



Federal Financial Analytics, Inc.

How Green Grows the Rulebook?

Climate risk is structurally different than financial risk, making traditional financial-risk tools not only ineffective, but likely also mistaken.

The analytics below are based on in-depth reports provided to FedFin clients.

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FedFin's [latest issue brief](#) analyzes the extent to which many of the tools now being taken to climate risk in financial institutions will prove clumsy at best. This report reflects only FedFin analytics and was not funded by any private- or public-sector entities. We do not in any way oppose tough actions by financial regulators to contain and even reduce physical and transitional climate -change risk – quite the contrary. However, as this brief note outlines, financial risk is generally found in silos that can be effectively offset by targeted capital and stress-test tools. In sharp contrast, climate risk – especially physical risk – occurs in matrices of intertwined loss events that are best addressed qualitatively unless or until quantitative methodology is considerably more advanced.

FedFin's new report also forecasts how U.S. regulators will address the politically-charged questions raised by climate risk largely regardless of the election's outcome. If Democrats control the Senate, legislation demanding stress testing, penalty capital charges, and even fossil-fuel divestiture will advance. However, banking agencies will try to contain climate risk to the greatest extent possible on their own no matter who wins because many know how urgent this is and virtually all regulators want to drive action here rather than let Congress do it for them.

To read Karen Petrou's latest speech, click [here](#)

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