Annex A

(Source: *FSOC Report on Climate-Related Financial Risk*, "Chapter 6: Council Recommendations)

1. Building capacity and expanding efforts to address climate-related financial risks

Recommendation 1.1: The Council will form a new staff-level committee, the Climate-related Financial Risk Committee (CFRC), within 60 days of the publication of this report. The CFRC will 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. The committee will provide updates to the Council at least semi-annually on the status of the Council's and its member's efforts to identify and address climate-related financial risks, including efforts by the Council and its members to incorporate climate-related financial risks into their regulatory and supervisory programs, improve data and methods, enhance climate-related disclosures, and assess climate-related risks to the financial stability of the United States. The Council will include a summary of progress in addressing climate-related financial risks in its Annual Report based on these updates and related information.

Recommendation 1.2: The Council will form a Climate-related Financial Risk Advisory Committee (CFRAC). The 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. Members of the CFRAC should be considered for selection from among: climate science experts; non-governmental research institutions; academia; the financial services industry; commercial businesses; consumer, investor, environmental, and labor groups; government agencies with climate expertise; and other stakeholders as appropriate.

Recommendation 1.3: The Council recommends that, consistent with their budget processes and mandates, FSOC members should 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. This should include investments in staffing, training, expertise, data, analytic and modeling methodologies, and monitoring.

Recommendation 1.4: The Council recommends that FSOC members include descriptions of their activities related to climate-related financial risks in their annual reports and consider incorporating climate-related financial risks in relevant risk reports that they publish, as appropriate. Such communication will inform the public about FSOC members' efforts to assess and address these risks within the context of each member's mandate and authority.

Recommendation 1.5: The Council recommends that FSOC members make climate-related data for which they are the custodians freely available to the public, as appropriate and subject to any applicable data confidentiality requirements.

Recommendation 1.6: The Council recommends that its members, where applicable, coordinate the analyses of climate-related financial risks conducted in the supervisory and regulatory functions of their agencies and organizations with their efforts to understand impacts on communities and households. FSOC members should, as applicable, integrate these analyses into the public reports discussed in Recommendation 1.4. FSOC members should use the CFRC to share information regarding these efforts, as appropriate.

Recommendation 1.7: The Council recommends that the Federal insurance Office (FiO) should act expeditiously to analyze the potential for climate change to affect insurance and reinsurance coverage, particularly in regions of the country affected by climate change, in consultation with the States, in a manner consistent with Executive Order 14030.

Recommendation 1.8: The Council recommends that its members, consistent with their mandates and authorities, evaluate climate-related impacts and the impacts of proposed policy solutions on financially vulnerable populations when assessing the impact of climate change on the economy and the financial system.

Recommendation 1.9: The Council recommends that the Treasury Department engage other members of the Financial Literacy and Education Commission (FLEC) to analyze and understand the impact of climate change on the financial well-being of financially vulnerable populations. FSOC members that are also FLEC members should actively participate in this analysis.

2. Filling climate-related data and methodological gaps

Recommendation 2.1: The Council recommends that its members promptly identify and take the appropriate next steps towards ensuring that they have consistent and reliable data to assist in assessing climate-related risks through:

- identifying the data needed to evaluate the climate-related financial risk exposures of regulated entities and financial markets within the context of each FSOC member's mandate and authorities;
- Performing an internal inventory of currently collected and procured data and its relevance for climate risk assessments; and
- Developing a plan for procuring necessary data through data collection, data sharing arrangements described in Recommendation 2.2, and information purchased from data providers or other sources.

Recommendation 2.2: The Council recommends that its members use existing authorities to implement appropriate data- and information-sharing arrangements to facilitate the sharing of climate-related data across FSOC members and non-FSOC member agencies to assess climate-related financial risk, consistent with data confidentiality requirements.

Recommendation 2.3: The Council recommends that FSOC work with its members through the CFRC to coordinate efforts, as appropriate, to address data gaps, including prioritizing data sets and coordinating data acquisition, in order to avoid duplication of effort and facilitate the improvement and coordinated use of data and models across FSOC members.

Recommendation 2.4: The Council recommends that the Office of Financial Research (OFR), in coordination with the CFRC, provide data services—including identifying, hosting, and procuring data —and analytical tools to facilitate members' assessment of climate-related financial risks, including scenario analysis.

Recommendation 2.5: The Council recommends that its members, coordinating through the CFRC, move expeditiously to develop consistent data standards, definitions, and relevant metrics, where possible and appropriate, to facilitate common definitions of climate-related data terms, sharing of data, and analysis and aggregation of data.

Recommendation 2.6: The Council recommends that its members continue to coordinate with their international regulatory counterparts, bilaterally and through international bodies, as they identify and fill data gaps, address data issues, and develop definitions, data standards, metrics, and tools.

3. Enhancing public climate-related disclosures

Recommendation 3.1: The Council recommends that its members review their existing public disclosure requirements and consider, as appropriate, updating them to promote the consistency, comparability, and decision-usefulness of information on climate-related risks and opportunities, consistent with their mandates and authorities.

Recommendation 3.2: The Council recommends that its members, consistent with their mandates and authorities, consider enhancing public reporting requirements for climate-related risks in a manner that builds on the four core elements of the Task Force on Climate-Related Financial Disclosure (TCFD), to the extent consistent with the U.S. regulatory framework and the needs of U.S. regulators and market participants.

Recommendation 3.3: The Council recommends that its members, consistent with their mandates and authorities, evaluate standardizing data formats for public climate disclosures to promote comparability, such as the use of structured data using the same or complementary protocols, where appropriate and practicable.

Recommendation 3.4: The Council understands that information on greenhouse gas (GHG) emissions promotes a better understanding of the exposures of companies and financial institutions to climate-related financial risks. The Council recommends that, consistent with their mandates and authorities, FSOC members issuing requirements for climate-related disclosures consider whether such disclosures should include disclosure of GHG emissions, as appropriate and practicable, to help determine exposure to material climate-related financial risks.

Recommendation 3.5: The Council recommends that its members continue to coordinate with their international regulatory counterparts, bilaterally and through international bodies, as they assess requirements for climate-related disclosures.
Recommendation 3.6: Public issuer Disclosures—The Securities and Exchange Commission (SEC) staff are developing a proposal on disclosure requirements for public issuers related to climate-related risks for the SEC's consideration. The Council is encouraged by the SEC's work on this critical issue and supports its efforts to consider enhanced climate-related disclosures to provide investors with information that is consistent, comparable, and decision-useful.

Recommendation 3.7: Banks—The Council recommends that federal banking regulators, consistent with their mandates and authorities, continue to review banks' public regulatory reporting requirements to assess whether enhancements are needed to provide market participants with information on institutions' climate-related financial risks, taking into account a bank's size, complexity, and activities.

Recommendation 3.8: Insurers—The Council supports continued efforts by FIO and insurance regulators to work together to enhance the existing climate-related disclosures for the insurance sector.

Recommendation 3.9: Asset Managers—The SEC staff are evaluating requirements for registered funds and investment advisers related to Environmental, Social, and Governance (ESG) factors, including ESG claims and related disclosures, for the SEC's consideration. The Council is encouraged by the SEC's work on this issue and supports its efforts in this area.

Recommendation 3.10: State and Local Finance—The Council encourages its members to review their authorities to consider how disclosure of climate-related risks related to municipal securities can be enhanced.

Recommendation 3.11: Accounting and Audit Standards—The Council welcomes the work of the International Financial Reporting Standards (IFRS) Foundation Trustees in laying the foundation for the formation of an international sustainability standards board (ISSB) to promote the development of sustainability reporting standards focused on enterprise value creation that could lead to consistent and comparable disclosures that can be used as building blocks across jurisdictions.

4. Assessing and mitigating climate-related risks that could threaten the stability of the financial system

Recommendation 4.1: The Council 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.

Recommendation 4.2: FSOC members should continue to coordinate with their international regulatory counterparts, bilaterally and through international bodies, as they assess climate-related financial stability risks.

Recommendation 4.3: The Council recommends that its members use scenario analysis, where appropriate, as a tool for assessing climate-related financial risks, taking into account their supervisory and regulatory mandates and the size, complexity, and activities of regulated entities. FSOC members may execute this recommendation in a variety of ways, linked to different goals and mandates. Regulators and supervisors can use scenario analysis by regulated entities in evaluations of the risk management processes of regulated entities, taking into account the nature of entities under consideration, as expectations for larger and more complex institutions may be different than expectations for smaller institutions. Scenario analysis of this type can be a building block for assessing the impact of climate-related risks on key sectors of the financial system and the financial system as a whole. Finally, scenario analysis performed by individual firms can contribute to the assessment and disclosure of climate-related financial risks by firms that have significant exposure to climate-related impacts. To develop and use scenario analysis most effectively to understand the effects of climate-related financial risks on financial stability, Council members will benefit from coordination amongst themselves, external experts, and their international counterparts.

Recommendation 4.4: The Council recommends that its members should, consistent with their mandates and authorities, 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) and work at the Financial Stability Board (FSB), as appropriate for the institutions and markets under consideration.

Recommendation 4.5: The Council recommends that, to help inform interagency assessments of the system-wide effects of climate change, the CFRC should serve as a forum for FSOC members to share data and methodologies and leverage the expertise needed to perform scenario analysis and share results.

Recommendation 4.6: FSOC members should continue their efforts to consider the incorporation of climate-related risks into their regulatory and supervisory programs and update those programs as necessary, consistent with their mandates and authorities. As part of this work, they should review regulated entities' efforts to address climate-related risks and clarify or enhance risk management requirements for regulated entities where necessary to promote appropriate consideration of climate-related financial risks.

Recommendation 4.7: FSOC members, consistent with their mandate and authorities, should review existing regulations, guidance, and regulatory reporting relevant to climate-related risks, including credit risks, market risks, counterparty risks, and other financial and operational risks, to assess whether updates are necessary to appropriately address climate-related financial risks.

Recommendation 4.8: FSOC members should evaluate whether additional regulations or guidance specific to climate-related risks is necessary to clarify expectations for regulated or supervised institutions regarding management of climate risks, taking into account an institution's size, complexity, risk profile, and existing enterprise risk management processes.

Recommendation 4.9: FSOC members should continue to coordinate with their international regulatory and supervisory counterparts, bilaterally and through international bodies, as they review their regulatory and supervisory tools to mitigate climate-related financial risks.