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FSOC Considers Pandemic and Climate-Related Risks to the Financial System

Commentary by **Steven Lofchie**

The Treasury Department Office of Financial Research ("OFR"), SEC staff and Federal Reserve Board staff [updated](#) the Financial Stability Oversight Council ("FSOC") on pandemic and climate-related risks to the financial system.

OFR provided updates regarding hedge fund activities that occurred in March 2020 at the start of the COVID-19 pandemic, including the relationship between the deleveraging of hedge funds and price declines in financial markets. SEC staff spoke about the performance of open-end mutual funds during the pandemic crisis, and the fund outflows and liquidity risk management efforts during that period. FRB staff hypothesized about channels through which climate change could potentially impact financial stability. Following the presentation of updates, FSOC members discussed their respective efforts towards confronting the risks posed by climate change.

To address vulnerabilities in these areas, Treasury Secretary Janet L. Yellen [stated](#) that Treasury is re-establishing its Hedge Fund Working Group to improve the sharing of data and identification of related risks. Secretary Yellen and [Acting Comptroller of the Currency Blake Paulson](#) both noted that their respective agencies and FSOC must aid regulators' collective efforts to enhance the assessment and management of climate-related risks to the financial system.

Commentary



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According to the Acting Chair of the OCC, "[Climate] risks can arise in many ways including contexts that relate to climate change, either because of physical conditions or climate-related transitions in business and other environments."

He then goes on to say that the OCC is going to meetings and "cataloging" the risks.

Given the importance that the regulators are attaching to the issue of climate change, it is incumbent upon them to be more transparent as to the specific risks that they fear, and their views as to the likelihood and potential severity of those risks. The paucity of information makes it impossible to have any meaningful discussion of remediation strategies or of the costs and benefits of those strategies, as well as their likelihood of success. Climate change is not a cunning enemy that can steal public information. If the regulators have some specific views as to climate change, presumably based on available data, they should make known both the views and the data.

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Primary Sources

1. Treasury Press Release: Readout of Financial Stability Oversight Council Meeting on March 31, 2021
2. Treasury Statement, Janet L. Yellen: Remarks at the Open Session of the meeting of the Financial Stability Oversight Council
3. OCC Statement, Blake Paulson: Acting Comptroller of the Currency Statement Regarding Climate Risk at the Financial Stability Oversight Council

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