

Press release

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FSB examines financial stability implications of climate change

The Financial Stability Board (FSB) today published a [report that examines the potential implications of climate change for financial stability](#). The report analyses how climate-related risks might be transmitted across, and might be amplified by, the financial system, including across borders. It also sets out next steps for the FSB's work in this area.

Current central estimates of the impact of physical risks on asset prices appear relatively contained but may be subject to considerable tail risk. The manifestation of physical risks could lead to a sharp fall in asset prices and increase in uncertainty. A disorderly transition to a low carbon economy could also have a destabilising effect on the financial system.

Climate-related risks – physical and transition risks – may also affect how the global financial system responds to shocks. They may give rise to abrupt increases in risk premia across a wide range of assets. This could alter asset price (co-)movement across sectors and jurisdictions; amplify credit, liquidity and counterparty risks; and challenge financial risk management in ways that are hard to predict. Such changes may weaken the effectiveness of some current approaches to risk diversification and management. This may in turn affect financial system resilience and lead to a self-reinforcing reduction in bank lending and insurance provision.

The breadth and magnitude of climate-related risks might make these effects more pernicious than in the case of other economic risks. Moreover, the interaction of climate-related risks with other macroeconomic vulnerabilities could increase risks to financial stability. For instance, certain emerging market and developing economies that are particularly vulnerable to climate change are also dependent on cross-border bank lending.

There are various actions that financial institutions can take – and are taking – to reduce or manage their exposure to climate-related risks. However, the efficacy of such actions taken by financial firms may be hampered by a lack of data with which to assess clients' exposures to climate-related risks, or the magnitude of climate-related effects. Robust risk management might be supported by initiatives to enhance information with which to assess climate-related risk.

The FSB will conduct further work to assess the availability of data through which climate-related risks to financial stability could be monitored, as well as any data gaps.

Notes to editors

The 14 October 2020 communiqué of the G20 Finance Ministers and Central Bank Governors notes that the FSB is continuing to examine the financial stability implications of climate change.

On 22 July 2020, the FSB published a *Stocktake of financial authorities' experience in including physical and transition climate risks as part of their financial stability monitoring.*

In April 2015 the G20 asked the FSB to consider climate risk and in December 2015 the FSB launched the industry-led Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations on climate-related financial disclosures. The TCFD published its final recommendations in June 2017 and its latest status report on 29 October 2020.

The FSB coordinates at the international level the work of national financial authorities and international standard-setting bodies and develops and promotes the implementation of effective regulatory, supervisory, and other financial sector policies in the interest of financial stability. It brings together national authorities responsible for financial stability in 24 countries and jurisdictions, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. The FSB also conducts outreach with approximately 70 other jurisdictions through its six Regional Consultative Groups.

The FSB is chaired by Randal K. Quarles, Vice Chairman, US Federal Reserve; its Vice Chair is Klaas Knot, President of De Nederlandsche Bank. The FSB Secretariat is located in Basel, Switzerland, and hosted by the Bank for International Settlements.

For further information on the FSB, visit the FSB website, www.fsb.org.