that an estimated 80 million homes in the United States are facing wildfire risk over the next 30 years, including 1.5 million homes that are at extreme risk. She stated that evidence was emerging in the United States of how climate change is affecting financial services. She noted as an example that the increasing frequency and severity of such disasters was leading to higher premiums for homeowners' insurance, with property in some parts of the country becoming practically uninsurable and ultimately potentially unsellable.

The Chairperson stated that the financial and economic costs from climate change were expected to grow. She stated that these developments underscored the importance of Council members taking action to expand capacity, improve data and measurement, and enhance disclosure of climate-related risks, so that investors, corporations, and other financial institutions can make better-informed decisions, assess the scale of potential vulnerabilities, and make appropriate adjustments in regulatory and supervisory tools. The Chairperson then invited other members of the Council to share information on the efforts at their agencies in this area.

Jerome Powell, Chair of the Federal Reserve, stated that the Federal Reserve appreciated the progress of the Council and member agencies to implement the recommendations of the Council climate report and to enhance members' collective understanding of the impact of climate-related risks on financial institutions and financial stability. He stated that climate-related financial risk is an important issue that requires close collaboration and investment across Council members, as they seek to ensure that financial institutions are effectively managing these risks, and to promote the resiliency of the financial system to these risks in a manner consistent with members' supervisory and financial stability mandates.

Chair Powell stated that the Federal Reserve was engaging with external stakeholders, including large banks, and building its internal capacity to assess the financial risks of climate change, including through investing in data, research, and analytics. He stated that the Federal Reserve was working to understand supervised firms' risk management capabilities and assessing the materiality of climate-related exposures. He noted that the Federal Reserve was continuing its work to identify links between climate change and financial stability, including by investigating how climate change can increase financial sector vulnerabilities and analyzing potential climate-related amplification channels. He stated that as the Federal Reserve improves its understanding of these risks, it was incorporating them into its financial stability framework. Chair Powell stated that the Federal Reserve would continue to contribute to the work of the CFRC and engage with other Council members to meet the challenges that climate change poses for the U.S. financial system.

Gary Gensler, Chair of the SEC, provided an update regarding the SEC's March 2022 proposed rule to enhance and standardize climate-related disclosures for investors. Chair Gensler noted that for the last 90 years, U.S. capital markets had relied on a basic bargain under which investors could choose to decide which risks to take as long as companies provide full, fair, and truthful disclosures. He stated that the SEC oversees this basic bargain. He noted that the SEC had updated disclosure requirements over the decades to meet investor needs. He stated that in the 1960s the SEC began to require the disclosure of certain risk factors to aid investors, and in the 1970s the SEC began requiring environmental-related disclosures. He stated that the SEC elaborated on those requirements repeatedly in subsequent years, including in 2010, when the SEC issued guidance regarding climate-related disclosures. Chair Gensler estimated that hundreds of issuers were currently disclosing climate-related information, and hundreds of institutional investors were making decisions based on this information. He stated that the SEC's March 2022 proposed rule on climate-related disclosures was an outgrowth of its prior rulemakings in this area. He stated that the SEC proposal was intended to improve the consistency, comparability, and decision-usefulness of disclosure provided by public companies to investors. He noted that the proposal received over 14,500 comments, available on the SEC website.

Chair Gensler stated that the SEC had also issued two proposals related to funds and their advisors. First, he stated that in May 2022, the SEC proposed modernizing the "names rule" under the Investment Company Act of 1940 to address changes in the fund industry and compliance practices in the approximately 20 years since the rule was adopted. He said that the proposal was intended to help ensure that fund names referencing investment goals related to climate, or other environmental, social, and governance (ESG) factors, align with the funds' characteristics and investment strategies. Second, he stated that in May 2022, the SEC also proposed a rule to enhance disclosures by certain investment advisers and investment companies about ESG investment practices. He noted that the SEC was seeking public comment on both proposals. He stated that in issuing these proposals, the SEC was focused on ensuring that statements made by companies to investors are not materially false or misleading. He stated that this key principle informed the SEC's climate disclosure proposals. Chair Gensler concluded by stating that when issuing these and other rulemakings, the SEC was guided by public input, economic analysis, the laws that Congress has passed, and the courts' interpretation of those laws.

Michael Hsu, Acting Comptroller of the Currency, provided observations on the public feedback on the OCC's draft principles for climate-related financial risk management for large banks, which were issued in December 2021. He stated that the draft principles provided a high-level framework for the safe and sound management of exposures to climate-related financial risks for large banks. He noted that for purposes of the draft principles, large banks are those with more than $100 billion in total consolidated assets. He stated that the OCC received responses from thousands of individuals, as well as financial services trade groups, banks, environmental and public interest groups, providers of risk models, and governmental bodies. He stated that the majority of commenters generally supported the draft principles, while some warned of regulatory overreach. He noted that most commenters who supported the principles also offered suggestions for changes, reflecting a range of views on the subjects that should be addressed in the guidance, the level of detail, and the focus on large institutions. He said that numerous commenters recommended cooperation with other domestic and international regulators. He stated that a number of financial services trade groups also expressed general support for a flexible, principles-based approach to risk management in this area.

Acting Comptroller Hsu noted that the OCC also received many detailed responses on the specific questions posed. He said that many commenters focused on the two interrelated areas of scenario analysis and data availability. He stated that the draft principles presented scenario analysis as an important approach for identifying, measuring, and managing climate-related risks. He noted that the OCC received detailed comments on how banks currently conduct scenario analysis, how they should conduct this analysis, and the challenges they face. He said that commenters identified a number of challenges, including a lack of clarity and guidance, the level of uncertainty regarding future developments, the absence of granularity in currently available information, the lack of institutional knowledge and expertise, and the general lack of reliable data and information. Turning to data availability, he stated that the draft principles noted that sound risk management depends on the availability of relevant, accurate, and timely data, while acknowledging that data in this area is rapidly evolving. He said that the OCC asked for feedback on what specific data, metrics, tools and models banks need to identify, measure, monitor, and control their climate-related financial risks. He stated that commenters provided detailed lists of data needs, information on current data sources, and suggestions on how to obtain critical data. He stated in conclusion that the OCC was evaluating the feedback received and determining its next steps.

Martin Gruenberg, Acting Chairman of the FDIC, stated that addressing the financial risks that climate change poses to the safety and soundness of financial institutions and to the stability of the financial system was a priority for the FDIC. He stated that the FDIC had established an internal interdivisional working group tasked with assessing the safety and soundness and financial stability risks of climate change, and was investing in research to better understand the transmission channels of climate change risk to financial institutions and to the financial system. He stated that the FDIC had prioritized international engagement through its participation in Basel Committee on Banking Supervision and Financial Stability Board groups. He noted that the FDIC had joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and was participating in the Council's CFRC. He noted that in March 2022, the FDIC had requested comment on a draft statement of principles for climate-related financial risk management for large financial institutions, designed to help institutions make progress toward addressing key questions as they consider incorporating climate-related financial risks into their institutions' risk management framework. He also noted that climate risks disproportionately impact low- and moderate-income communities and households, which may have fewer resources to adapt to and address those risks. He stated that in May 2022, the federal banking regulators issued a proposed rulemaking to modernize the Community Reinvestment Act (CRA), including proposals to provide CRA credit for investments to promote climate resiliency and disaster preparedness in low- and moderate-income communities. He noted that the agencies were accepting public comments on the proposal.

Rostin Behnam, Chairman of the CFTC, provided an update on the CFTC's efforts regarding climate-related financial risk. He stated that the CFTC was focused on climate-related risk management, anticipating that firms and individuals would increasingly turn to the derivatives markets to manage and mitigate climate change-induced physical and transmission risks. He noted that in March 2021, the CFTC created the Climate Risk Unit (CRU) to leverage the agency's resources and expertise to better understand the role of derivatives in both pricing and mitigating climate-related risk and also support the orderly transmission to a net-zero economy through market-based initiatives. He said that during its initial 12 months, the CRU focused on engaging with stakeholders to explore opportunities for public-private partnerships.

Chairman Behnam stated that the CRU hosted an all-day voluntary carbon market convening at the CFTC on June 2, 2022. He stated that the convening included panelists from voluntary carbon markets and discussed carbon offset standards and quality initiatives; the trading ecosystem for carbon offsets, which are the underlying commodities for several regulated futures products; and the participants' recommendations for the CFTC. He stated that to support a whole-of-government approach to climate change, the convening included representatives from the White House's Office of Science and Technology Policy and the Departments of the

Treasury, State, Transportation, and Agriculture to discuss their policy initiatives for carbon offsets.

Chairman Behnam noted that in June 2022, the CFTC also issued a request for information (RFI) on climate-related financial risk. He said that the RFI was seeking feedback on climate-related financial risk as it may pertain to the derivatives markets, underlying commodity markets, registered entities, registrants, and other market participants. He stated that the RFI also requested input on data, scenario analysis, stress testing, risk management, disclosure, product innovation, voluntary carbon markets, digital assets, greenwashing, financially vulnerable communities, and public-private partnerships and engagement. He said that the CFTC may use this information to issue new or amend existing guidance, interpretations, policy statements, and regulations, among other potential actions. He stated that the CFTC was focused on ensuring that market participants are equipped to manage their risks from increasingly severe and frequent weather events as well as the transition to a net-zero, low carbon economy. He noted in conclusion that the CFTC would solicit public comment on the RFI until October 7, 2022.

Sandra Thompson, Director of the FHFA, stated that the FHFA and its regulated entities had an important role to play in addressing issues related to climate change. She stated that much of the FHFA's work in the housing sector focused on the impact of events such as natural disasters, floods, wildfires, and hurricanes on the residential and multifamily mortgage market. She stated that the FHFA, in its supervisory capacity, had been working to ensure that its regulated entities account for these risks. She stated that in 2021, the FHFA had issued a statement affirming that the FHFA was committed to making tangible progress on addressing climate change and its consequences. She said the statement also noted that the FHFA's regulated entities should identify climate change as a priority concern while actively considering its effects in their decision-making. She noted that in January 2022, the FHFA established an internal climate change and ESG steering committee. She stated that during 2022, Fannie Mae and Freddie Mac had worked under the guidance of FHFA to enhance their climate risk frameworks and governance and to consider the effects of climate-related financial risk on vulnerable communities.

Director Thompson stated that in May 2022, the FHFA became a member of the NGFS. She stated that FHFA was an active participant in this organization's working groups, and also participated in the Council's CFRC and its working groups. She also noted that the FHFA was participating in the Financial Literacy and Education Commission and contributing to its upcoming report on the effects of climate change, particularly regarding the impacts on low- and moderate-income and vulnerable communities. She stated in conclusion that the FHFA was focused on addressing the threat of climate change to preserve the safety and soundness and stability of the housing finance system.

Steven Seitz, Director of FIO, stated that assessing climate-related financial risk in the insurance sector was a top priority for FIO. He stated that the insurance sector can play an important role in combating climate change and in reducing financial losses from climate-related events. He noted that the availability of insurance is a critical component in the functioning of the housing and banking sectors. He then highlighted three efforts FIO was undertaking. First, he said that FIO intended to publish a report by the end of 2022 assessing climate-related issues and gaps in the regulation and supervision of insurers, including their potential effects on U.S. financial stability. He noted that some state insurance regulators were taking steps in this area and said that FIO would continue to monitor and assess those developments. Second, he stated that FIO was conducting quantitative analysis in two areas of climate-related financial risk: the potential transition risk to insurer asset portfolios, and the physical risks of insurers' climate-related underwriting exposures, focusing on homeowners' insurance and particularly on at-risk markets. He noted that as part of this analysis, FIO would consider how climate change was impacting underserved communities that are often most affected by, and often least able to respond to, climate-related events. He stated that such analyses were dependent upon the availability of relevant, reliable, and granular data. He stated that FIO was continuing to assess the use of its data-collection and data-dissemination authorities to help fill potential data gaps. Third, he stated that FIO continued to engage with stakeholders and colleagues domestically and intentionally, including federal and state partners. He stated that FIO was engaging with the Intentional Association of Insurance Supervisors and the Sustainable Insurance Forum and noted that in 2022 FIO joined the NGFS.

James Martin, Acting Director of the OFR, stated that identifying risks to financial stability from climate change was a priority for both the Council and the OFR. He noted that climate risk is not easily defined and that its potential risk to the financial system is difficult to model and to forecast. He stated that to accurately assess this risk, financial regulators would need to combine and analyze climate and financial data. He said that this requires high-powered computing to ingest large, often complex data sets, as well as advanced statistical software to merge these data to create new vantage points. He stated that the OFR was uniquely positioned to provide these resources to the Council. He said that to test the OFR's capabilities to open its analytic environment to analysts and researchers outside of the OFR, it had partnered with the Federal Reserve to develop the Climate Data and Analytics Hub, which could feature both climate data and analytic tools. He said that the data hub provided certain staff from the OFR and the Federal Reserve System access to climate data and offered the tools needed to merge this data with financial data. He said that the data hub also enabled users to collaborate on their research and share their findings. He stated that this project demonstrated two ways the OFR can support the Council: by enabling Council members to use the OFR's expertise in data onboarding and by providing access to the OFR's analytical environment for greater insight into financial stability risk. He stated that the OFR was working to expand access to the data hub to other Council members.

Following these remarks, the Chairperson stated that the challenges in the area of climate-related financial risk were significant and would require the Council's collective efforts. She noted that while the Council had made progress in identifying and addressing these risks, the Council would continue to work on this issue and that it would remain a Council priority.

2. Resolution Approving the Minutes of the Meeting Held on April 8, 2022

*BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the minutes attached hereto of the meeting held on April 8, 2022 of the Council are hereby approved.*

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution by unanimous vote.

The Chairperson adjourned the meeting at approximately 11:51 A.M.