November 2, 2021

Financial Stability Oversight Council Report on Climate-Related Financial Risk

FSOC Identifies Climate Change as an Emerging Threat to U.S. Financial Stability and Recommends Accelerated and Coordinated Actions by U.S. Financial Regulators to Enhance the Resiliency of the Financial System to Climate-Related Risks

SUMMARY

On October 21, 2021, the Financial Stability Oversight Council ("FSOC") approved (with FDIC Chairman Jelena McWilliams abstaining) and issued a report entitled "Report on Climate-Related Risk."[1] In the report, FSOC identifies climate change as an "emerging threat to the financial stability of the United States," reviews existing actions by FSOC members[2] to incorporate climate-related financial risks into their regulatory and supervisory activities, analyzes the impediments to assessing and addressing climate-related financial risks, and discusses the use of scenario analysis for climate-related financial stability assessments. The report concludes with over 30 recommendations for FSOC members to accelerate their current climate-related efforts and take additional, coordinated actions to enhance the resiliency of the financial system to climate-related risks. The recommendations fall under four key areas: (1) building capacity and expanding efforts to address climate-related financial risk; (2) filling climate-related data and methodological gaps; (3) enhancing public climate-related disclosures; and (4) assessing and mitigating climate-related risks that could threaten the stability of the financial system.

The report also announces the creation of two FSOC committees: (1) the Climate-related Financial Risk Committee ("CFRC"), a staff-level committee that will identify priorities for addressing climate-related risks to the financial system and coordinate among FSOC members; and (2) the Climate-related Financial Risk Advisory Committee ("CFRAC"), an advisory committee to be constituted of a broad array of stakeholders (*e.g.*, climate science experts; non-governmental research institutions; academia; the financial services industry; commercial businesses; consumer, investor, environmental and labor groups; and government

agencies with climate expertise), which will help FSOC gather information and analysis on climate-related risks. The report reflects FSOC's and its members' commitment to identifying and addressing climate-related risks to the financial system and signals that climate-related financial risks will remain a key focus area of the U.S. financial regulators.

FSOC REPORT

A. CLIMATE CHANGE AS AN EMERGING THREAT TO FINANCIAL STABILITY

FSOC identifies climate change as an emerging threat to the financial stability of the United States in light of the increasing economic effects of climate change. The report notes that an assessment of the financial stability implications of climate-related financial risks involves four key steps:

- defining climate change risks and how they may affect the financial sector;
  - The report groups climate-related financial risks into two broad categories: (1) physical risks, which refer to the harm to people and property arising from acute climate-related disasters as well as chronic climate change phenomena; and (2) transition risks, which refer to stresses affecting certain institutions or sectors arising from shifts in policy, consumer and business sentiment, or technologies related to changes to address climate change;
- quantifying the effect of climate risks on economic activity;
- evaluating the links between economic impacts and financial risks (*e.g.*, credit, liquidity, market, operational and other risks to financial institutions and sectors); and
- assessing financial stability, which requires consideration of the potential for an adverse feedback loop between financial stress at institutions and markets and economic activity.

The report acknowledges that methods for implementing each of these steps are under development and notes that certain risks may necessitate a qualitative evaluation, but maintains that FSOC's financial stability assessment is well suited to integrate climate-related physical and transition risks because these risks tend to manifest as the types of traditional risks to financial institutions (*e.g.*, credit, liquidity, market and operational risks) that FSOC members have been focused on in prudential regulation and supervision.

The report also describes the disproportionate impact of climate change on financially vulnerable populations, including lower-income communities, communities of color, Native American communities, and other disadvantaged or underserved communities, and suggests that FSOC and its members take a coordinated approach involving stakeholders across the public and private sectors to develop balanced policy solutions.

B. EXISTING REGULATORY AND SUPERVISORY ENGAGEMENT WITH CLIMATE-RELATED FINANCIAL RISK

The report notes the general agreement among FSOC members that their current knowledge and resources to define, identify, measure, assess, and monitor climate-related financial risks must be expanded. The report describes initial actions that FSOC members are taking to understand and incorporate these risks into their regulatory and supervisory activities, which are summarized in **Annex A**. These initial actions include:

- establishing committees and roundtables to bring together senior staff on climate-related issues and coordinate and lead climate-related efforts;
- performing research on the potential implications of climate-related physical and transition risks, often in collaboration with climate experts;
- collecting data, identifying data gaps, determining decision-useful metrics regarding climate-related financial risk, and reviewing their supervisory and regulatory tools; and
- engaging with international counterparts and across U.S. agencies to share knowledge and develop standards to understand and address climate-related financial risks.

The report recognizes the importance of these initial actions but notes that the size and scope of the challenge require increased agency prioritization, staffing, and investment in data and tools, as well as close collaboration amongst FSOC members.

C. CURRENT IMPEDIMENTS FACED BY FSOC MEMBERS

The report identifies key impediments faced by FSOC members in assessing and addressing climate-related financial risks, including data limitations, uncertainty of the time horizon of the impacts of climate change, complexity and uncertainty of climate risk, policy and economic uncertainty, and trade-offs between climate-related financial risk mitigation measures and FSOC members' other mandated objectives. In particular, the report discusses in detail the challenges relating to climate-related data and disclosures.

1. Climate-Related Data

The report notes that, in order to measure and assess climate-related financial risks, FSOC members will have to take necessary steps to enhance the availability of and access to relevant comprehensive data and develop methods and metrics to effectively utilize climate-related data and financial data. The report identifies a number of data-related challenges, including identifying the relevant data resources, building the capacity to gather, store and use data, developing links across data sets created for different purposes, and balancing the benefits and costs of enhanced data. The report's review of data challenges is organized into the following four categories:

- ***Data on Climate Risks.*** The report notes that, to analyze climate-related financial risks, data must capture the drivers of physical and transition risks that could impact households, businesses, the economy, and the financial sector, and researchers and firms are still learning which data is most relevant for climate-related financial risk analysis. Although U.S. government agencies have extensive data on climate and weather, the report concludes that more work is needed to improve access to and standardize this data so that it may be aggregated across industries and entities and incorporated into financial risk assessments. The report also notes that, to measure transition risk, new data inputs will need to be developed to capture prospective changes in policy, technology, investor and consumer demand, and business models, as well as the effects of such changes on financial stability.
- ***Data on Climate Risk Exposure of Nonfinancial Entities.*** The report notes that, to understand, model, and address climate-related financial risks, it is necessary to assess and quantify the financial impact of climate change on households and nonfinancial businesses, which give rise to the climate-

related risks faced by the financial sector. This includes quantifying and tracking households' and nonfinancial businesses' exposure to both physical and transition risks, including their greenhouse gas ("GHG") emissions footprint. The report notes that, although the Environmental Protection Agency collects facility-level data for large sources of direct GHG emissions, this data may prove difficult for financial firms and regulators to use for their financial analysis. The report concludes that, for financial analysis, a broader view of emissions data that captures both direct and indirect emissions would provide a fuller picture and enable companies to generate enhanced climate-related disclosures.

- ***Data on Climate Risk Exposure of Financial Institutions.*** The report notes that financial institutions have historically viewed climate change through a corporate social responsibility lens instead of a financial risk lens, and acknowledges that there is currently limited research and data on how climate risk drivers affect financial institutions' exposure to physical risks, which include risks to the financial institutions' and their customers' people and property, as well as transition risks. The report identifies granular portfolio data as necessary for assessing financial institutions' physical risk exposure and financed emissions as a metric for gauging financial institutions' transition risk exposure. The report outlines potential methods for collecting such data by regulators of banks, non-bank lenders, government-sponsored entities, the insurance industry, investment funds, and asset managers, but acknowledges that financial institutions and their regulators will need to balance the benefits and costs of different approaches to data collection. The report also emphasizes the need for an assessment of climate-related physical risks to financial-sector critical infrastructure.
- ***Data to Assess System-Wide Effects and Financial Stability.*** The report notes that experience with scenario analysis for climate-related financial risks has revealed some of the data requirements for improving financial stability assessments of climate-related financial risks, highlighting the need for quantifying scenarios with an appropriate level of sectoral and geographic specificity.

Recognizing the challenges in improving climate-related data, FSOC emphasizes the importance of coordination among FSOC members, as well as other government agencies and stakeholders, in order to ensure that data is accessible to and usable by a wide range of stakeholders.

2. Climate-Related Disclosures

The report notes that public, high-quality disclosures by companies that issue securities or that are regulated as financial institutions will better inform investors and market participants about climate-related risks and, in the aggregate, these disclosures can also better inform market participants and regulators about climate-related risks to industry sectors and the financial system. The report recognizes that FSOC members are at different stages in the development of their disclosure requirements concerning regulated entities. For example, the SEC issued interpretive guidance on climate-related disclosures in 2010 and has announced its intention to issue a proposed rule mandating climate-specific disclosure requirements for public issuers.[3] However, after reviewing the existing U.S. regulatory framework relevant for climate-related disclosures for public issuers, private issuers, and financial institutions (including, more specifically, requirements applicable to certain subsets of financial institutions, such as asset managers, certain financial intermediaries, banks, and insurance companies), the report concludes that the existing disclosure requirements applicable to climate-related risks do not result in disclosures that are consistent, comparable, and decision-useful.

The report also recognizes that, due to investor demand, many U.S. companies have begun to disclose climate-related risks using voluntary frameworks established by international and non-governmental organizations, including the Task Force on Climate-Related Financial Disclosures ("TCFD"), which focuses on four core elements to structure climate-related disclosures: governance; strategy; risk management; and metrics and targets. The TCFD's 2021 Status Report maintains, however, that many companies fell short of covering all recommended disclosures.

The report recommends that FSOC members that issue climate-related disclosure requirements consult and coordinate to enhance the quality and coverage of climate-related disclosures in the United States. In particular, the report recommends that FSOC members considering climate-related risk-disclosure requirements leverage the TCFD framework and consider the treatment of a financial institution's financed emissions in climate-related disclosures.

D. APPROACHES FOR ASSESSING CLIMATE-RELATED FINANCAIL RISKS AND THEIR IMPLICATIONS FOR FINANCIAL STABILITY

The report notes that "an assessment of climate-related financial risks and their implications for financial stability is complex," and, in particular, "measurement of exposure against historical risks is insufficient since climate change will bring change in the nature, frequency and severity of climate-related financial risks." Although acknowledging that a variety of approaches for assessing these risks (*e.g.*, climate risk ratings and climate value-at-risk measurements) should be pursued as part of a process to identify best practices, the report recommends building regulators' and financial institutions' capacity to perform climate-related scenario analysis, which "considers a range of possible future climate pathways and associated economic and financial developments." The report frames scenario analysis as a key emerging tool in the study of climate-related financial risks and concludes that "scenario analysis conducted by regulators to measure risk across a broad set of institutions may be the best approach available currently."

The report recognizes several benefits of the scenario analysis approach, including the following:

- scenario analysis is forward-looking and may be exploratory in nature;
- scenario analysis is a useful tool for risk management and is already widely used by financial institutions and their regulators; and
- scenario analysis may provide a structural framework within which institutions can identify data and modeling needs, which may, in turn, accelerate identification of data and knowledge gaps as well as the steps to address such gaps.

The report identifies a number of key design considerations for climate-related scenario analysis, including the scope of the climate risks (*e.g.*, acute and/or chronic physical risks, transition risks, or all of the above), the time horizon (*e.g.*, near-, medium-, or long-term horizons), and the scope of the financial risks (*e.g.*, credit, underwriting, operational, liquidity, legal or reputational risks). The report recognizes that there are significant challenges associated with assessing the financial stability implications of climate-related financial risks—scenario analysis requires the development of data and modeling for effective measurement, which are still under development—but suggests that progress made internationally highlights a set of pathways to overcome existing challenges.[4]

E. FSOC'S RECOMMENDATIONS

The report includes over 30 recommendations on the steps that FSOC members can adopt to strengthen the financial system and make it more resilient to climate-related shocks and vulnerabilities, consistent with their mandates and authorities. The recommendations are categorized under four key areas and include, among other recommendations, the following:

- ***Expanding Capacity Across FSOC and its Members.*** FSOC will form two new climate-related committees—the CFRC and the CFRAC. In addition, FSOC recommends that its members prioritize internal investments to expand their respective capacities to define, identify, measure, monitor, assess, and report on climate-related financial risks and their effects on financial stability, and enhance public communication of their climate-related efforts. FSOC further recommends that the Treasury Department engage other members of the Financial Literacy and Education Commission to analyze and understand the impact of climate change on financially vulnerable populations.
- ***Improving Measurement Through Better Data.*** FSOC recommends that its members identify and take steps towards ensuring that they have consistent and reliable data to assist in assessing climate-related risks. In addition, FSOC recommends that its members, coordinating through the CFRC, move expeditiously to develop data standards, definitions, and relevant metrics, and, where possible and appropriate, to facilitate common definitions of climate-related data terms, sharing of data, and analysis and aggregation of data.
- ***Enhancing Information Through Company Disclosures.*** FSOC recommends that its members review their existing public disclosure requirements, consider updating such requirements to promote the consistency, comparability, and decision-usefulness of information on climate-related risks and opportunities, and consider enhancing public reporting requirements for climate-related risks in a manner that builds on the four core elements of the TCFD. FSOC also recommends that its members issuing climate-related disclosure requirements consider whether such requirements should include disclosures of GHG emissions, as appropriate and practicable, to help determine exposure to material climate-related financial risks.
- ***Making Progress on Climate-Related Financial Risk Assessments.*** FSOC recommends that its members collaborate with external experts to identify climate forecasts, scenarios, and other tools necessary to better understand the exposure of regulated entities to climate-related risks and how those risks translate into economic and financial impacts. FSOC also recommends that its members use scenario analysis, where appropriate, as a tool of assessing climate-related financial risks, taking into account their supervisory and regulatory mandates and the size, complexity, and activities of regulated entities, and consider using common scenarios that build on existing work, including scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System ("NGFS")[5] and work conducted by the Financial Stability Board. FSOC further recommends that the CFRC serve as a forum for FSOC members to share data and methodologies and leverage the expertise needed to perform scenario analysis and share results. In addition, FSOC recommends that its members continue their efforts to consider the incorporation of climate-related risks into their regulatory and supervisory programs, and evaluate whether additional regulations or guidance specific to climate-related risks are necessary to clarify expectations for regulated or supervised institutions regarding the management of climate risks, taking into account an institution's size, complexity, risk profile and existing enterprise risk management processes.

CONCLUSION

The report presents FSOC's initial review of climate-related risks to the financial stability of the United States. It describes current efforts by FSOC members to consider and address climate-related financial risks and includes FSOC's recommendations for the actions necessary to expand efforts by FSOC and its members to address climate-related financial risks, improve the availability of climate data, promote consistent, comparable and decision-useful climate disclosures, and assess and mitigate climate-related risks that could threaten the stability of the financial system. As FSOC and its members continue to focus on climate-related financial risks and incorporate such risks into their regulatory and supervisory activities, companies regulated by FSOC members should prepare to adapt to forthcoming climate-related regulations and supervisory guidance, which may be substantial.

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Annex A
Summary of Initial Steps Taken by FSOC Members to Address Climate-Related Financial Risks

Agency	Initial Steps Taken to Address Climate-Related Financial Risks
Treasury Department	• <u>Climate Hub and Climate Counselor</u>: Treasury created a Climate Hub and appointed a Climate Counselor to coordinate and lead many of its efforts to address climate change. • <u>Domestic and International Engagement</u>: Treasury coordinates its domestic efforts on climate-related financial risks with FSOC, and plays a key role in U.S. engagement on financial stability and regulatory matters internationally, including working with the Financial Stability Board on climate-related risks and, through the Federal Insurance Office (the "FIO"), participating in insurance-specific international organizations that are addressing climate-related financial risks. • <u>Climate-related infrastructure and operational risk</u>: As part of Treasury's role as the financial services sector's Sector Risk Management Agency and through its various partnerships across the sector and U.S Government, Treasury is building its capabilities to identify, assess, and manage operational risks to sector critical infrastructure, dependencies with other critical infrastructure sectors, such as energy and telecommunications, and its ability to analyze the linkages between operational impacts, financial stability, and other climate-related effects to inform the U.S. Government and private sector efforts to mitigate climate-related operational risk.
Depository Institution Regulators: FDIC, FRB, OCC, NCUA, and State Bank Supervisors	• Federal Deposit Insurance Company (the "FDIC"): ○ <u>Risk Review</u>: The FDIC regularly analyzes risk through the semiannual Regional Risk Committee ("RRC"), which has reviewed environmental risk since its 2006 inception and recently added specific climate-related risks such as hurricanes and droughts when relevant to a particular area. ○ <u>Research</u>: FDIC conducts research on the effects of climate events on local economic and banking conditions as part of its assessment of climate-related financial risk, including a recent review of six of the most severe weather events in U.S. history. • Board of Governors of the Federal Reserve System (the "FRB") ○ <u>Risks to Individual Financial Institutions</u>: The FRB has established the Supervision Climate Committee (the "SCC"), a committee focused on microprudential climate-related risk to supervised institutions. The SCC is currently undertaking a broad work plan of internal analysis and public engagement to understand how climate-related risks impact financial institutions and how such institutions identify, measure, monitor, and manage such risk. ○ <u>Risks to Financial Stability</u>: The FRB has established the Financial Stability Climate Committee (the "FSCC"), a committee focused on macroprudential climate-related risks to the stability of the financial system. The FSCC is working to identify and measure links between climate change and financial stability, and is collaborating with the SCC on scenario analysis by engaging with other central banks and institutions. ○ <u>Collaboration across the FRB</u>: The FRB has established the System Climate Network, an internal working group to develop capacity and collaboration on climate-related financial risks across the FRB.

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<li style="list-style:circle">Research: The FRB and Reserve Bank economists continue to pursue research to better understand the intersection of economic conditions and climate-related financial risks, including through the interagency U.S. Global Change Research Program.
<li style="list-style:circle">International and Stakeholder Engagement: The FRB continues to engage in both domestic and international forums on financial risks from climate change.

Office of the Comptroller of the Currency (the “OCC”)

Climate Change Risk Officer: The OCC created the Climate Change Risk Officer position to expand the OCC’s capacity to collaborate with stakeholders and improve climate change risk management practices. The Climate Change Risk Officer will chair the National Risk Committee’s newly formed Climate Risk Implementation Committee, which will identify weather- and climate-related financial risks to OCC-supervised institutions and provide recommendations to the OCC on the integration of such risks into agency policy, supervision, and research.
Senior Leadership Roundtable: The OCC has established a senior leadership roundtable for OCC decision-makers to discuss climate change-related issues. OCC economists are conducting research on how physical and transition risks manifest in the banking system and effect certain groups disproportionately, as well as tools to rate banks’ exposure to such risks.
Continued Collaboration: The OCC will continue to communicate with its staff and work with central banks, peer supervisors, and private sector stakeholders to share best practices and contribute to climate-related financial risk management.

National Credit Union Administration (the “NCUA”)

Climate Working Group: The NCUA established a Climate Financial Risk Working Group, composed of senior staff members from across the agency, to further incorporate climate-related financial risks into the agency’s risk-monitoring framework. Initially the working group seeks to develop expertise on these risks and their implications for credit unions, their members, and the National Credit Union Share Insurance Fund (“NCUSIF”). In addition, the working group is analyzing whether NCUA’s current risk-monitoring framework sufficiently captures and assesses climate-related financial risks as well as how to model and estimate risks to NCUSIF.

State Bank Supervisors

Collaboration Across State Bank Supervisors: The Conference of State Bank Supervisors continues to develop initiatives to address climate-related financial risk, including through district-level meetings, multi-state forums and the collection of reports, guidance, and other resources on the topic. State regulators are also pursuing opportunities to engage with federal and international counterparts on these issues.
Recently Issued Guidance: Several states have issued guidance on climate-related financial risk, including the New York State Department of Financial Services[6] and the Washington Department of Financial Institutions.[7]

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Agency	Initial Steps Taken to Address Climate-Related Financial Risks

Market Regulators: SEC, CFTC, and State Securities Regulators	• Securities and Exchange Commission (the "SEC")
	  ○ Climate Disclosures:
	    ▪ 2010 Guidance: The SEC issued interpretive guidance in 2010, reminding companies of their obligations under existing federal securities laws and regulations to consider climate change and its consequences in their disclosure documents.[8]
	    ▪ Sample Comment Letter: In September 2021, the SEC staff issued a sample comment letter with examples of climate-related comments the staff might issue in the course of its review of public company filings, which reaffirmed the continuing applicability of the SEC's 2010 guidance noted above.[9]
	    ▪ Forthcoming Mandatory Climate Disclosure Proposal: In March 2021, the SEC requested public comment on ways to improve climate disclosures. In July 2021, the SEC Chair indicated that SEC Staff were developing a rulemaking proposal on mandatory climate risk disclosure by public issuers, which will be aimed at making disclosures "more consistent, comparable and decision-useful to inform investors' decisions."
	  ○ Investment Advisors and Funds:
	    ▪ Oversight of ESG Products and Services: The SEC announced that its examination priorities include oversight of investment advisers and funds' ESG products and services in light of significant investor demand.
	    ▪ ESG Data and Criteria: In July 2021, the SEC began its review of whether fund managers should disclose criteria and data used in their ESG and green marketing.
	  ○ Enforcement and Examination Focus:
	    ▪ Enforcement Focus: The SEC's Division of Enforcement announced a task force to proactively evaluate potential ESG-related misconduct, focusing on potential violations of the securities laws, with a particular emphasis on any material misstatements or omissions in issuers' disclosure of climate-related risks.
	    ▪ Examination Focus: The SEC's 2021 Examination Priorities include a review of clearinghouse exchanges, broker-deal and investment advisors' required plans to address business continuity and disaster recovery.[10] The SEC's Division of Examination's review of such plans will evaluate whether such plans contribute to the growing physical and other risks related to climate change.
	• Commodity Futures Trading Commission (the "CFTC")
	  ○ Climate Risk Unit: The CFTC recently established the Climate Risk Unit ("CRU"), a cross-disciplinary unit composed of staff across CFTC, which is focused on derivatives' role in understanding, pricing, and addressing climate-related risk in the financial system. The CRU is focused on adapting disclosure, stress testing, and other financial risk management techniques to improve the ability of CFTC-regulated entities to withstand climate-related risk. The CRU will also develop new financial instruments to assist in the price discovery of climate-

<table>
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○ <u>Report on Climate-Related Financial Risk</u>: The CFTC Market Risk Advisory Committee released a report by its climate subcommittee entitled Managing Climate Risk in the U.S. Financial System, cataloguing how U.S. regulators can address the growing impact of climate-related financial risk, which includes over 50 recommendations.

○ <u>Focus on Carbon Markets</u>: The CFTC Emergency and Environmental Matters Committee met in June 2021 to explore carbon markets in the transition to a net-zero economy and the linkages between primary, secondary, and derivative carbon markets.

• State Securities Regulators

○ <u>NASAA focused on climate-related risk</u>: In July 2021, the Corporation Finance Section of the North American Securities Administrators Association ("NASAA") expanded its responsibilities to include monitoring and responding to federal and state securities law developments related to ESG issues. NASAA's Investor Education Section published factors that investors should consider when evaluating ESG investments.

○ <u>Enhanced Model Rule</u>: NASAA adopted a "Model Rule for Investment Adviser Written Policies and Procedures under the Uniform Securities Act of 1956 and 2002," which recognized the need for firms to focus on physical risks and required investment advisors to develop and implement business continuity and succession planning.[11]</td></tr>
<tr><td>Federal Housing Financing Agency (the "FHFA")</td><td>• <u>Natural Disaster Response</u>: In May 2019, the FHFA formalized its agency-wide Disaster Response Team, which follows the natural disaster response and recovery framework developed by FHFA to coordinate with regulated entities, government agencies, and stakeholders during natural disasters.

• <u>Climate- and ESG-Focused Committees</u>: FHFA recently established two agency-wide working groups. The Climate and Natural Disaster Risk working group focuses on improving FHFA's understanding of climate and natural disaster risk, reviewing the regulated entities' risk management approaches and ensuring that they continue to operate in a safe and sound manner. The ESG Working Group identifies opportunities to incorporate diversity, equity and inclusion into the ESG framework and monitors regulated entities' ESG activities.

• <u>Request for Input</u>: In January 2021, FHFA issued a Request for Input on Climate and Natural Disaster Risk Management, which covered gaps in data availability, data linkages, physical and transition risk, and FHFA's supervisory and regulatory responsibilities, financial disclosures, and fairness and equity. FHFA is currently reviewing and synthesizing the comments received.

• <u>Research</u>: FHFA is developing a climate research agenda. It regularly meets with stakeholders to discuss ESG efforts and climate-related risks and held a Econ Summit focused on natural disaster risk and Covid-19 in 2020.</td></tr>
<tr><td>Consumer Financial Protection Bureau (the "CFPB")</td><td>• <u>Climate Working Group</u>: The CFPB recently established a climate working group to better assess the impact of climate change on consumer financial well-being and on the market for consumer financial products and services, including identifying data, resources, and expertise needed for the CFPB to implement its agenda.</td></tr>
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Agency	Initial Steps Taken to Address Climate-Related Financial Risks
	• Research: The CFPB will identify further areas of research, building on its existing studies on credit-reporting risks before and after national disasters and helping consumers prepare for and recover from climate-related disasters.
Office of Financial Research (the "OFR")	• Data Inputs and Research: The EO requests Treasury to direct the OFR to assist in the assessment and identification of climate-related financial risks to the financial system. The OFR has already begun to develop a survey of relevant data sets, identify data gaps, develop a research agenda on the impact of climate-related financial risks on financial stability, and collaborate with FSOC members to identify ways to provide climate data sources and discuss the potential impact and continuous monitoring of climate change.
Insurance Authorities: State and Federal	• State Insurance Regulators ○ NAIC: In 2020, the National Association for Insurance Commissioners ("NAIC") listed climate change as one of the top five regulatory priorities and created a Climate Resiliency Task Force focused on pre-disaster mitigation, solvency, climate risk disclosure, innovation, and technology. NAIC has held forums for states to discuss proposals to address climate change. ○ Climate-Related Disclosures: There currently are no nationwide disclosure requirements regarding insurers' climate-related financial risk and activities. As of 2021, 14 states and the District of Columbia require certain insurers to disclose such risks on the annual NAIC survey. Supervisory Activities on Risk and Solvency: All states and U.S. jurisdictions require medium and large insurers to annually conduct an Own Risk and Solvency Assessment (the "ORSA"), but such assessment does not mandate the discussion of any particular risk. The Solvency Workstream of NAIC's Climate And Resiliency Task Force is considering whether to require insurers to address climate in their ORSAs. New York already requires insurers to consider climate in their ORSAs.[12] NAIC is also considering expanding property and casualty risk-based capital formulas to include frameworks for climate-related perils. In addition, New York, Connecticut, and Vermont are in the process of implementing laws that require insurers to integrate climate risks into their risk management strategies. ○ Market Conduct and Mitigation: Where climate disasters have become increasingly common, states seek to address the impact of these events on the availability and affordability of insurance products. Over $45 billion of the U.S. climate-related economic losses in 2020 were not covered by insurance. Vermont and Connecticut are among states considering implementing actions to encourage insurers to take steps to mitigate climate-related financial risks and facilitate adaption to a low-carbon economy. ○ Data Collection: NAIC Climate and Resiliency Task Force has three workstreams considering enhancements to data collection, measurement, analysis, and predictive modeling tools. New York, Vermont, and California have initiatives to collect data on investment exposures to climate-related financial risks.[13] • Federal Insurance Office: ○ Climate Assessments: The EO instructs the Secretary of the Treasury to direct FIO to "assess climate-related issues or gaps in the supervision and regulation of insurers." FIO is focusing its initial efforts on three areas: (1) assessing climate-related issues or gaps in the state insurance regulatory framework, (2) assessing the potential for major disruptions of private insurance coverage in particularly

Agency	Initial Steps Taken to Address Climate-Related Financial Risks
	climate-vulnerable U.S. markets and (3) increasing FIO's engagement on climate-related issues, and to achieve climate-related goals. ○ Climate-Related Data: In August 2021, FIO issued a request for information to inform FIO's assessment of the implications of climate-related financial risks for the insurance section, as well as how to improve climate-related data collection.

ENDNOTES

1 *FSOC Report on Climate-Related Financial Risk*, (October 21, 2021), available at https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf. The report was issued in response to the directive in President Biden's May 2021 executive order on "Climate-Related Financial Risk" (the "EO") to the Secretary of the Treasury to engage FSOC members on this topic. *Executive Order 14030, Climate-Related Financial Risk* (May 20, 2021), available at https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/20/executive-order-on-climate-related-financial-risk.

In her statement, Chairman McWilliams thanked the FSOC staff for "their willingness to consider feedback and comments offered by FDIC staff," but noted that she will abstain from voting on the report because she is concerned that "FSOC has not had an adequate opportunity to conduct sufficient analysis, fully consider broader macro consequences, and thoroughly evaluate the impact of its recommendations" and, as a result, "the report is premised on a number of conclusions that warrant more thorough examination." Jelena McWilliams, Statement by FDIC Chairman Jelena McWilliams at the Financial Stability Oversight Council Meeting (October 21, 2021), available at https://www.fdic.gov/news/speeches/2021/spjun1121.html.

2 FSOC is composed of ten voting members who head the U.S. Department of Treasury, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Consumer Financial Protection Bureau, the Securities and Exchange Commission, the Federal Deposit Insurance Corporation, the Commodity Futures Trading Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, along with the independent member with insurance expertise, plus five nonvoting members. Two of the nonvoting members head the Officer of Financial Research and the Federal Insurance Officer. The other three nonvoting members are a state insurance commissioner, a state banking supervisor, and a state securities commissioner designated by peers.

3 SEC Chair Gary Gensler, "Prepared Remarks Before the Principles for Responsible Investment 'Climate and Global Financial Markets' Webinar" (July 28, 2021), available at https://www.sec.gov/news/speech/gensler-pri-2021-07-28.

4 The report notes that an increasing number of overseas financial regulatory authorities are undertaking efforts to identify and quantify climate-related financial risks. For example, De Nederlandsche Bank (2018), the Banque of France (2021), the Bank of England (2021) and the European Central Bank have each undertaken initial scenario analyses. In addition, the Bank of England and Banque of France have planned follow-up exercises and a number of countries, including Australia, Canada, and South Africa, have climate risk reviews underway.

5 The NGFS is a group of central banks and supervisors that, on a voluntary basis, exchange experiences, share best practices, contribute to the development of environment and climate risk management practices in the financial sector, and help mobilize mainstream finance to support the transition to a sustainable economy. The network currently comprises five workstreams: microprudential/supervision, macrofinancial, scaling up green finance, bridging the data gap, and research. The FRB, OCC, and New York Department of Financial Services have joined the NGFS.

6 New York State Department of Financial Services, *Climate Change and Financial Risk* (October 29, 2020), available at https://www.dfs.ny.gov/industry_guidance/industry_letters/il20201029_climate_change_financial_risks.

7 Washington Department of Financial Institutions, *DFI Alert on Systemic Risk of Climate Change and Related Financial Risk* (July 7, 2021), https://dfi.wa.gov/sites/default/files/climate-change-alert.pdf.

8 SEC *Commission Guidance Regarding Disclosure Related to Climate Change*, Release Nos. 33-9106; 24-614469 (February 8, 2010), available at https://www.sec.gov/rules/interp/2010/33-9106.pdf.

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9 SEC, *Sample Comment Letter to Companies Regarding Climate Change Disclosures* (September 2021), available at https://www.sec.gov/corpfin/sample-letter-climate-change-disclosures.

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11 NASAA Model Rule for Investment Adviser Written Policies and Procedures under the Uniform Securities Acts of 1956 and 2002 (adopted November 24, 2020), available at https://www.nasaa.org/wp-content/uploads/2020/07/NASAA-IA-PandP-Model-Rule-and-Sample-Compliance-Grid.pdf.

12 New York Department of Financial Services, Insurance Circular Letter No. 15 (Sept. 22, 2020), available at https://www.dfs.ny.gov/industry_guidance/circular_letters/cl2020_15.

13 2 Degrees Investing Initiative, *2º Scenario Analysis: Insurance Companies Operating in California*, 2018, available at https://interactive.web.insurance.ca.gov/apex_extprd/cdi_apps/r/250/files/static/v54/2018_full_report.pdf; New York State Department of Financial Services and 2 Degrees Investing Initiative, An Analysis of New York Domestic Insurers' Exposure to Transition Risks and Opportunities from Climate Change, June 20, 2021, available at https://www.dfs.ny.gov/system/files/documents/2021/06/dfs_2dii_report_ny_insurers_transition_risks_20210610.pdf; State of Vermont, Department of Financial Regulation, "DFR Releases Report Examining the Impacts of Climate Change on Vermont's Insurance Industry," press release (June 28, 2021), available at https://dfr.vermont.gov/press-release/dfr-releases-report-examining-impacts-climate-change-vermonts-insurance-industry.

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