

Remarks by Martin J. Gruenberg, Member, FDIC Board of Directors, The Financial Stability Risks of Climate Change at the Center for American Progress

Last Updated: December 18, 2020

I would like to thank the Center for American Progress for inviting me to participate in today's program. I would also like to acknowledge the leadership of the other participants in today's program in addressing the impact of climate change on financial stability.

Historically, we have viewed financial crises as stemming from developments in the economy or the financial system. In the United States, this was true of the banking crisis of the 1930s, the thrift crisis of the 1980s, and the global financial crisis of 2008. We have not generally considered sources exogenous to the economic and financial systems as potential causes of financial crises.

The Dodd-Frank Act requires the Financial Stability Oversight Council (FSOC) to issue an annual report that must identify "potential emerging threats to the financial stability of the United States."

FSOC has now issued ten annual reports from 2011 to 2020.

Until the 2020 report, none identified a pandemic as a potential emerging threat. We are now learning the profound impact a pandemic can have on the economy and financial system. This year, the FSOC described COVID-19 as "the biggest external shock to hit the post-war U.S. economy."

None of the FSOC annual reports has yet identified climate change as a potential emerging threat to U.S. financial stability.

International organizations, however, have been raising the alarm for quite some time. The Financial Stability Board (FSB) has stated that climate-related risks may have a profound impact on the stability of the global financial system. In its November 2020 report, the FSB warned that climate risks could "amplify credit, liquidity and counterparty risks and challenge financial risk management in ways that are hard to predict."

We, as financial regulators, have a compelling obligation to engage with climate change as a financial stability threat.

Our comments today will likely reflect significant agreement on some of the key issues to address.

We need a better understanding of how the physical and transitional risks of climate change become manifest as threats to financial stability.

We need better data to understand the exposures to those risks, and for the development of methodologies to analyze them.

But, even as these data are developed, regulators need to provide direction now to financial institutions to develop plans to identify, monitor, and manage the risks posed by climate change. For larger institutions, these plans should be comprehensive and require the measurement and disclosure of climate change risks, including through the use of stress tests.

Further, climate change is a global problem. Until this week, among the financial regulatory agencies participating in today's program, only one had become a member of the international Network of Central Banks and Supervisors for Greening the Financial System (NGFS) – the Department of Financial Services of New York State, which is also the only one to issue guidance on climate change to its regulated entities. As we know, the Federal Reserve announced this week that it had joined NGFS.

Going forward, all of the federal financial regulatory agencies – the banking agencies and the market regulators – will have to engage proactively with the financial risks of climate change. We must act individually, collaboratively - including with our state counterparts, and on a government-wide basis through the FSOC.

All of these agencies should also become members of the Network for Greening the Financial System, and actively engage with our international counterparts.

International leadership by the United States will be essential if we are to make global progress on climate change, including its financial stability risks. We are behind the curve and we have a lot of ground to make up.

Thank you.

¹12 U.S.C. 5322.

²[FSOC Annual Reports](#).

³[FSOC 2020 Annual Report at 167 \(PDF\)](#).

⁴[The implications of climate change for financial stability](#), Financial Stability Board.