

U.S. DEPARTMENT OF THE TREASURY

Remarks by Secretary of the Treasury Janet L. Yellen at the First Meeting of the FSOC Climate-related Financial Risk Advisory Committee

March 7, 2023

WASHINGTON – Today, Secretary of the Treasury Janet L. Yellen delivered opening remarks at the first meeting of the Climate-related Financial Risk Advisory Committee (CFRAC). The CFRAC, the first external advisory committee of the Financial Stability Oversight Council (FSOC), will help the FSOC gather information on and analysis of climate-related financial risks from a broad array of stakeholders.

As Prepared for Delivery

Good morning, everyone. And thank you very much for having me today. This inaugural meeting of the Climate-related Financial Risk Advisory Committee, or CFRAC, is an important milestone in our efforts to understand and mitigate the risks that climate change poses to U.S. financial stability.

In October 2021, FSOC published its Report on Climate-related Financial Risk. As you know, the FSOC for the first time identified climate change as an emerging and increasing threat to U.S. financial stability. The report stated that climate change will likely become a source of shocks to the financial system in the coming years. As climate change intensifies, natural disasters and warming temperatures can lead to declines in asset values that could cascade through the financial system. And a delayed and disorderly transition to a net-zero economy can lead to shocks to the financial system as well.

These impacts are not hypothetical. They are already playing out. In the United States, there's been at least a five-fold increase in the annual number of billion-dollar disasters over the past five years compared to the 1980s, even after adjusting for inflation. States like California, Florida, and Louisiana recently have seen especially severe storms and wildfires. And recent devastating tornadoes across the South and intensifying storms on the West Coast are reminders of how climate change is accelerating.

In addition to the terrible toll of these disasters on individuals and families, the economic and financial impacts of these events are significant. For example, in response to rising insured losses, some insurers are raising rates or even pulling back from high-risk areas. This has potentially

devastating consequences for homeowners and their property values. Developments like these can spill over to other parts of our interconnected financial system.

Taking climate change into account is prudent risk management. Our work builds on the scientific consensus regarding the projected effects of climate change and is based on a widely accepted understanding of how the financial system works.

The publication of FSOC's report was a critical step for the financial system in evaluating how climate change will impact our financial system and establishing a common framework for state and federal financial regulators to act. Importantly, the report included over 30 recommendations to U.S. financial regulators on how to identify and address climate-related risks to the financial system. These recommendations cover vital actions to enhance public climate-related disclosures, fill gaps in climate-related data, and build capacity to further address risks.

Since the publication of its report, FSOC and its member agencies have been hard at work to advance these recommendations. For instance, the OCC, FDIC, and Federal Reserve Board each proposed principles on climate-related financial risk management for large banks. Treasury's Federal Insurance Office issued a proposal to collect data from insurers to assess climate-related financial risk across the United States. In January, the Federal Reserve Board announced that it is conducting a pilot climate scenario analysis exercise to learn about large banking organizations' climate risk-management practices and challenges. And at the FSOC, we established the Climate-related Financial Risk Committee, or CFRC – a staff-level FSOC committee specifically dedicated to coordinating and facilitating this work.

In FSOC's climate report, we also recommended the creation of this advisory committee. The group assembled here represents a broad array of experts from academia, the private sector, and nonprofits. Some of you have very specialized expertise in modeling climate risks and working with climate data. Others have experience helping financial institutions respond to and manage their own climate risks. And others have experience advancing environmental justice. I'm excited for this group to begin meeting, and for us to benefit from your expertise.

This committee will be a crucial resource for the CFRC and FSOC. You'll help us gather information and advance our understanding of climate-related financial risks. You will enrich work that we have already begun and find new avenues for us to explore. Many of you have previously collaborated with other groups that are advancing important work on climate-related financial risks – such as the U.N. Intergovernmental Panel on Climate Change and the Glasgow Financial Alliance for Net Zero. This range of experience will help the CFRC develop informed perspectives on climate-related financial risks.

The work you all will undertake here is critical to improving the resilience of the U.S. financial system to the effects of climate change. I am incredibly grateful for your time and efforts.

Thank you.