

COUNCIL OF INSPECTORS GENERAL ON FINANCIAL OVERSIGHT

Audit of the Financial Stability Oversight Council's Efforts to Address Climate-Related Financial Risk

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Message from the Acting Chair

August 9, 2023

The Honorable Janet Yellen
Chair, Financial Stability Oversight Council
Washington, D.C. 20220

Dear Madam Chairwoman:

I am transmitting to you the Council of Inspectors General on Financial Oversight (CIGFO) report titled, *Audit of the Financial Stability Oversight Council's Efforts to Address Climate-Related Financial Risk*.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) authorizes CIGFO to convene working groups of its members to address issues within its jurisdiction. Accordingly, in September 2021, CIGFO voted to establish a Working Group to conduct an audit to assess the Financial Stability Oversight Council's (FSOC) response to Executive Order (EO) 14030, *Climate-Related Financial Risk*, issued in May 2021.

In this resulting audit report, we conclude that FSOC's actions were consistent with the policy, objectives, and directives set forth in EO 14030. Additionally, FSOC engaged with the member agencies to assess climate-related financial risk, and implemented an effective process to develop its *Report on Climate-Related Financial Risk*. We determined that the FSOC Report satisfactorily met the requirements set forth in EO 14030. Finally, FSOC established a means to facilitate ongoing coordination and information sharing among its member agencies on climate-related financial risk. While we make no recommendations in this report, we encourage FSOC, through the newly established Climate-Related Financial Risk Committee, to consider member agency suggestions and feedback to enhance the assessment and sharing of climate-related financial risk data and information.

I would like to take this opportunity to thank the Working Group members responsible for this report, each of whom is listed in Appendix V. In addition, I appreciate the support of the FSOC members, especially those Treasury officials who assisted with this effort.

CIGFO looks forward to working with you on this and other issues. In accordance with the Dodd-Frank Act, CIGFO is also providing this report to Congress.

Sincerely,

Richard K. Delmar
Acting Chair, CIGFO

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Executive Summary

Why and How We Conducted This Audit

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)¹ created regulatory and resolution frameworks designed to reduce the likelihood, and severe economic consequences, of financial instability. The Dodd-Frank Act established the Financial Stability Oversight Council (FSOC or Council) and charged it with identifying risks to the nation’s financial stability, promoting market discipline, and responding to emerging threats to the stability of the U.S. financial system.² It is a collaborative body chaired by the Secretary of the Department of the Treasury (Treasury) that leverages the expertise of federal financial regulators, an independent insurance expert appointed by the President, and state regulators. Within Treasury, a dedicated policy office, led by a Deputy Assistant Secretary, functions as the FSOC Secretariat and assists in coordinating the work of the Council among its members and member agencies.³

The Dodd-Frank Act also created the Council of Inspectors General on Financial Oversight (CIGFO), whose members include the Inspectors General with oversight authority for the majority of FSOC’s member agencies. The Dodd-Frank Act authorizes CIGFO to convene a Working Group of its members to evaluate the effectiveness and internal operations of FSOC.⁴ Appendix II provides a listing of prior CIGFO Working Group reports.

In September 2021, CIGFO voted to establish a Working Group to conduct an audit to assess FSOC’s response to Executive Order (EO) 14030, *Climate-Related Financial Risk*, issued in May 2021.⁵ EO 14030 directed the Secretary of the Treasury to engage FSOC members to consider actions to assess, share, and report on climate-related financial risk to the financial stability of the Federal Government and U.S. financial system.⁶ The Treasury Office of Inspector General (OIG) and the Federal

¹ Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat 1376, (2010).

² 12 U.S.C. §§5321(a) and 5322(a)(1).

³ As used in this report, the terms “members” and “FSOC members” mean the individual voting and nonvoting members of the FSOC. “FSOC member agencies” are the agencies and organizations that these individuals represent, as applicable. This structure is described further in the Background section.

⁴ Section 989E(a)(3) of the Dodd-Frank Act.

⁵ Executive Order 14030, *Climate-Related Financial Risk* (May 20, 2021).

⁶ Section 3(a)(i) of EO 14030, *Climate-Related Financial Risk* (May 20, 2021).

Housing Finance Agency (FHFA) OIG co-led the CIGFO Working Group. Appendix V provides a listing of CIGFO Working Group members.

Our audit objective was to determine what actions FSOC had taken, or planned, in response to EO 14030, *Climate-Related Financial Risk*, as of August 31, 2022, and whether those actions were consistent with the policy, objectives, and directives set forth in the EO.

To accomplish our objective, we reviewed relevant legislation, FSOC's *Report on Climate-Related Financial Risk* (Report or FSOC Report),⁷ and FSOC's internal documentation. We interviewed FSOC Secretariat officials and developed a structured questionnaire to solicit feedback from FSOC member agencies to gain a better understanding of the effectiveness of FSOC's processes to address climate-related financial risk and prepare the Report. We conducted fieldwork from February 2022 through October 2022. Appendix I provides additional details about the objective, scope, and methodology of this audit.

What We Found

We found FSOC's actions were consistent with the policy, objectives, and directives set forth in EO 14030, and that FSOC engaged with the member agencies to assess climate-related financial risk. FSOC also implemented an effective process to develop its *Report on Climate-Related Financial Risk*, and issued it on October 21, 2021, within the 180 day deadline set by the EO.

Additionally, we determined the FSOC Report satisfactorily met the requirements set forth in EO 14030;⁸ was comprehensive and addressed the President's directives; and completely and accurately reflected the information and input that member agencies provided to FSOC.

Finally, we determined that FSOC established a means to facilitate ongoing coordination and information sharing among its member agencies on climate-related financial risk. To implement recommendations in the FSOC Report, FSOC formed committees to address the directives set forth in EO 14030, identify priority areas for continued assessment and mitigation of climate-related risk to the financial system,

⁷ FSOC, *Report on Climate-Related Financial Risk* (October 21, 2021); <https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf>.

⁸ Section 3(a)(iii) of EO 14030, *Climate-Related Financial Risk* (May 20, 2021).

and leverage the expertise of diverse stakeholders. We are not making any recommendations to FSOC as a result of our audit.

FSOC Response

In a written response, FSOC acknowledged the findings and conclusions reached in this report. FSOC also noted that they expect to build on the FSOC Report and the work of the new committees to continue giving appropriate focus and attention to the risks that climate change pose to the stability of our financial system.

See Appendix IV for the entirety of FSOC's response to our audit report.

CIGFO Working Group Audit

This report presents the results of the CIGFO Working Group’s audit of FSOC’s response to EO 14030, *Climate-Related Financial Risk*. CIGFO is issuing this report to FSOC and Congress as part of CIGFO’s responsibility to oversee FSOC under the Dodd-Frank Act.

Background

The Dodd-Frank Act established FSOC to create joint accountability for identifying and mitigating potential threats to the stability of the nation’s financial system.⁹ By creating FSOC, Congress recognized that protecting financial stability would require the collective engagement of the entire financial regulatory community.

As shown in the Table on the following page, the Council consists of 10 voting members and 5 non-voting members and brings together the expertise of federal financial regulators, state regulators, an insurance expert appointed by the President, by and with the advice and consent of the Senate, and others.¹⁰ The voting members of FSOC provide a federal financial regulatory perspective as well as an independent insurance expert’s view. The non-voting members offer different insights as state-level representatives from bank, securities, and insurance regulators or as the Directors of offices within Treasury — the Office of Financial Research (OFR) and the Federal Insurance Office, established in Titles I and V of the Dodd-Frank Act, respectively.

A dedicated policy office within Treasury, led by a Deputy Assistant Secretary, functions as the FSOC Secretariat. The FSOC Secretariat facilitates collaboration and assists in coordinating the work of the Council among its members.

⁹ 12 U.S.C. §§ 5321(a) and 5322(a)(1).

¹⁰ 12 U.S.C. § 5321(b).

Table - FSOC Council Membership

Federal and Independent Members	State Members
Secretary of the Treasury, Chairperson (v)	State Insurance Commissioner (National Association of Insurance Commissioners)
Chair of the Board of Governors of the Federal Reserve System (v)	State Banking Supervisor (Conference of State Bank Supervisors)
Comptroller of the Currency (v)	State Securities Commissioner (North American Securities Administrators Association)
Director of the Consumer Financial Protection Bureau (v)	
Chairman of the Securities and Exchange Commission (v)	
Chairperson of the Federal Deposit Insurance Corporation (v)	
Chairman of the Commodity Futures Trading Commission (v)	
Director of the Federal Housing Finance Agency (v)	
Chairman of the National Credit Union Administration Board (v)	
Director of the Office of Financial Research	
Director of the Federal Insurance Office	
Independent member with insurance expertise (v)	
(v) Indicates Voting Member	

The statutory purposes of FSOC are to:

- identify risks to the financial stability of the United States that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected bank holding companies or nonbank financial companies, or that could arise outside the financial services marketplace;
- promote market discipline, by eliminating expectations on the part of shareholders, creditors, and counterparties of such companies that the Government will shield them from losses in the event of failure; and
- respond to emerging threats to the stability of the U.S. financial system.¹¹

Among other statutory duties, FSOC is required to:

- facilitate information sharing and coordination among the member agencies and other Federal and State agencies regarding domestic financial services policy development, rulemaking, examinations, reporting requirements, and enforcement actions; and
- report annually to Congress on the activities of the Council, significant financial market and regulatory developments, potential emerging threats, and its recommendations regarding various topics.¹²

Executive Order 14030

In May 2021, the President issued EO 14030, *Climate-Related Financial Risk*, which states that the impacts of climate change present physical risks to assets, publicly traded securities, private investments, and companies.¹³ Furthermore, a shift away from carbon-intensive energy sources and industrial processes presents transition risks to companies, communities, and workers.¹⁴ The EO stresses that the failure of

¹¹ 12 U.S.C. § 5322(a)(1).

¹² 12 U.S.C. § 5322(a)(2).

¹³ Physical risk refers to the harm to people and property arising from acute, climate-related disaster events such as hurricanes, wildfires, and floods as well as longer-term chronic phenomena such as higher average temperatures.

¹⁴ Transition risk refers to stresses to certain institutions or sectors arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to limit climate change.

financial institutions to account for climate-related financial risk threatens the competitiveness of U.S. companies and markets, negatively impacts consumers, and hinders the ability of financial institutions to serve their community.

EO 14030 lays out a policy intended to advance consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk, including both physical and transition risks. This policy is meant to mitigate climate-related financial 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. Additionally, the EO intends to achieve a target of a net-zero emissions economy by 2050.

Among several actions designed to further this policy, EO 14030 directs the Secretary of the Treasury, as the Chair of FSOC, to engage with FSOC members to consider:¹⁵

- 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;
- facilitating the sharing of climate-related financial risk data and information among FSOC member agencies and other executive departments and agencies as appropriate;
- issuing a report to the President within 180 days of the date of the EO on any efforts by FSOC member agencies to integrate consideration of climate-related financial risk in their policies and programs;¹⁶ and
- including an assessment of climate-related financial risk in FSOC's annual report to Congress.

Further, the EO specified that the FSOC Report include a discussion of:¹⁷

- 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

¹⁵ Section 3(a) of EO 14030, *Climate-Related Financial Risk*.

¹⁶ The report to the President is FSOC's *Report on Climate-Related Financial Risk* (Report or FSOC Report).

¹⁷ Section 3(a)(iii) of EO 14030, *Climate-Related Financial Risk*.

and a recommended implementation plan for taking those actions;

- any current approaches to incorporating the consideration of climate-related financial risk into the member agencies' respective regulatory and supervisory activities and any impediments they faced in adopting those approaches;
- recommended processes to identify climate-related financial risk to the financial stability of the United States; and
- any other recommendations on how identified climate-related financial risk can be mitigated, including through new or revised regulatory standards as appropriate.

Audit Approach

Our audit objective was to determine what actions FSOC had taken, or planned, in response to EO 14030 as of August 31, 2022, and whether those actions were consistent with the policy, objectives, and directives set forth in the EO.

To accomplish our objective, we:

- reviewed the Dodd-Frank Act and EO 14030 to gain an understanding of FSOC's statutory authorities and responsibilities;
- interviewed FSOC Secretariat officials, reviewed the FSOC Report, and reviewed FSOC documentation to gain an understanding of actions taken by the Council in response to the EO; and
- developed a structured questionnaire to obtain member agencies' perspectives on FSOC's effectiveness in developing the Report and meeting its responsibilities under EO 14030. Appendix III details the results of the questionnaire.

We conducted fieldwork from February 2022 through October 2022. Appendix I provides additional details about the objective, scope, and methodology of this audit.

Results of Audit

FSOC's Actions on Climate-Related Financial Risk are Consistent with the Policy, Objectives, and Directives Set Forth in EO 14030

We found FSOC's actions were consistent with the policy, objectives, and directives set forth in EO 14030. Specifically, we determined that FSOC:

- engaged its member agencies in a collaborative process to develop the FSOC Report;
- issued the FSOC Report containing the elements set forth in section 3(a)(iii) of EO 14030 within 180 days of the date of the EO; and
- established, based on the recommendations included in the FSOC Report, two committees designed to assess and mitigate climate-related financial risk, facilitate the sharing of climate-related financial risk data and information, and leverage the expertise of diverse stakeholders.

FSOC Implemented an Effective Process to Develop the *Report on Climate-Related Financial Risk*

FSOC established the Climate Working Group, a temporary, staff-level working group comprised of representatives from each member agency to facilitate engagement on climate-related financial risks and develop the Report. The Climate Working Group met biweekly from July 2021 through October 2021, when FSOC published the Report.

FSOC provided us with briefing materials that demonstrated discussions of a work plan, including the reporting timeline and report structure, and member agency initiatives to address climate-related financial risks. Climate Working Group meetings provided FSOC member agencies with opportunities for information sharing and input at different stages of the report preparation process. The Climate Working Group provided updates to the Council during the July 16, 2021 and September 9, 2021 FSOC meetings.

Through our structured questionnaire, we gained an understanding of member agencies' perspectives on FSOC's reporting process. The results of the member

agency responses to the questionnaire disclose that overall: FSOC clearly communicated and defined the objectives of the Report to include guidance on the Report's scope and format; and FSOC engaged the member agencies in developing the Report's assessment of climate-related financial risk, including physical and transition risks.¹⁸

All 13 respondents to our structured questionnaire indicated that FSOC implemented an effective process to prepare the FSOC Report. Further, the majority of respondents agreed that FSOC effectively facilitated the sharing of climate-related financial risk data and information. However, Federal Deposit Insurance Corporation (FDIC) senior officials stated that while FSOC was effective in facilitating discussions about the types of data available and the data needs, FSOC was limited in its ability to effectively facilitate the sharing of actual climate-related financial risk data and results, because there was not much data available at that time.

Further, FDIC OIG identified one instance in which FSOC did not disseminate a non-public study prepared by FDIC's Division of Insurance and Research, which was referenced in the FSOC Report.¹⁹ FSOC Secretariat officials acknowledged that they did not request the study from FDIC or share it with the other FSOC member agencies. Further, FDIC did not offer the study to FSOC or the other member agencies. With that said, we reviewed Climate Working Group documentation and noted that a July 2021 Climate Working Group meeting presentation included a summary of all agency initiatives pertinent to climate-related financial risk and identified FDIC research being conducted that related to the study referenced in the FSOC Report. We also noted that subsequent to the issuance of the FSOC Report in October 2021, the FDIC study was publicly released in June 2022.²⁰

Consistent with structured questionnaire responses indicating that FSOC implemented an effective process to prepare the Report, most respondents did not cite areas for improvement regarding FSOC's assessment and sharing of information related to climate-related financial risk. FHFA officials did note, however, that the process could

¹⁸ Appendix III provides the results of the structured questionnaire.

¹⁹ FDIC's *Climate Change Event Analysis* was a study on the effects of climate events on local economic and banking conditions, including the impact on low and moderate-income areas before and after each climate event.

²⁰ Federal Deposit Insurance Corporation Staff Studies, Report No. 2022-03, *Severe Weather Events and Local Economic and Banking Conditions* (June 2022); [Severe Weather Events and Local Economic and Banking Conditions \(fdic.gov\)](#).

be improved and that they provided FSOC with suggestions that could help with the sharing of data, scenario analyses, and concerns with protecting vulnerable communities.

That said, FHFA, along with the independent member with insurance expertise, opined that the establishment of FSOC's Climate-Related Financial Risk Committee (CFRC) would improve ongoing assessment of climate-related financial risk and information sharing.²¹ We encourage FSOC to consider the suggestions provided and to solicit feedback from all members to enhance the assessment and sharing of climate-related financial risk data and information.

FSOC's Report on Climate-Related Financial Risk Met the Requirements of EO 14030

FSOC issued its *Report on Climate-Related Financial Risk* on October 21, 2021, within the 180 day deadline set by EO 14030.²² We determined that the contents of the FSOC Report satisfied the requirements set forth in section 3(a)(iii) of EO 14030. Specifically, the Report discussed:

- The need to enhance entities' climate-related disclosures, which inform investors and market participants about the climate-related risks to those entities. The FSOC Report acknowledged that FSOC member agencies are at different stages in the development of disclosure requirements concerning regulated entities but stated that existing climate-related disclosures lack the consistency, comparability, and decision-usefulness for which investors have expressed a need. FSOC made 11 recommendations in the Report to enhance public climate-related disclosures.
- Approaches and actions that each member agency had undertaken to incorporate consideration of climate-related financial risk into its respective regulatory and supervisory activities. Further, the Report presented five general impediments that agencies face in incorporating the consideration of climate-related financial risk into their activities. These impediments are: (1) data

²¹ The CFRC was established in December 2021 to support the Council in identifying climate-related risks, and in responding to climate-related emerging threats, to the financial system, consistent with the Council's purposes and duties under the Dodd-Frank Act.

²² All but one FSOC (voting) member voted in favor of issuing the FSOC Report and its recommendations. The former FDIC Chairman abstained from the vote.

limitations,²³ (2) time horizon,²⁴ (3) complexity and uncertainty of climate risk,²⁵ (4) policy and economic uncertainty,²⁶ and (5) trade-offs.²⁷ FSOC made nine recommendations to build capacity and expand efforts to address climate-related financial risk.

- Processes to identify, and assess climate-related financial risk. FSOC made six recommendations to fill climate-related data and methodological gaps.
- Processes to mitigate climate-related financial risk. FSOC made nine recommendations regarding processes to mitigate climate-related financial risk to the financial stability of the United States, including recommendations to assess regulatory standards.

Our structured questionnaire corroborated the quality of information contained in the FSOC Report. Member agency responses demonstrated that information, including the input and viewpoints of their agencies, was complete and accurately reflected.

Member agencies also felt that the recommendations contained in the FSOC Report would be useful for their agencies. Most agencies did not have concerns regarding the scope, the overall data, or the conclusions reached in the Report. Although, the National Association of Insurance Commissioners did express a general concern with the degree of work and resources needed to implement some of the recommendations in the Report.

All respondents confirmed that they were either in the process of implementing, or planned to implement, the applicable recommendations in the FSOC Report. An FSOC Secretariat official stated that future CFRC discussions could include timeframes for CFRC-related activities to help advance agency actions related to the Report recommendations.

²³ Data limitations refer to the gaps in connecting the science of climate change to financial risk assessments and real-world economic impacts.

²⁴ Time horizon refers to the fact that some impacts of climate change have already materialized, while others will manifest over a longer time horizon than businesses traditionally consider.

²⁵ Complexity and uncertainty of climate risk refer to how the impacts of climate change, and accordingly climate-related risk, are non-linear and complex.

²⁶ Policy and economic uncertainty refer to instability surrounding future potential policy changes, which can impede progress in understanding, assessing, and managing the financial risks of climate change.

²⁷ Trade-offs refer to the fact that some FSOC members may face trade-offs between climate-related financial risk mitigation measures and their other mandated objectives.

FSOC Established Two Committees to Address Climate-Related Financial Risk

The *Report on Climate-Related Financial Risk* made two recommendations specific to FSOC in an effort to build capacity and expand efforts to address climate-related financial risks. These recommendations were for FSOC to:

- form a new staff-level committee, the CFRC, within 60 days to identify priority areas for assessing and mitigating climate-related risks to the financial system and serve as a coordinating body, where appropriate, to share information, facilitate the development of common approaches and standards, and facilitate communication across FSOC members and interested parties;²⁸ and
- form a Climate-Related Financial Risk Advisory Committee (CFRAC). This advisory committee, reporting to the CFRC, will help the Council gather information on and analysis of climate-related financial risks from a broad array of stakeholders.²⁹

The Climate-Related Financial Risk Committee (CFRC)

FSOC approved the establishment of the CFRC in December 2021,³⁰ within the 60 day timeframe stipulated in the FSOC Report. It issued a charter for the CFRC,³¹ detailing its purpose, duties, and oversight responsibilities. Per its charter, the CFRC's duties include identifying priority areas for assessing and mitigating climate-related financial risk to the financial system and facilitating information sharing and coordination among staff of member agencies relating to climate-related risks to the financial system.

The CFRC charter also allows the CFRC to create working groups, as appropriate, composed of staff of member agencies to perform specific functions of the CFRC, and any such working group is subject to the direction and oversight of the CFRC and

²⁸ FSOC, [Report on Climate-Related Financial Risk](#) (May 20, 2021), Recommendation 1.1, p. 5.

²⁹ FSOC, [Report on Climate-Related Financial Risk](#) (May 20, 2021), Recommendation 1.2, p. 5.

³⁰ FSOC Meeting Minutes (December 2021);
https://home.treasury.gov/system/files/261/December_17_2021.pdf.

³¹ The Council's Committee Charters;
https://home.treasury.gov/system/files/261/The_Councils_Committee_Charters_2021-12-17.pdf.

Deputies Committee.³² As of August 2022, the CFRC established four working groups. The working groups and the objectives of each are:

- Data Requirements – to build an inventory of data that is of interest to each FSOC member agency for climate-related financial risk analysis and to identify data gaps.
- Data Infrastructure – to facilitate the establishment of new infrastructure for FSOC member agencies to find, obtain, share, and analyze data on climate-related financial risk, including coordination with OFR on its pilot centralized, cloud based data and analytics hub to support FSOC in researching climate-related financial risk.
- Risk Assessments – to develop a more robust framework around identifying and prioritizing risks and vulnerabilities, building from best practices.
- Scenario Analysis – to share information among member agencies and facilitate common approaches to climate scenario analysis. This scenario analysis relates to the exposure of regulated entities to climate-related risks and how those risks translate into economic and financial impacts.

We found that the CFRC held regular meetings beginning February 2022 through August 2022.³³ We reviewed meeting records and work plans and found that each of the CFRC's working groups had developed work streams, established milestones, and defined deliverables related to their objectives. The working groups also provided progress updates to the CFRC toward meeting their objectives. CFRC meeting materials also contain a standing agenda item for member agencies to provide short updates on their respective priorities for any climate-related work, any significant developments since the publication of the FSOC Report, and how the CFRC can help support member agency initiatives.

The CFRC charter requires updates to the Council at least twice a year on the status of efforts by Council members and member agencies to identify and address climate-related financial risks. In response to this requirement, the CFRC reported on its efforts at the July 2022 FSOC meeting, sharing that OFR had launched its Climate Data and

³² The Deputies Committee coordinates and oversees the work of the interagency staff committees and is made up of a senior official from each FSOC member agency.

³³ Records we reviewed showed meetings were held in February, March, June, and August of 2022.

Analytics Hub with the Federal Reserve, among other activities.³⁴ Additionally, the FSOC Report recommended that the FSOC annual report detail the CFRC's progress in addressing climate-related financial risks.

The Climate-Related Financial Risk Advisory Committee (CFRAC)

FSOC approved the establishment of the CFRAC in October 2022 and issued a charter for the committee detailing its purpose, duties, and oversight responsibilities. The CFRAC, to be composed of up to 30 members, will meet at least twice a year and report to the CFRC. It is intended to leverage the expertise of diverse stakeholders; including climate science experts, non-governmental research institutions, academia, commercial businesses, the financial services industry, and special government employees. The climate data and analytical expertise of CFRAC members will support regulators' efforts to translate climate-related risks into economic and financial impacts.

Because the establishment of the CFRAC was outside of our audit scope, we did not review the actions and plans of this committee.

³⁴ FSOC Meeting Minutes (July 2022); https://home.treasury.gov/system/files/256/FSOC_20220728_Minutes.pdf.

Conclusion

We found FSOC’s actions were consistent with the policy, objectives, and directives set forth in EO 14030, and FSOC engaged with the member agencies to assess climate-related financial risk. FSOC also implemented an effective process to develop its *Report on Climate-Related Financial Risk*.

Additionally, we determined the FSOC Report satisfactorily met the requirements set forth in EO 14030; was comprehensive and addressed the President’s directives; and completely and accurately reflected the information and input provided to FSOC by its member agencies.

Finally, we determined that, subsequent to report issuance, FSOC established a means to facilitate ongoing coordination and information sharing among its member agencies on climate-related financial risk. FSOC formed committees to address the directives set forth in EO 14030, identify priority areas for continued assessment and mitigation of climate-related risk to the financial system, and leverage the expertise of diverse stakeholders.

FSOC incorporated into the CFRC charter an explicit duty for the CFRC to “facilitate information sharing and coordination among staff of Council members and member agencies relating to climate-related risks to the financial system.” Certain responses to our structured questionnaire indicate that member agencies have suggestions on how to improve this information sharing. While we make no recommendations in this report, we encourage FSOC, through the CFRC, to consider member agency suggestions and feedback to enhance the assessment and sharing of climate-related financial risk data and information.

FSOC Response

In a written response, FSOC acknowledged the findings and conclusions reached in this report. FSOC also noted that they expect to build on the FSOC Report and the work of the new committees to continue giving appropriate focus and attention to the risks that climate change pose to the stability of our financial system.

Appendix I: Objective, Scope, and Methodology

Objective

Our audit objective was to determine what actions the Financial Stability Oversight Council (FSOC or Council) had taken, or planned, in response to Executive Order (EO) 14030, *Climate-Related Financial Risk*, as of August 31, 2022, and whether those actions were consistent with the policy, objectives, and directives set forth in the EO.

Scope and Methodology

The scope of this audit included FSOC's actions and planned initiatives in response to EO 14030, *Climate-Related Financial Risk*, as of August 31, 2022.

The Council of Inspectors General on Financial Oversight (CIGFO) convened a Working Group to review FSOC's response to EO 14030 and assess whether those actions were consistent with the policy, objectives, and directives set forth in the EO. The Working Group was co-led by the Department of the Treasury (Treasury) Office of Inspector General and the Federal Housing Finance Agency Office of Inspector General. We conducted fieldwork from February 2022 through October 2022.

To accomplish our audit objective, we:

- reviewed the Dodd-Frank Wall Street Reform and Consumer Protection Act and EO 14030 to determine FSOC's statutory authorities and duties;
- interviewed FSOC Secretariat officials to gain an understanding of FSOC's governance and committee structure, processes for coordination and information sharing among FSOC member agencies, and process developed for issuing the *Report on Climate-Related Financial Risk* (Report or FSOC Report);
- reviewed the FSOC Report to determine whether it met the requirements of EO 14030;
- reviewed FSOC's internal documents, annual reports, and Council meeting minutes,³⁵ to determine whether FSOC developed plans, methodologies,

³⁵ FSOC members are required by the Dodd-Frank Wall Street Reform and Consumer Protection Act to meet no less than quarterly, but the Council has historically convened on a more frequent basis. 12 U.S.C. § 5321(e)(1).

milestones, and deliverables needed to define and guide its work to identify and address climate-related financial risk;

- created a structured questionnaire designed to obtain FSOC member agencies' and the independent member's perspectives on the process FSOC implemented to develop the Report and the accuracy and completeness of information contained in the Report. This questionnaire was used by each of the CIGFO Working Group members to facilitate the consistent collection of information from the FSOC member agencies. In addition to obtaining responses from FSOC members, CIGFO Working Group members performed additional procedures as necessary to substantiate FSOC member agency responses. We received responses from 13 of the 15 FSOC members;³⁶ and
- obtained the statuses of actions taken by FSOC member agencies in response to the recommendations in the FSOC Report, including any planned actions.

CIGFO Working Group members obtained FSOC member responses to the structured questionnaire and statuses of actions taken, and planned, in response to the Report recommendations. CIGFO Working Group members had discretion to obtain the information through meetings or receipt of written responses to the structured questionnaire.

We assessed internal control necessary to satisfy our audit objective. In particular, we identified the following U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* components and principles as significant to our objective:³⁷ 1) control environment and the underlying principle - *Establish Structure, Responsibility, and Authority*, 2) risk assessment and the underlying principle - *Define Objectives and Risk Tolerances*, and 3) information and communication and the underlying principle - *Use Quality Information*. Because our review was limited to these aspects of internal control, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the

³⁶ Questionnaire responses were not obtained from the Secretary of the Treasury or the Conference of State Bank Supervisors (CSBS). CSBS was unable to respond to the questionnaire, because the individuals working at CSBS during our audit did not have a role in the FSOC Report.

³⁷ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (Sep. 2014).

audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Appendix II: Prior CIGFO Working Group Reports

The Council of Inspectors General on Financial Oversight has issued the following working group reports:

- Audit of the Financial Stability Oversight Council’s Controls over Non-public Information, June 2012
- Audit of the Financial Stability Oversight Council’s Designation of Financial Market Utilities, July 2013
- Audit of the Financial Stability Oversight Council’s Compliance with Its Transparency Policy, July 2014
- Audit of the Financial Stability Oversight Council’s Monitoring of Interest Rate Risk to the Financial System, July 2015
- Audit of the Financial Stability Oversight Council’s Efforts to Promote Market Discipline, February 2017
- CIGFO’s Corrective Verification Action on the Audit of the Financial Stability Oversight Council’s Designation of Financial Market Utilities, May 2017
- Top Management and Performance Challenges Facing Financial Regulatory Organizations, September 2018
- Audit of the Financial Stability Oversight Council’s Monitoring of International Financial Regulatory Proposals and Developments, May 2019
- Top Management and Performance Challenges Facing Financial-Sector Regulatory Organizations, July 2019
- Survey of FSOC and its Federal Member Agencies’ Efforts to Implement the Cybersecurity Act of 2015, January 2020
- CIGFO Guidance in Preparing for and Managing Crises, June 2022

Appendix III: Results of Structured Questionnaire

We developed a structured questionnaire to obtain responses from Financial Stability Oversight Council (FSOC) members to assist us in determining whether FSOC implemented an effective process to develop the *Report on Climate-Related Financial Risk* (Report or FSOC Report) and respond to the requirements set forth in Executive Order (EO) 14030, *Climate-Related Financial Risk*.

The Council of Inspectors General on Financial Oversight Working Group members obtained FSOC member agency responses through interviews or requesting written responses to the questionnaire. FSOC member agencies answered “Yes”, “No” or “Not Applicable” to each question and provided a description or explanation of their response. As detailed in Appendix I, we received responses from 13 of the 15 FSOC members.

Question 1 - Did FSOC clearly communicate and define the objectives of the Report and provide your agency with guidance on the scope and format of the Report?

All 13 respondents confirmed that FSOC clearly communicated and defined the objectives of the Report as well as provided guidance on the scope and format of the Report. Per the responses, FSOC held various meetings regarding the content of the Report and agencies had the opportunity to provide feedback.

Question 2 - Did FSOC engage your agency in developing the Report’s assessment of climate-related financial risk, including both physical and transition risks? How?

All 13 respondents affirmed that FSOC engaged their agency in developing the Report’s assessment of climate-related financial risk. Multiple agencies commented that FSOC held one-on-one meetings with their agencies, and they were given many opportunities to contribute to, and comment on, the draft report.

Question 3 - Did FSOC effectively facilitate the sharing of climate-related financial risk data and information among the FSOC member agencies when preparing the Report? How?

According to 11 of the 13 respondents, FSOC effectively facilitated the sharing of climate-related financial risk data and information among the FSOC member agencies when preparing the Report. Commenters stated that FSOC accomplished

this through the regular distribution of the draft report language, including sources, at frequent intervals.

However, the National Association of Insurance Commissioners (NAIC) responded “No” to this question and commented that sharing climate data was not necessary during the drafting of the Report. NAIC explained that the Report helped identify relevant data, but the type of sharing necessary to coordinate across the agencies was a recommendation of the Report, not a prerequisite of drafting the Report.

Additionally, Federal Deposit Insurance Corporation (FDIC) senior officials stated that while FSOC was effective in facilitating discussions about the types of data available and the data needs, it was limited in its ability to effectively facilitate the sharing of actual climate-related financial risk data and results, because there was not much data available at that time.

Further, FDIC Office of Inspector General identified one instance in which FSOC did not disseminate a non-public study prepared by FDIC's Division of Insurance and Research, which was referenced in the FSOC Report.

Question 4 - Has your agency identified any areas in which FSOC’s assessment and sharing of information regarding climate-related financial risk can be improved?

Two respondents identified areas in which FSOC’s assessment and sharing of information regarding climate-related financial risk could be potentially improved. Federal Housing Finance Agency (FHFA) officials stated that they provided FSOC with suggestions that would help with the sharing of data, scenario analyses, and concerns with protecting vulnerable communities. FHFA officials explained that scenario analysis regarding climate risk was a new field, and translating climate changes into economic variables was a new concept.

Both FHFA and the independent member with insurance expertise communicated that they believe that the Climate-Related Financial Risk Committee could help to improve the assessment and sharing of climate-related risk information.

Although the Office of the Comptroller of the Currency did not identify any areas for improvement, it commented that FSOC is getting more responsibility in the climate area, and it would be helpful if FSOC had more staff to work on this area.

Question 5 - Was the input and/or viewpoints of your agency accurately reflected in the Report?

All 13 respondents stated that their input and/or viewpoints were accurately reflected in the Report.

Question 6 - Was your agency provided a draft of the Report for review and comment?

All 13 respondents stated they had opportunities to review and comment on draft versions of the Report.

Question 7 - Were the concerns of your agency satisfactorily addressed during the report preparation process?

Twelve (12) of the 13 respondents stated that the concerns of their agencies were satisfactorily addressed during the report preparation process.

The Board of Governors of the Federal Reserve System responded to this question with “Not Applicable,” and stated that they were not aware of any concerns expressed aside from the normal comments made in the drafting process.

Question 8 - Did the information specific to your agency in the Report completely and accurately reflect the information that your agency provided?

All 13 respondents stated that the information specific to their agency in the Report completely and accurately reflected the information that their agency provided.

Question 9 - Does your agency have any concerns regarding the scope of the Report, the overall data contained within the Report, or the conclusions reached in the Report?

Twelve (12) of the 13 respondents did not have any concerns regarding the scope of the Report, the overall data contained within the Report, or the conclusions reached in the Report.

NAIC expressed concerns with the conclusions and recommendations in the Report. NAIC stated that the degree of data gathering and sharing necessary to conduct scenario analysis or stress testing, particularly for insurance liabilities, could be extensive. NAIC said that staffing and resources to perform some of the work identified in the Report would be a challenge.

Question 10 - Are the recommendations contained in the FSOC Report useful for your agency? Did FSOC consider your agency's input regarding the recommendations?

All 13 respondents acknowledged that the Report recommendations were useful to their agency and that FSOC considered their agencies' input when developing the Report recommendations.

Question 11 - Has your agency begun to address the Report recommendations? Please summarize your agency's plans for implementing the recommendations contained in the Report.

All 13 respondents indicated that their agencies had begun to address the Report recommendations and provided written summaries to us of their planned initiatives to address the recommendations.

Question 12 - Overall, did FSOC implement an effective process to prepare the FSOC Report?

All 13 respondents indicated that FSOC implemented an effective process to prepare the FSOC Report. Various agencies acknowledged the short timeframe FSOC was given to produce the Report, and each agency stated that it felt that the FSOC had an effective process.

Status of Actions Taken to Address Report Recommendations

As of May 2022, all FSOC member agencies were in the process of implementing or planned to implement all Report recommendations that were applicable to their agency.

Appendix IV: FSOC Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 27, 2023

The Honorable Richard K. Delmar
Acting Chair, Council of Inspectors General
on Financial Oversight
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Re: Audit of the Financial Stability Oversight Council's Efforts to Address Climate-Related Financial Risk

Acting Chair Delmar:

I write in response to the Council of Inspectors General on Financial Oversight's (CIGFO) draft report titled *Audit of the Financial Stability Oversight Council's Efforts to Address Climate-Related Financial Risk* (the Draft Report), which reviews the Financial Stability Oversight Council's (FSOC) response to Executive Order 14030 (the Executive Order). We appreciate CIGFO's assessment of FSOC's work regarding climate-related financial risk as well as the opportunity to review the Draft Report.

The Executive Order directed the Secretary of the Treasury, as Chairperson of FSOC, to engage with FSOC members to consider actions to address climate-related financial risk and report on FSOC's activities. As the Draft Report notes, FSOC engaged collaboratively with its members and member agencies to assess climate-related financial risk and issued a Report on Climate-Related Financial Risk (Climate Report)¹ in advance of the deadline set by the Executive Order. We were gratified to learn of CIGFO's finding that FSOC member agencies expressed satisfaction with the process implemented to prepare the Climate Report and CIGFO's determination that FSOC's actions were consistent with the policy, objectives, and directives of the Executive Order.

Since the Climate Report's publication, and pursuant to its recommendations, FSOC has established a Climate-related Financial Risk Committee composed of member agency staff and a Climate-related Financial Risk Advisory Committee composed primarily of outside experts. Together, these two committees leverage expertise both within and outside government, help to identify priority areas for assessing and mitigating climate-related financial risks, and facilitate communication among FSOC member agencies and between FSOC and key stakeholders. Building on the Climate Report and the early work of FSOC's new committees, we expect to

¹ Available at <https://home.treasury.gov/system/files/261/FSOC-Climate-Report.pdf>.

continue giving appropriate focus and attention to the risks that climate change poses to the stability of our financial system.

Thank you again for the opportunity to review and comment on the Draft Report. We value CIGFO's efforts and appreciate your diligence and communication with the FSOC Secretariat and member agencies throughout this audit. We look forward to continuing to work closely with you in the future.

Sincerely,

Sandra Lee

Sandra Lee
Deputy Assistant Secretary
Financial Stability Oversight Council

Appendix V: CIGFO Working Group Members

Department of the Treasury Office of Inspector General , Co-Lead		
<i>Richard Delmar, Acting Inspector General, Department of the Treasury and Acting CIGFO Chair</i>		
Deborah Harker	Susan Barron	Jeffrey Hawkins
Anne Halamar	Katherine Draper	Andrew Morgan
Tayla Haughton	Jackquelynne Foley	Michael Kelly
Aziza Harvey-Johnson	Jenny Hu	Yves Laison
Federal Housing Finance Agency Office of Inspector General, Co-Lead		
<i>Brian Tomney, Inspector General, Federal Housing Finance Agency</i>		
James Hodge	Abdil Salah	James Lisle
April Ellison	Christopher Mattocks	
Board of Governors of the Federal Reserve System and the Consumer Financial Protection Bureau Office of Inspector General		
<i>Mark Bialek, Inspector General, Board of Governors of the Federal Reserve System and Consumer Financial Protection Bureau</i>		
Michael VanHuysen	Jason Derr	Cynthia Gray
Laura Shakarji	Jennifer Ksanznak	Rasheem Walker-Gillis
Department of Housing and Urban Development Office of Inspector General		
<i>Rae Oliver Davis, Inspector General, Department of Housing and Urban Development</i>		
Kilah White	Christopher Fontanesi	Caitlin Clark
Frances Ranzie	Mike Zaccaria	
Federal Deposit Insurance Corporation Office of Inspector General		
<i>Tyler Smith , Acting Inspector General, Federal Deposit Insurance Corporation</i>		
Terry Gibson	Cynthia Hogue	Luke Itnyre
Melissa Mulhollen	Wendy Alvarado	Abby Woods
National Credit Union Administration Office of Inspector General		
<i>James Hagen, Inspector General, National Credit Union Administration</i>		
Marvin Stith		
Special Inspector General for the Troubled Asset Relief Program		
<i>Melissa Bruce, Acting Special Inspector General, Troubled Asset Relief Program</i>		
Yusuf House		
U.S. Commodity Futures Trading Commission Office of Inspector General		
<i>Dr. Brett M. Baker, Acting Inspector General, U.S. Commodity Futures Trading Commission</i>		
Branco Garcia		
U.S. Securities and Exchange Commission Office of Inspector General		
<i>Deborah J. Jeffrey, Inspector General, U.S. Securities and Exchange Commission</i>		
Rebecca Sharek	Colin Heffernan	Kelli Brown-Barnes

Abbreviations and Acronyms

Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
CFRAC	Climate-Related Financial Risk Advisory Committee
CFRC	Climate-Related Financial Risk Committee
CIGFO	Council of Inspectors General on Financial Oversight
Council	Financial Stability Oversight Council
CSBS	Conference of State Bank Supervisors
EO	Executive Order
FDIC	Federal Deposit Insurance Corporation
FHFA	Federal Housing Finance Agency
FSOC	Financial Stability Oversight Council
FSOC Report	<i>Report on Climate-Related Financial Risks</i>
Member Agencies	FSOC Member Agencies
Members	FSOC Members
NAIC	National Association of Insurance Commissioners
OIG	Office of Inspector General
Report	<i>Report on Climate-Related Financial Risks</i>
Treasury	Department of the Treasury

