Minutes of the Financial Stability Oversight Council

October 21, 2021

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)
Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation (FDIC)
Gary Gensler, Chair, Securities and Exchange Commission (SEC)
Rostin Behnam, Acting Chairman, Commodity Futures Trading Commission (CFTC)
Rohit Chopra, Director, Consumer Financial Protection Bureau (CFPB)
Sandra L. Thompson, Acting 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
Dino Falaschetti, 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)
Eric Cioppa, Superintendent, Maine Bureau of Insurance (non-voting member)

GUESTS:

Department of the Treasury (Treasury)
Nellie Liang, Under Secretary for Domestic Finance
Sandra Lee, Deputy Assistant Secretary for the Council
Eric Froman, Assistant General Counsel (Banking and Finance)
Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, and Executive Director of the Council

Board of Governors of the Federal Reserve System
Andreas Lehnert, Director, Division of Financial Stability

Federal Deposit Insurance Corporation
Travis Hill, Deputy to the Chairman for Policy

Securities and Exchange Commission
Amanda Fischer, Senior Counselor

Commodity Futures Trading Commission
David Gillers, Chief of Staff

Consumer Financial Protection Bureau
Ashwin Vasan, Senior Advisor to the Director

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

Comptroller of the Currency
Blake Paulson, Senior Deputy Comptroller for Supervision Risk and Analysis

National Credit Union Administration
Andrew Leventis, Chief Economist

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

Federal Reserve Bank of New York
John Williams, President and Chief Executive Officer
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
Michael Townsley, Policy Counsel, Conference of State Bank Supervisors

Maine Bureau of Insurance
Ethan Sonnichsen, Managing Director of Government Relations, National Association of Insurance Commissioners

Maryland Office of the Attorney General, Securities Division
Vincent Martinez, General Counsel, North American Securities Administrators Association

PRESENTERS:

2021 Annual Report

- *Stephen Ledbetter, Director of Policy, Office of the Financial Stability Oversight Council, and Executive Director of the Council, Treasury*
- *Jonathan Rose, Senior Economist, Federal Reserve Bank of Chicago*
- *Alexandra Somers, Senior Policy Advisor, Office of the Financial Stability Oversight Council, Treasury (available for questions)*

President's Working Group on Financial Markets Report on Stablecoins

- *Jordan Bleicher, Senior Advisor, Office of Domestic Finance, Treasury*

- *Mary Watkins, Attorney-Advisor, Treasury*

Council Report on Climate-Related Financial Risk
- *Eric Juzenas, Counselor to the Under Secretary for Domestic Finance, Treasury*
- *Sean Hoskins, Senior Advisor, Office of the Financial Stability Oversight Council, Treasury (available for questions)*

Executive Session

The Chairperson called the executive session of the meeting of the Council to order at approximately 4:30 P.M. The Council convened by videoconference. The Chairperson began by welcoming Rohit Chopra, Director of the CFPB, as a member of the Council. She then recognized Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury and Executive Director of the Council, who was retiring at the end of October after over 30 years of federal service. The Chairperson 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) the Council's 2021 annual report and (2) the report to be issued by the President's Working Group on Financial Markets (PWG) on stablecoins.

1. 2021 Annual Report

The Chairperson turned to the first agenda item, the Council's 2021 annual report. She turned to Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury and Executive Director of the Council; Jonathan Rose, Senior Economist at the Federal Reserve Bank of Chicago; and Alexandra Somers, Senior Policy Advisor for the Office of the Financial Stability Oversight Council at Treasury.

Mr. Ledbetter provided an update regarding interagency staff deliberations about the report and the proposed timing for completion of the report. Mr. Rose then highlighted certain potential emerging threats and vulnerabilities that the report may address.

2. PWG Report on Stablecoins

The Chairperson then introduced the next agenda item, an update on the PWG's development of a report on stablecoins. She turned to Jordan Bleicher, Senior Advisor in the Office of Domestic Finance at Treasury, and Mary Watkins, Attorney-Advisor at Treasury.

Mr. Bleicher stated that on July 19, 2021, the principals of the PWG, along with the leaders of the FDIC and OCC, had asked interagency staff to analyze the risks of stablecoins and develop recommendations for addressing regulatory gaps. He noted that the agencies collaborated in drafting the report and sought input from a range of stakeholders.

Mr. Bleicher noted that stablecoins are a type of digital asset generally designed to maintain a stable value relative to a fiat currency. He said that stablecoins appear to be used mainly to facilitate trading in digital assets, but that they could be used more widely as a means of payment in the future.

Mr. Bleicher then described views provided by stakeholders during interagency outreach regarding stablecoins. He stated that themes from the stakeholder engagement included the need for clear and consistent regulatory expectations for market participants; risks arising from the rapid growth of stablecoins; the potential for stablecoins to improve settlement and make cross-border payments more efficient; concerns regarding end-user protection; and the need for a comprehensive federal regulatory regime. Mr. Bleicher stated that the use of stablecoins could potentially support a payments system that is faster, more efficient, and more inclusive. He said that, at the same time, absent appropriate safeguards, widespread adoption could pose risks to end users, the broader financial system, the economy, and national security. He stated that establishing a clear regulatory framework would both facilitate beneficial innovation and offer protection against risks. He also stated that these protections may include protecting consumers and investors; preventing money laundering; promoting payment system integrity; and promoting financial stability.

Ms. Watkins then described several potential risks of stablecoins. She stated that these risks may include the failure of a stablecoin to maintain a stable value; payment system risks; risks from rapid growth of stablecoins, individually or in the aggregate; and illicit finance risks. She also highlighted regulatory gaps related to stablecoins. She noted that current regulations do not address prudential concerns about stablecoins in a consistent or comprehensive manner. She also stated that oversight of stablecoins is inconsistent, with stablecoins being issued under various regulatory frameworks, and some stablecoins falling outside the prudential regulatory perimeter altogether. She also noted that oversight of stablecoins is fragmented and susceptible to arbitrage, given that critical functions within a stablecoin may be distributed across multiple parties, increasing the challenges of supervision. Ms. Watkins concluded by summarizing certain recommendations that may appear in the PWG report.

The Chairperson then noted that the PWG report would likely include a recommendation that the Council further assess the potential risks of stablecoins and the tools available to the Council to address these risks.

Council members then asked questions and had a discussion about the draft report, including how stablecoins could increase in scale and how Council member agencies might respond; the potential uses of stablecoins in payment systems; and concerns regarding the use of stabelcoins for illicit activities.

The Chairperson adjourned the executive session of the meeting at approximately 4:55 P.M.

Open Session

The Chairperson called the open session of the meeting of the Council to order at approximately 5:01 P.M.

The Chairperson began by welcoming Rohit Chopra, Director of the CFPB, as a member of the

Council. The Chairperson then outlined the agenda for the open session, which included (1) a presentation and vote on the Council's Report on Climate-Related Financial Risk, and (2) a vote on the minutes of the Council's meeting on September 9, 2021.

1. Climate Report

The Chairperson then turned to the first agenda item, a presentation and vote on the Council's report on climate-related financial risk. The Council prepared the report in response to the Executive Order on Climate-Related Financial Risk, which was issued on May 20, 2021. The Chairperson introduced Eric Juzenas, Counselor to the Under Secretary for Domestic Finance at Treasury, and Sean Hoskins, Senior Advisor in the Office of the Financial Stability Oversight Council at Treasury.

Mr. Juzenas stated that in the climate report, the Council identified climate change as an emerging threat to U.S. financial stability. He said that domestically and globally, climate-related impacts such as warming temperatures, droughts, wildfires, storms, and other climate-related events are intensifying, even as they already impose significant costs upon the public and the economy. He said that the economic and financial consequences of ongoing climate change would likely be an increasing source of shocks to the financial system and an increasing threat to financial stability.

Mr. Juzenas stated that a primary responsibility of the Council and its member agencies is to ensure the financial system's resiliency to risks, including to climate-related financial risks. He said that the report provides recommendations laying out steps for the Council and its member agencies to identify and address climate-related risks to the financial system, and to promote the resiliency of the financial system to those risks.

Mr. Juzenas stated that the Council seeks to identify and respond to vulnerabilities in the U.S. financial system so that shocks to economic or financial conditions do not impair the ability of the financial system to provide needed services, including the clearing of payments, the provision of liquidity, and the availability of credit. He said that the assessment of climate-related financial risks involves a series of steps: defining climate risks and how they may affect the financial sector; quantifying the effect of climate risks on economic activity; evaluating the links between economic impacts and financial risks; and assessing the financial stability implications of climate-related financial risks.

Mr. Juzenas stated that to undertake these steps, as discussed in the report, climate-related financial risks could be grouped into two broad categories: physical risks and transition risks. He said that physical risks refer to harm to people and property arising from acute climate-related disaster events, and longer-term chronic phenomena such as higher average temperatures, changes in precipitation patterns, sea level rise, and ocean acidification. He stated that transition risks refer to stresses to institutions or industry sectors caused by shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to address climate change.

Mr. Juzenas stated that if these changes occur in an abrupt or disorderly way, the impact on firms, market participants, individuals, and communities is more likely to be disruptive. He said that the Council's approach to identifying and addressing risks is well-suited to integrating climate-related physical and transition risks, because in the financial system, they manifest as risks to institutions such as credit risk, liquidity risk, market risk, and operational risk. He stated that such risks had long been the focus of supervision and regulation by Council member agencies.

Mr. Juzenas stated that to identify and address these risks within their mandates, Council member agencies had taken steps to begin incorporating climate-related financial risk into their regulatory and supervisory activities; enhance climate-related disclosures; and assess climate-related risks to the financial system. He said that while progress had been made, there was a substantial amount of work yet to be done, as reflected in the report's analysis and recommendations.

First, Mr. Juzenas stated that the report describes how the Council and its member agencies should build capacity and expand efforts to address climate-related financial risks. He said that the Council would form a new staff-level committee, the Climate-related Financial Risk Committee, to focus on climate-related risks and help coordinate efforts across member agencies to assess and respond to them. He said that the Council would also form a Climate-related Financial Risk Advisory Committee, which would help the Council gather information and analysis from a broad array of stakeholders on climate-related risks. He stated that the report recommended that Council member agencies prioritize internal investments to expand their capacities to identify, measure, assess, and report on climate-related financial risks and their effects on financial stability. He said that this should include investments in staffing, training, expertise, data, analytics and methodologies, and monitoring. He said that the report also recommended that Council member agencies enhance their public communications related to their climate efforts, including in annual reports and other relevant reports that they publish.

Second, Mr. Juzenas stated that the report describes how the measurement of climate-related financial risks requires additional data and methodologies that may be new to financial institutions, investors, market participants, and regulators. He said that the Council recommended that its member agencies identify and take steps to ensure they have access to consistent and reliable data for assessing climate-related risks. He said that member agencies should perform an internal inventory of currently available data and develop plans for acquiring additional data through data collection, sharing arrangements, or data procurement. He stated that Council member agencies should also work together to develop consistent data standards, definitions, and relevant metrics.

Third, Mr. Juzenas stated that the report described how public, climate-related disclosures that offer meaningful information about climate-related financial risks foster increased transparency into those risks. He said that these disclosures, in the aggregate, can also facilitate market efficiency by allowing climate-related risks to be better priced in financial markets. He said that the Council recommended that its member agencies 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. He stated that member agencies, in doing so, should consider requirements that build on the core elements of the Task Force on Climate-Related Financial Disclosures framework. He stated that the Council also recommended that Council member agencies 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. He said that, in addition, Council member agencies should evaluate standardizing data formats for climate disclosures to promote comparability.

Fourth, Mr. Juzenas stated that the report described the assessment of climate-related financial risks and their implications for financial stability. He said that the Council recommended that its member agencies use scenario analysis as a tool for assessing climate-related financial risks. He said that the Council also recommended that its member agencies consider using common scenarios that build on existing work by international bodies such as the Network of Central Banks and Supervisors for Greening the Financial System and the Financial Stability Board. He stated that, to help address climate-related financial risks, the Council recommended that member agencies should also review their supervisory and regulatory tools to evaluate whether additional or updated regulations or guidance specific to climate-related risks are necessary to clarify expectations for regulated or supervised institutions regarding management of those risks.

Finally, Mr. Juzenas stated that the report emphasized that the adverse effects of climate change may disproportionately impact financially vulnerable populations, which can include lower-income communities, communities of color, and other disadvantaged or underserved communities. He said that the Council acknowledged that the impacts of climate change on these communities would require thoughtful and balanced policy responses. He said that developing these responses would require a coordinated approach involving stakeholders across the public and private sectors.

Mr. Juzenas stated that while the report's recommendations represented important steps to address climate-related financial risks within Council member agencies' mandates, additional work would be required. He said that the Climate-related Financial Risk Committee would update the Council at least semi-annually on progress of the Council and its member agencies in addressing climate-related financial risks, and these updates would be used to assess progress on implementing the climate report's recommendations in the Council's annual reports.

Mr. Juzenas concluded by stating that the report and accompanying recommendations demonstrated the Council's commitment to building on and accelerating existing efforts to make the financial system more resilient to climate-related shocks and vulnerabilities. He said that they would also help ensure that the financial system can support an orderly transition towards a net-zero emissions economy.

Following the remarks of Mr. Juzenas, the Chairperson stated that the Council, in publishing the climate report, was recognizing that climate change is an emerging and increasing threat to U.S. financial stability. She said that the report puts climate change at the forefront of the agenda of its member agencies, and was a critical first step forward in addressing the threat of climate change. She said that the report was not the end of this work.

The Chairperson stated that it was important to place the report into historical context. She noted that the Council was established in the aftermath of the 2008 financial crisis with the goal of preventing such a crisis from occurring again. She said that over the past decade, the Council had made progress, building the oversight infrastructure to protect against another such event. She stated, however, that regulators cannot "fight the last war." The Chairperson said that the Council must look forward, based on its responsibility under the Dodd-Frank Wall Street Reform and Consumer Protection Act, which gave the Council the duty to respond to emerging threats to the stability of the U.S. financial system.

The Chairperson said that the Council was recognizing a unique, existential risk for the planet that will affect every aspect of our lives, including through effects on the financial sector. She noted that climate change could threaten the financial system. She stated that as climate change intensifies, more frequent and severe climate-related events—wildfires, tropical storms, and flooding, for example—could trigger declines in asset values and economic activity that could cascade through the financial system, especially if such risks are not properly measured and mitigated. She stated that, moreover, the economic adjustments required to address climate change are large and need to begin soon, including through government policies to facilitate the transition to a net-zero economy. She said that if such policies are delayed and later implemented in an abrupt, disorderly fashion, a rapid revision of perceptions could lead to sudden and dramatic effects on economic activity and asset values. She stated that delay would increase this risk.

The Chairperson stated that the Council has a responsibility to ensure the resilience of the financial system to the future impacts of climate change. She stated that the Council had identified climate change as an emerging threat to the financial stability of the United States. The Chairperson stated that an emerging threat is not the same as a hypothetical one. The Chairperson stated that while it is challenging accurately to predict the future impacts of climate change, it had already started causing economic harms, and failure to address climate-related financial risks would allow them to grow larger.

The Chairperson stated that the costs of climate change are increasingly impacting household expenses, income, and homes, as well as corporate balance sheets. She stated that as Council staff was drafting the report, Hurricane Ida occurred, displacing thousands of people and leaving New Orleans without power for an extended period. She said that this was only one example of extreme weather events, almost surely tied to climate change, that the country witnessed while staff drafted the report. She noted a record heatwave in the Pacific Northwest and wildfires in the American West.

The Chairperson stated that the events of the summer of 2021 were a reminder why the report is critical. She stated that the report made recommendations for how Council member agencies can more effectively respond to physical risks of climate change and the transition risks of the shift to a lower-carbon economy. She stated that the report contained over 30 recommendations.

The Chairperson then categorized the report's recommendations. First, she said, the report recommends an assessment of climate-related financial risks to financial stability, including through scenario analysis, and an evaluation of whether revised or new regulations or guidance is necessary to properly account for these risks. She noted that the future is uncertain, and scenario analysis is one promising tool that has been used internationally to assess these risks. She said that at the same time, regulators need to consider whether existing guidance should be adjusted—or new guidance or regulations considered—to ensure proper management of climate-related financial risks. She stated that regulators cannot wait for perfect assessments or data to take action.

The second category the Chairperson identified is to promote enhanced climate-related risk disclosures. She stated that in a well-functioning and transparent market, investors and firms might naturally transition away from investments that pose excessive climate-related risks if those risks are mispriced. She stated that often, the reason they are not doing so is because they do not have the relevant information. She said that enhanced climate disclosures can address that information failure, enabling market participants to make decisions with more complete data.

The third category of recommendations the Chairperson identified is to enhance climate-related data to allow better risk measurement by regulators and the private sector. She stated that as the climate changes, some risks may manifest in new and unprecedented ways. She stated that regulators need to fill data gaps and better integrate climate, economic, and financial data to improve their understanding of and exposure to climate risks.

The fourth category of recommendations the Chairperson identified is to build capacity. She stated that the necessary analysis and coordination requires more resources. She stated that the report therefore recommended establishing a staff-level Climate-related Financial Risk Committee within the Council. She stated that the committee would serve as an organizing body for Council member agencies to share information and collaborate on this issue.

The Chairperson stressed that the report was only a first step. She stated that as the Council's capacity to respond to climate change increases, the Council expects to formulate new strategies to address this emerging threat to financial stability.

Finally, the Chairperson stressed that the country's most financially stable future is its most environmentally sustainable future, following a transition to a low-carbon economy. She stated that many institutions and individuals, including herself, were tasked with facilitating that future. The Chairperson then invited other Council members to comment.

Jerome Powell, Chair of the Federal Reserve, stated that climate change poses significant challenges for the global economy and the financial system. He stated that the public rightly expects the Council to work to ensure the financial system is resilient to climate-related financial risks. He stated that the Federal Reserve appreciated the magnitude of the challenges ahead and was committed to doing its part.

Chair Powell expressed his support for the report. He stated that its recommendations highlighted areas where additional work and coordination are needed to increase collective understanding of climate-related financial risks. Chair Powell stated that the report also emphasized the need for consistent and comparable data and disclosures, which he indicated is fundamental to a rigorous and thorough analysis of climate-related risks.

Chair Powell noted that the report cited scenario analysis—where the resilience of financial institutions and the financial system is assessed under different hypothetical climate scenarios—as an emerging tool in assessing climate-related financial risks. He stated that the Federal Reserve was developing a program of scenario analysis to evaluate the potential economic and financial risks posed by different climate outcomes.

Chair Powell stated that the Federal Reserve would share its progress and coordinate with Council members in meeting the challenges outlined in the report. He stated that as Council member agencies advance in their understanding of the financial stability risks associated with climate change and gain experience with early policies to strengthen the system, they would continue to work together with their domestic and international colleagues to sharpen their responses.

Michael Hsu, Acting Comptroller of the Currency, stated that he supported the report and its recommendations. He said that the report provided valuable information on the risks climate change poses to OCC-regulated institutions as well as to the entire financial system. He stated that the report's recommendations provided a clear framework and set forth concrete steps for the OCC, the Council, and other Council member agencies to take to better measure, monitor, and address climate-related financial risks.

Acting Comptroller Hsu stated that the OCC was focused on the safety and soundness risks to banks from climate change. He said that this started with sound risk management. He said that the OCC was learning by collaborating with peers and participating in international forums like the Basel Committee and the Network for Greening the Financial System. He stated that, building on that work and the report's recommendations, the OCC was developing high-level climate risk management supervisory expectations for large banks and hoped to issue framework guidance in the near future.

Acting Comptroller Hsu expressed his support for the report's focus on the disproportionate potential impact of climate change on disadvantaged and financially vulnerable communities. He stated that in many cases, these are the same communities that have been adversely impacted by the pandemic. He said that it is important to bear this and inequality challenges in mind as Council member agencies address climate change risks.

Acting Comptroller Hsu stated that the OCC was committed to acting on the risks that climate change presents to the financial system. He stated that the report provided a road map for the OCC and the other Council member agencies.

Jelena McWilliams, Chairman of the FDIC, stated that climate change presents significant challenges for U.S. society, and noted the disproportionate impact of climate change on countries with fewer resources. She said that the FDIC had long required financial institutions to consider and appropriately address potential climate-related risks in their operating environment. She stated that banks had adapted their underwriting and risk management practices in a variety of ways in response to hurricanes, wildfires, and droughts.

She stated that the FDIC had undertaken numerous efforts to better understand and address these issues, noting that in 2020, for the first time, it had incorporated climate change research as a corporate agency-wide goal. She stated that the impact of climate change on individual banks, their customers, their communities, the financial sector, and U.S. financial stability presents complex questions.

Chairman McWilliams then offered views on the report. She stated that she believed the Council had a short period of time to prepare and issue a report on climate-related financial risks, including making recommendations related to processes, identifying climate-related financial risks to the financial stability of the United States, and discussing how such risks could be mitigated.

She said that in light of the complexity of these issues and the limited time to produce the report, she believed the Council did not have an adequate opportunity to conduct sufficient analysis, fully consider broader macro consequences, and thoroughly evaluate the impact of its recommendations. She stated that, as a result, she was concerned that the report was premised on conclusions that warrant more thorough examination. She stated that she would abstain from voting on the report but would continue working with the Council and regulators on this issue.

Gary Gensler, Chair of the SEC, stated that he supported the report. He noted that, as mentioned in the report, and consistent with the SEC's mandate, he had asked staff to work on two projects related to climate risk disclosures. He said that the first related to public companies and the second to investment funds.

Chair Gensler stated that the SEC's expectation on public company disclosures over the past 90 years has been that investors should have the right to decide what risks they wish to take. He said that companies that are raising money from the public have an obligation to share full and fair information with investors on a regular basis. He stated that in response to investor demand, the SEC had added various disclosure requirements over the decades. He said that in the 2020s, investors want to know more about climate risk, and that thousands of companies around the globe already provide such information to investors on a voluntary basis. Chair Gensler stated that the SEC has a role to play to facilitate consistent, comparable, and decision-useful disclosures from companies on a mandatory basis. He said that such disclosure helps investors and companies. He stated that, as a result, SEC staff was developing a proposal for the SEC's consideration.

Chair Gensler stated that the second area related to funds, noting that many funds today market themselves as, for example, "sustainable" or "green." He noted that for the past 80 years, the SEC has had rules to govern the naming of funds. He stated that the SEC should consider updating those naming rules and enhancing disclosures so that investors can see what data, methodologies, and criteria stand behind these names and claims. He said that, subject to SEC deliberations, any such proposals would be distributed, with relevant economic analysis, for public comment.

Sandra Thompson, Acting Director of the FHFA, stated that the report marked an important first step toward addressing the potential effects of climate change on U.S. financial stability. She expressed her support for the Council's recommendation to increase and prioritize efforts to improve capacity to understand, assess, and address climate-related issues. She stated that she shared the Council's view that challenges on data limitations and incomplete tools cannot justify inaction.

Acting Director Thompson stated that FHFA recognized the central role its regulated entities play in the housing finance market. She said that FHFA's objective is to ensure its regulated entities remain safe and sound, while serving their housing finance missions and providing leadership to the housing finance market in addressing both climate-related physical property risks and the transition risks that may accompany the move to a low-carbon economy. She said that FHFA recognized the need to coordinate and collaborate with other agencies and stakeholders to develop solutions that address, and are responsive to, the needs of underserved and vulnerable communities.

She said that FHFA would also work to improve public awareness and transparency of climate and natural disaster risks to help ensure that all participants in the housing finance system have access to the information needed to make informed decisions. She stated that FHFA would also ensure that its regulated entities incorporate a consideration of the effects of climate change in their decision making.

Acting Director Thompson concluded by stating that these were important initial steps, but that there is still work to be done to build a stronger, more climate-resilient housing finance system.

Rohit Chopra, Director of the CFPB, noted that the CFPB had been established, in part, to address how regulators missed key linkages that allowed problems in the mortgage industry to rebound through the financial system. Director Chopra stated that catastrophic weather events and destructive environmental shifts have clear impacts on the economy and the resilience of the financial system. He said that these shocks can threaten homes, jobs, businesses, and farms. He noted that floods, wildfires, hurricanes, and droughts are occurring with intensifying force and increasing frequency. He stated that many homeowners across the country will face decreasing property values, unaffordable or unavailable insurance, and rising repair and maintenance costs, which will undermine household financial stability. He said that ensuring housing security had been a top priority for the CFPB during the pandemic, and would be central to its work on climate change.

Director Chopra stated that after a financial crisis and a global pandemic in the span of a short time, families, small businesses, and neighborhoods cannot afford for regulators to act too late.

Rostin Behnam, Acting Chairman of the CFTC, expressed his support for the report and its recommendations, and stated that the CFTC would continue to build on its prior work on climate change. He said that the CFTC focuses on price discovery and risk management, and noted that these are two key components of the physical and transition risks associated with climate change. He said that CFTC markets would play a key role in efforts to facilitate an orderly transition and mitigate the impact of increasingly frequent climate events.

Todd Harper, Chairman of the NCUA, expressed his support for the report and its focus on how climate-related financial risks may impact the U.S. economy and regulated entities.

He said that the NCUA had established a climate financial risks working group to develop in-house expertise on climate-related financial risks and explore the implications of this issue to credit unions, credit union members, and the National Credit Union Share Insurance Fund.

He stated that, consistent with the law, the NCUA would use its findings to help ensure that federally insured credit unions remain resilient against climate-related financial risks. He noted that while the report represents progress in understanding climate-related financial risk, there remains a tremendous amount of work to do in this area at the NCUA and across the financial sector.

Thomas Workman, the Council's independent member with insurance expertise, stated that the report focused rightly on the need for more targeted and better-defined information on climate-related financial risks. He said that policymaking on climate risks should be grounded in comprehensive, well-defined, and thoroughly evaluated data. He said that robust data sets, and the disclosures recommended by the report, would benefit the transition from carbon-intensive economic activities to sustainable, resilient energy sources.

Steven Seitz, Director of FIO, stated that the report was an important step by the Council to address climate-related risks to the financial system and promote the resilience of the financial system to those risks. He said that the report highlighted the important role of the insurance sector in this area. He noted that addressing such risks was a top priority for FIO. He stated that, earlier in 2021, FIO had issued a public request for information to solicit public input on FIO's future work on the insurance sector and climate-related financial risks.

Director Seitz stated that the request for information highlighted three of FIO's climate-related priorities: assessing climate-related issues or gaps in the supervision and regulation of insurers; assessing the potential for major disruptions of private insurance coverage in U.S. markets that are particularly vulnerable to climate change impacts; and increasing FIO's engagement on climate-related issues.

Dino Falaschetti, Director of the OFR, noted that Congress had established the OFR to support the Council and its member agencies with data and analysis to better gauge and understand complex risks to financial stability. He said that climate is one such risk, and an increasingly prominent one. He stated that models can point to long-term changes, but data gaps between climate and economic models can impede a fuller understanding of how climate change can translate into deeper or broader risks.

Director Falaschetti stated that the OFR had taken several steps to address the directives of the President's Executive Order on Climate-Related Financial Risk. He said that the OFR had performed a survey of commercial data vendors, government agency data sets, academic data hubs, and other key sources to identify, categorize, and share climate data with the Council and its member agencies. He said that in doing so, OFR had begun to identify data gaps that, when filled, could better link climate change and financial stability. He noted that this work included a pilot program initiated to serve as a climate data hub with another Council member agency. He said that the OFR would continue to further its contributions to interagency analyses and information exchanges and would monitor, analyze, and share its findings with its Council colleagues.

Charles Cooper, Commissioner of the Texas Department of Banking, stated that it is important for the banking industry to proactively manage and address climate-related financial risks. He said that it is also important for bank supervisors to speak and act in a unified manner as they work with institutions to ensure that climate-related financial risks are appropriately assessed and managed.

He said that bank supervisors had established mechanisms to ensure that supervisory processes for banks are clear and consistent, including through forums such as the Federal Financial Institutions Examination Council (FFIEC). He encouraged the federal banking agencies to use the FFIEC to ensure that supervisory expectations for climate-related financial risk are consistent. He expressed confidence that financial regulators would work together towards a common goal, as they had done in response to other challenges and risks, such as the COVID-19 pandemic.

The Chairperson then presented to the Council the following resolution approving the Council's Report on Climate-Related Financial Risk:

WHEREAS, the duties of the Financial Stability Oversight Council (Council) under section 112 of the Dodd-Frank Wall Street Reform and Consumer Protection Act include monitoring the financial services marketplace in order to identify potential threats to U.S. financial stability; monitoring financial regulatory proposals and developments, and making recommendations in such areas that will enhance the integrity, efficiency, competitiveness, and stability of the U.S. financial markets; facilitating information sharing and coordination among Council member agencies and other federal and state agencies; recommending to the Council member agencies general supervisory priorities and principles reflecting the outcome of discussions among the member agencies; and identifying gaps in regulation that could pose risks to U.S. financial stability; and

WHEREAS, on May 20, 2021, the President issued Executive Order 14030, "Climate-Related Financial Risk" (the Climate EO), announcing the policy of the Administration to advance consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk, including both physical and transition risks; act to mitigate that risk and its drivers, while accounting for and addressing disparate impacts on disadvantaged communities and communities of color and spurring the creation of well-paying jobs; and achieve a target of a net-zero emissions economy by no later than 2050; and

WHEREAS, the Climate EO directs that, in furtherance of the foregoing policy and consistent with applicable law and subject to the availability of appropriations, the Secretary of the Treasury, as the Chairperson of the Council, shall engage with Council members to consider the following actions by the Council: (i) assessing, in a detailed and comprehensive manner, the climate-related financial risk, including both physical and transition risks, to the financial stability of the Federal Government and the stability of the U.S. financial system; (ii) facilitating *the sharing of climate-related financial risk data and information among Council member agencies and other executive departments and agencies as appropriate; and (iii) issuing a report to the President within 180 days of the date of the Climate EO on any efforts by Council member agencies to integrate consideration of climate-related financial risk in their policies and programs, including a discussion of (A) the necessity of any actions to enhance climate-related disclosures by regulated entities to mitigate climate-related financial risk to the financial system or assets and a recommended implementation plan for taking those actions; (B) any current approaches to incorporating the consideration of climate-related financial risk into their respective regulatory and supervisory activities and any impediments they faced in adopting those approaches; (C) recommended processes to identify climate-related financial risk to the financial stability of the United States; and (D) any other recommendations on how identified climate-related financial risk can be mitigated, including through new or revised regulatory standards as appropriate; and*

WHEREAS, the staffs of Council members and their agencies began an assessment of climate-related financial risk as described in the Climate EO, including the sharing of climate-related financial risk data and information among Council member agencies and other agencies as appropriate; and

WHEREAS, the members of the Council have consulted extensively and have drawn on the expertise of the staffs of their agencies with respect to the Council's assessment of climate-related financial risk; and

WHEREAS, the staffs of Council members and their agencies have prepared the draft "Report on Climate-Related Financial Risk" attached hereto (the Climate Report).

NOW, THEREFORE, BE IT RESOLVED, that the Council hereby approves the Climate Report and authorizes the Chairperson, or her designee, to cause the Climate Report to be published on the Council's website, in a form and manner acceptable to the Chairperson, or her designee, and to otherwise make it available to the public as the Chairperson, or her designee, deems appropriate; and

BE IT FURTHER RESOLVED, that the Council hereby delegates authority to the Chairperson, or her designee, to make technical, nonsubstantive, or conforming changes to the text of the Climate Report, and to take such other actions and issue such other documents incidental and related to the foregoing as the Chairperson, or her designee, deems necessary or appropriate to fulfill the Council's objectives in connection with its publication.

The Chairperson asked for a motion to approve the resolution, which was made and seconded. The Council approved the resolution with nine members voting in favor of the resolution, none opposed, and Chairman McWilliams abstaining from the vote.

2. Resolution Approving the Minutes of the Meeting Held on September 9, 2021

BE IT RESOLVED, by the Financial Stability Oversight Council (the "Council"), that the minutes attached hereto of the meeting held on September 9, 2021 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.

Before closing the meeting, the Chairperson recognized Stephen Ledbetter, Director of Policy in the Office of the Financial Stability Oversight Council at Treasury and Executive Director of the Council, who was retiring. The Chairperson and Acting Director Thompson expressed their gratitude for Mr. Ledbetter's public service.

The Chairperson adjourned the meeting at approximately 5:50 P.M.