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# FSB Secretary-General Warns Financial Incentives Are Required to Counter Climate Change

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In a recent valedictory **press interview,** the Secretary-General of the Financial Stability Board (FSB), Dietrich Domanski, posited that attempts to convince banks to combat climate change will be insufficient without financial incentives because “[i]n the end we are talking about profit-orientated institutions” and “[a]s long as you do not provide the necessary price signals, which then translate into profits or profit expectations, there is a limit to what one can expect.” Domanski offered his view that these “price signals” “ideally” would be in the form of a global carbon tax. Domanski also opined that regulators across the world are misguided in their increased use of “detailed and very expensive planning exercises” and stress testing to supervise climate risk. Instead, he suggested that a “market-based solution” would likely be more effective.

The FSB, headquartered in Basel, Switzerland, is an international body that monitors, and makes recommendations about, the global financial system. It was established in 2009 after a G20 summit as a successor institution to the Financial Stability Forum. The board includes representatives from all G20 countries and the European Commission. Domanski has served as Secretary-General since January 2018.

**Taking The Temperature: Domanski’s views differ from most of the guidance issued by banking regulators around the world. In December, the Federal Reserve announced a public consultation on a proposed “framework for the safe and sound management of exposure to climate-related financial risks for large banking organizations.” The proposals would apply to banks with over $100 billion in total assets and would cover both physical and transition risks associated with climate change. The proposed principles cover some of the very areas subject to Domanski’s comments: governance; policies, procedures, and limits; strategic planning; risk management; data, risk measurement and reporting; and scenario analysis. The focus of the Fed consultation is substantially similar to earlier proposed guidance from the Office of the Comptroller of**

**the Currency and the Federal Deposit Insurance Corporation. The Australian Prudential Regulation Authority and European banking regulators, including with the Bank of England and Banque de France, likewise have emphasized the importance of stress testing and scenario analysis.  For our part, scenario analysis and stress testing on the one hand, and financial incentives such as carbon taxes on the other, are not mutually exclusive.  Rather they are complementary approaches to help achieve the common end goal of global financial stability.**