Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability

October 21, 2021

In First Step, FSOC Releases Report and Recommendations on Climate-related Financial Risk

WASHINGTON — The Financial Stability Oversight Council (FSOC) has released a new report in response to President Biden’s Executive Order 14030, Climate-related Financial Risk. For the first time, FSOC has identified climate change as an emerging and increasing threat to U.S. financial stability. The report and accompanying recommendations demonstrate FSOC’s commitment to building on and accelerating existing efforts on climate change through concrete recommendations for member agencies to:

- Assess climate-related financial risks to financial stability, including through scenario analysis, and evaluate the need for new or revised regulations or supervisory guidance to account for climate-related financial risks;
- Enhance climate-related disclosures to give investors and market participants the information they need to make informed decisions, which will also help regulators and financial institutions assess and manage climate-related risks;
- Enhance actionable climate-related data to allow better risk measurement by regulators and in the private sector; and
- Build capacity and expertise to ensure that climate-related financial risks are identified and managed.

“Climate change is an emerging and increasing threat to America’s financial system that requires action,” Secretary of the Treasury Janet L. Yellen said. “FSOC’s report and recommendations represent an important first step towards making our financial system more resilient to the threat of climate change. These measures will support the Administration’s urgent, whole-of-government effort on climate change and help the financial system support an orderly, economy-wide transition toward the goal of net-zero emissions.”
While the report recommends that FSOC members take new actions on climate change data, disclosure, and scenario analysis, it also discusses how individual members are already taking important steps forward. For example:

- The Securities and Exchange Commission (SEC) has begun to evaluate its disclosure rules and requested public comment on ways to improve climate disclosure.
- The Federal Reserve Board (FRB) has established two committees to develop a better understanding of climate-related risks and incorporate them into its supervision of financial firms and into its financial stability framework.
- The Commodities 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.
- 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.

Established under the Dodd-Frank Wall Street Reform and Consumer Protection Act, FSOC is charged with identifying risks to U.S. financial stability, promoting market discipline, and responding to emerging threats to the stability of the U.S. financial system. FSOC consists of 10 voting members and 5 nonvoting members and brings together the expertise of federal financial regulators, state regulators, and an independent insurance expert appointed by the President.

The full report and recommendations can be found here. A factsheet on FSOC’s actions can be found here. A copy of Secretary Yellen’s remarks during the open session can be found here and a readout of FSOC’s meeting can be found here.