14 March 2024

Global Financial Markets Association

Response to the Basel Committee for Banking Supervision Consultative Document on Disclosure of Climate-related Financial Risks

The Global Financial Markets Association (GFMA) welcomes the opportunity to respond to the BCBS consultation on disclosure of climate-related financial risks.

About GFMA

The GFMA represents the common interests of the world's leading financial and capital market participants, to provide a collective voice on matters that support global capital markets. We advocate on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end-users by efficiently connecting savers and borrowers, benefiting broader global economic growth.

The GFMA brings together three of the world's leading capital markets trade associations to provide a forum for the largest globally active financial and capital market participants to develop standards to improve the coherence and interaction of cross-border financial regulation. We aim to improve the functioning of global capital markets to support global economic growth and to support lending and to serve clients in those jurisdictions they want to do business.

The Association for Financial Markets in Europe (AFME) in London, Brussels and Frankfurt, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and Singapore, and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA.

Key issues and general comments

We have responded to the consultation questions below, but in addition to our responses to the specific questions we also have the following overarching comments:

- **Objective of Pillar 3 disclosures**: It is critical that any final disclosure framework be appropriately tailored to meet the policy objectives of the Committee's Pillar 3 regime.

  However, if the BCBS intends for this consultation to deviate from the original purpose of the Pillar 3 regime, the BCBS must state clearly what its revised objectives are for the future of this regime, substantiate the reason for the changes, carry out a detailed assessment of the impact that these changes would have across the entirety of the Pillar 3 framework (not just for climate-related risk disclosures), publicly consult on these foundational changes to the Pillar 3 framework and re-consult on the disclosure of climate-related financial risks to give stakeholders the opportunity to comment on the appropriateness of the proposed disclosure requirements for the BCBS's goals for Pillar 3.

  According to the BCBS's Disclosure Requirements[1], disclosures should enable market participants to access key information relating to a bank's regulatory capital and risk exposures and be meaningful to users, represent a bank's significant risk, and not include information that does not add value to users' understanding. Pillar 3 disclosures should provide information that is

[1] See https://www.bis.org/basel_framework/chapter/DIS/10.htm, Principle 3

material, as defined by each bank, and relevant to capital adequacy and to assessing exposure types relative to each major risk stripe (credit, market, operational, liquidity). Unless a clear relationship between the proposed metrics and traditional financial risks exists or is established, their disclosure as part of the Pillar 3 framework is not appropriate.

The proposed disclosure requirements would extend beyond the purpose and aims of Pillar 3. Pillar 3 was initially intended to foster market discipline through public disclosures about banks' capital structure, capital adequacy, and risk management. The Pillar 3 disclosures were built over time in order to reach an adequate level of data reliability, consistency and comparability across banks, and indeed significantly improved the ability of financial markets participants to assess the information published by banks. Any final requirements for the disclosure of climate-related financial risks should be narrowly tailored to reflect the Pillar 3 objective of providing market participants with the key information necessary to understand a bank's risk exposures and the adequacy of a bank's regulatory capital.

Further public-private discussions at the global level are required to analyze and define the relationship between supervisory reporting, Pillar 3 risk-related disclosures, and corporate disclosure requirements. For example, while corporate reporting standards may provide useful input to regulatory reporting needs, they are not designed with the objective of risk-related reporting. The industry would welcome an opportunity to further discuss this topic at the global level, as some authorities have already started to design and specify regulatory reporting requirements in some detail.

We also recommend that official-sector efforts focus on fostering common approaches to addressing data gaps, such as the appropriate use of proxies, recognizing the contingencies on corporate disclosures and counterparty data noted below.

- **The proposed quantitative metrics are not relevant for market assessment of a bank's capital adequacy and material risk exposure**: Before imposing significant new quantitative disclosure requirements, the BCBS should provide evidence as to how the proposed quantitative metrics are relevant for the market to assess banks' capital adequacy and risk exposures across traditional risk stripes.

  The quantitative disclosure templates broadly refer to "transition risk" and "physical risk" but BCBS does not substantiate its assumption that the proposed aggregated metrics will provide information to the market about banks' capital adequacy and material risk exposures. The broad references to "transition risk" and "physical risk" appear to treat climate risk as a standalone risk type, which is inconsistent with the BCBS Principles on Effective Management and Supervision of Climate-related Financial Risk, which describes climate risk as a driver of traditional financial risks (and not as a standalone type of financial risk).

  With respect to transition risk, BCBS appears to assume that sector-level financed emissions are a proxy for a bank's credit risk exposure. However, the financed emissions of a bank's lending portfolio do not have a relationship to probability of default and do not indicate increased credit risk exposure. Effectively, absolute emissions metrics are often simply a crude indicator of the size of a firm's business and the sector in which it operates. At the client level, a high-emitting client's business model may be subject to transition risk over time, but that client's business risk does not necessarily translate into material credit risk exposure to a bank that finances that client. A higher-emitting client may present very little credit risk if material transition risk to that client's business model is unlikely to materialize over the time horizon of the loan in a way that would impair that client's ability to repay the loan—i.e., a bank does not have 5 year credit risk on a 1 year loan. Similarly, a higher-emitting client may have a transition pathway towards a lower-carbon business model, resulting in a diminishing credit risk profile which would not be revealed by disclosure of a snapshot of financed emissions alone.

- **Climate-related risk is a driver of traditional risk types, not a standalone risk type**: The proposed disclosure requirements are not consistent with the *BCBS Principles on Effective Management and Supervision of Climate-related Financial Risk*, which appropriately recognize climate-related financial risk as a driver of traditional risk types rather than a standalone risk type.

- **Lack of comparability and consistency of disclosures**: It is important that any new disclosures are based on verifiable and robust information and that the disclosure framework is capable of generating meaningful and comparable disclosures for all market participants. Otherwise, new disclosures risk creating confusion for users.

  The regulatory landscape for climate-related disclosures is inherently complex and far from complete at a global level. The scope and level of granularity of the climate-related financial disclosures being proposed by the BCBS at this stage is therefore surprising, and banks' ability to provide such levels of detail will depend heavily upon information being available from counterparties, companies being able to disclose emissions using common methodologies, and industry capacity to collect this data in the timescales envisaged. Scope 3 emissions data in particular is challenging to produce on a reliable or comparable basis, given high dependence on estimation methods, limited availability of credible and real-time data sources for some sectors, limited access to data from value chain companies, and issues with multiple-counting. Given challenges impacting the accessibility and accuracy of required data, resulting disclosures will not be consistent or comparable to the extent needed for the purposes of Pillar 3.

  Accordingly, the BCBS should delay issuance of any final disclosure framework in order to allow time for common methodologies to develop and for the maturation of the real economy disclosures on which banks would need to rely.

- **Potential increased liability and legal risk associated with disclosures**: We strongly recommend that the BCBS initiate a detailed assessment as to whether and to what extent banks could face the risk of legal liability in connection with public disclosures based on flawed information. This is even more important in light of the ever-evolving requirements in the area of ESG compliance and governance. While some jurisdictions (such as the EU) have already introduced disclosure obligations which require some of the information suggested by the BCBS, in other jurisdictions banks will be faced with different sourcing and legislative challenges in connection with obtaining the necessary information, as well as different legal liability risks in connection with making the disclosures. This may result in significant challenges for banks (whether because they are locally regulated, have securities listed in the relevant jurisdiction or are otherwise subject to the laws of the relevant jurisdiction).

- **Aim to avoid proliferating climate-related disclosures and different bases for disclosure**: Any final disclosure framework for climate-related financial risks should not include requirements that would require banks to reassess and repackage information that is already being produced in compliance with other requirements, and to disclose it in different formats or recalculate it to different methodologies. For example, proposed qualitative disclosures leveraged from the ISSB climate disclosure standard do not incorporate the same general principle of materiality included in ISSB reporting, where the firm preparing the disclosure determines what is material to disclose and is not required to disclose a materiality assessment. This would result in inconsistent disclosure for banks subject to both ISSB-based corporate disclosure and BCBS-based Pillar 3 disclosure.

In addition, given the different pace at which different jurisdictions are developing their own frameworks for climate-related disclosures (both at a corporate level and also in relation to bank financial risks), any final disclosure framework should provide a harmonized baseline approach that supports jurisdictions that are more advanced in this area as well as jurisdictions that are still developing their approach.

- **Interoperability with existing data collection and disclosure regimes**: We strongly recommend that the format of any final disclosure templates should, where possible and appropriate, be interoperable with those of other international and industry standards in order to avoid unnecessary operational complexity and ensure comparability of banks' disclosures. For example, the BCBS should ensure that any framework does not mandate use of a specific classification system but rather supports a thorough mapping between systems used in different disclosure regimes (e.g., NACE, NAICS, SICS etc).
- **Need for further consultation**: We would welcome publication of a revised framework that reflects the BCBS view of climate risk as a driver of traditional financial risk types rather than a standalone risk type and more clearly substantiates the link between any proposed disclosure and the objectives of Pillar 3. As discussed in more detail below, there are a number of areas where further work needs to be done if the Pillar 3 disclosure regime is going to be extended to cover climate-related risks. For example, significant further work is needed to map the different classification standards for corporate sectors, and this would be more effectively done at an industry level rather than at the level of individual disclosing entities. We urge the BCBS to provide comprehensive guidance in connection with any proposed framework, clearly defining sectors and issues such as considerations for calculating emissions related to each sector, acceptable proxies, definitions of climate change events and standard definitions of time horizon and sensitivity to climate change events. We consider that a further consultation on potential Pillar 3 disclosures would provide an important opportunity for some of this work to be progressed.

We also set out below a summary of the key comments that we have on the proposal. Each of these is discussed in more detail in the responses to the questions below.

- **Group level disclosure**: In line with the philosophy of a global standard, any final requirements for the disclosure of climate-related financial risks should permit banks operating in multiple jurisdictions to make disclosure either at the consolidated group level only (pursuant to the home jurisdiction's disclosure requirements if any), or at the level of the hosted subsidiary.
- **Materiality threshold**: It is necessary to apply a materiality threshold throughout the framework (including for high-emissions sectors) in order to make disclosures meaningful. However, at this point there is no common methodology to assess materiality in the context of climate-related exposures, and where materiality assessments have been carried out (e.g., under ECB / SSM guidelines in the EU), the assessments are not always based on quantitative information and include a vast array of assumptions. The BCBS should not seek to import a materiality threshold

based on accountancy standards for producing financial statements, given the objectives of Pillar 3 disclosure are much narrower than those of general corporate disclosure, but rather should allow banks to assess materiality themselves in the context of their business.

- **Disclosure of forecasts**: The BCBS refers to disclosure of forecasts and indicates that this should be required only where banks have established forward-looking forecasts. The BCBS should clarify whether this indeed means forecasts (i.e., modelled projections of expected future risk or activity) or whether this is instead intended to refer to targets. There are significant risks associated with the publication of forecasts, not least liability for the disclosing entity and the risk of misleading market participants using the disclosure. It is very unusual for banks to publish detailed forecasts in any context, let alone in a situation where the metrics and necessary underlying information are at such an early stage of development. Although supervisors may have an interest in bank forecasts, we strongly disagree that this information is relevant for the well-defined objectives of Pillar 3 disclosures.

General

Q1. What would be the benefits of a Pillar 3 disclosure framework for climate-related financial risks in terms of promoting comparability of banks' risk profiles within and across jurisdictions and promoting market discipline? What other benefits have been identified?

Q2. What are the risks of a Pillar 3 disclosure framework for climate-related financial risks not being introduced?

Q3. Would the Pillar 3 framework for climate-related financial risks help market participants understand the climate-related financial risk exposures of banks and how banks are managing these risks?

Q4. Would the Pillar 3 framework for climate-related financial risks be sufficiently interoperable with the requirements of other standard-setting bodies? If not, how could this best be achieved?

Q5. Would there be any unintended consequences of a Pillar 3 framework for climate-related financial risks? If so, how could these be overcome?

Q6. What are your views on potentially extending a Pillar 3 framework for climate-related financial risks to the trading book?

Q7. What are your views on the proposed methodology of allocating exposures to sectors and geographical locations subject to climate-related financial risks?

Q8. What are your views on which elements should be made subject to national discretion and which should be mandatory? Why?

Q9. What are your views on whether potential legal risks for banks could emanate from, or be mitigated by, their disclosures as proposed in this consultation, and why?

Q10. Would the qualitative and quantitative requirements under consideration need to be assured in order to be meaningful? If so, what challenges are foreseen?

Benefits and risks

Any framework for the disclosure of climate-related financial risks must strike the right balance between usefulness for market participants in providing Pillar 3-aligned information and the risk and burden that such disclosures place on banks, particularly where the underlying information necessary to support such disclosures is not consistently available or available to a consistent quality.

Particularly in light of the current lack of detailed and high-quality supporting information, there are significant risks associated with requiring these disclosures at this stage, including:

- Mischaracterization of proposed disclosures (e.g., financed / facilitated emissions) as reflective of banks' climate risk would be misleading to market participants and could create negative market impacts.
- Lack of comparability of the disclosures, as firms will be disclosing based on information of widely differing quality and availability and undertaking calculations on different bases.
- Requiring too much detail to be included in these disclosures at this stage could be counterproductive, as there is a risk that market participants may misinterpret the information without significant guidance on how to interpret it. The need for significant supporting explanation on the basis for the information, the likely difficulties regarding quality and availability, and the basis for any calculations or projections, also raises questions about the suitability of Pillar 3 disclosures as the method for making these disclosures.
- It will be necessary to manage the potential for banks with an international presence to be subject to multiple different disclosure obligations and required to prepare information using different templates, instructions and criteria. We encourage BCBS to work closely with other jurisdictions to ensure that maximum interoperability is achieved where jurisdictions have already introduced disclosure requirements, but also to ensure that jurisdictions where disclosure requirements have not yet been introduced are able to introduce these in a way and at a pace that is appropriate for their jurisdiction and the current level of available information.
- In particular, where key factors such as the classification system, materiality, methodology, and scope of application are different between the proposed framework and the requirements of other standard-setters, interoperability may be challenging.

Unintended consequences and potential legal risks

We are concerned about the potential legal risks and liability associated with publishing disclosures based on data that is often unavailable or where it is, may be fragmented, inconsistent and insufficiently robust. In many jurisdictions banks may face litigation or enforcement action in connection with published information that proves to be misleading, regardless of whether or not they were subject to a regulatory obligation to publish the information and regardless of whether or not they publish disclaimers regarding the source of and basis for the information.

This would be a particular concern if banks were required to publish forward-looking information, such as financial planning and forecast information. These proposed disclosures will require highly speculative forward-looking estimates and projections which would be dependent on a number of variables that are likely to change over time in ways that entities cannot predict with any certainty (e.g. government policy, shifting consumer demand, technological innovation, etc.) Disclosing this degree of detail could be misleading to market participants, open firms to legal risk, and even give rise to future accusations of greenwashing. Particularly as it relates to forecasts, as noted in the consultation paper, banks are still in the early stages of developing forecasts addressing climate-related financial risks, and both the underlying information and the methodologies are still evolving. Requiring banks to publish forecast information if they produce such forecasts may have the unintended consequence of discouraging banks from developing forecasts and other metrics that may be useful for internal risk management, in order to manage the legal risks associated with publishing this information.

Extension to the trading book

It is difficult to make a link between long-term climate risk factors and the short-term nature of the trading book where instruments may be held momentarily, transactions are extremely numerous and there would be significant risk of multiple-counting of the same emissions. In addition, where banks act as intermediaries taking and hedging positions for clients, they do not take significant risks in this area.

Extending any climate-related Pillar 3 framework to include the trading book would not generate additional meaningful or useful information, although it would significantly increase the amount of information banks are required to disclose, as well as the costs and legal risks associated with that disclosure.

Proposed methodology

We are concerned by the proposal to require banks to categorize non-financial corporates by sector according to the Global Industry Classification Standard. Currently banks categorize their counterparties according to a number of different classification systems (e.g., European banks use the Nomenclature of Economic Activities, NACE, while UK banks use the UK Standard Industrial Classification, UK SIC). In order to avoid banks having to maintain multiple classifications in order to satisfy different reporting obligations, the BCBS should avoid mandating a specified classification system and permit national supervisors to specify the system used most commonly in their jurisdiction. Further work on mapping the different classification systems could be carried out at an industry level to ensure a harmonized approach that is capable of being adopted by as many market participants as possible. As mentioned above, we would welcome a second consultation from BCBS on these potential disclosures in order to allow time for this work to be undertaken.

Requirements subject to national discretion

Any final disclosure framework should provide a harmonized baseline approach that supports jurisdictions that are more advanced in this area as well as jurisdictions that are still developing their approach. Where national discretion is provided for, this should be designed in a way that supports the development of a consistent and coherent global standard and avoids extraterritorial application of national requirements where differences exist, rather than further exacerbating local divergence and proliferation of duplicative standards.

In particular, GFMA hopes that supervisors globally will ensure that any Pillar 3 disclosure regime that they implement will be aligned with any final BCBS Pillar 3 tables and templates, accounting for any national discretions which are embedded in such standards. This would mean that individual supervisors would reflect on any existing Pillar 3 or similar reporting or disclosure requirements for climate-related risk in light of any final BCBS approach and adjust them as appropriate in order to avoid duplicative disclosure requirements. Local standards should be recognized as complying with the global BCBS Pillar 3 standards.

Otherwise, international banking groups could have to face different Pillar 3 disclosure requirements for climate-related financial risk depending on where their subsidiaries are located. A certain degree of flexibility in disclosure requirements (and recognition of the requirements introduced in different jurisdictions to the extent that these are based on the global Basel Pillar 3 standards) is helpful to increase the likelihood of faithful implementation and meaningful disclosures, reduce duplication with other disclosures and minimize implementation costs.

In order to support global uptake of any final Pillar 3 standards, the BCBS could consider proportionate simplification of the standards for use in emerging markets and developing economies. The BCBS has taken a similar approach to other complex parts of the Basel standards, developing simpler options for some banks or jurisdictions (e.g., the Simplified Standardised approach as part of the FRTB).

Assurance, audit or other controls regarding the disclosures

It is not necessary to introduce additional assurance or other controls specific to any final climate-related Pillar 3 disclosures. Banks already apply appropriate controls (which may include internal and external audit) to their existing Pillar 3 disclosures, and any additional Pillar 3 disclosures would be subject to the same controls.

Qualitative disclosure requirements

Q11. What are the benefits of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements?

Q12. Should the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?

Q13. What key challenges would exist for preparers or users of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements? How could these be overcome?

Q14. What additional qualitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?

Q15. How could the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements be enhanced or modified to provide more meaningful and comparable information?

Q16. What are your views on the relevance of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements to understand climate-related financial risks to which banks are exposed?

Tables CRFRA and CRFRB include a number of proposed disclosures that are not appropriate for the Pillar 3 context. For example, Pillar 3 disclosure related to a bank's business strategy on climate should be consistent with the level of disclosure of other business strategy. Banking regulators do not ask for similar disclosure for business strategy and planning with respect to topics such as pandemics, potential recessions, emerging markets business risk, etc. Further to this point, disclosure of strategic risks is not relevant to assessing banks' capital adequacy, evidenced by the Basel Framework's definition of operational risk which excludes strategic risk.[2]

[2] See https://www.bis.org/basel_framework/chapter/OPE/10.htm?inforce=20230101&published=20230330

As discussed above, we are also concerned by the proposal to require banks to disclose forecasts. In the context of Table CRFRA, it is unclear whether in fact the BCBS's intention was to refer to targets rather than forecasts. The consultation paper refers to the plans that a bank may have to "achieve its forecasts". However, forecasts are not designed to be achieved in the same way that targets are. Forecasts are a projection of what might be achieved or might happen based on currently available information, in contrast to targets that set objectives for the bank to work towards, and which may require changes in the bank's approach in order to achieve them. We discuss our concerns regarding disclosure of either forecasts or targets further in our response to questions 37 through 41.

The BCBS should confirm that banks may disclose on the basis of the information that they have available in relation to their value chain (and that they may define what they consider to be their value chain) and that they are not required to carry out extensive due diligence on their value chain where this is not separately required under applicable law.

Regarding the qualitative information to be disclosed in Table CRFRB, information related to concentration risk is not relevant for the purposes of the Pillar 3 disclosures. In addition, there is currently no common international definition of what constitutes concentration risk for climate-related financial risks.

Also under Table CRFRB, disclosure of finance in support of climate change mitigation and adaptation is wholly irrelevant for market understanding of a bank’s capital adequacy and material risk exposure. This information relates to business strategy, and is not part of a bank’s climate risk management framework.

Regarding qualitative disclosures on physical risk, the proposed requirements are effectively asking banks to publicly disclose climate scenario analysis results for the entire banking book. While many central banks have run climate scenario analysis exercises or stress test, they have not published results for individual banks, recognizing that this information is still nascent and that it will be challenging for the market to interpret and could be misleading. While this information may be useful in the context of confidential supervisory reporting, it is not appropriate for Pillar 3 disclosure to the market.

We would also welcome confirmation that banks may include cross-references to other published information in order to satisfy or supplement their qualitative disclosures. While certain elements of the qualitative information required to be disclosed in Table CRFRA (i.e., information on governance, strategy and risk management) may be relevant for market understanding of how banks are incorporating climate risk as a driver in their enterprise risk management framework, these elements are duplicative of corporate disclosure requirements in many jurisdictions and banks should be permitted to cross-reference applicable disclosure from other sources.

Quantitative disclosure requirements

General

Q17. What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?

Q18. Should the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?

Q19. What key challenges would exist for preparers or users of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements? How could these be overcome?

Q20. What additional quantitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?

Q21. How could the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements be enhanced or modified to provide more meaningful and comparable information?

Q22. What are your views on the relevance of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements to understand climate-related financial risks to which banks are exposed?

Q23. What are your views on the calculations required to disclose the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?

As discussed above, the detailed disclosure templates and proposals go beyond the policy intent of Pillar 3 disclosure. Pillar 3 disclosures should provide information that is material, as defined by each bank, and relevant to capital adequacy and to assessing exposure types relative to each major risk stripe (credit, market, operational, liquidity). The BCBS has not substantiated the link it sees between the proposed climate-related disclosure and these objectives, and we are concerned that the proposed quantitative metrics are not relevant for assessing banks' climate-related financial risk exposures or capital adequacy.

There are currently no conceptual and regulatory frameworks that set out a systematic, robust and quantitative link between the proposed quantitative disclosures and the traditional financial risks that Pillar 3 disclosures are designed to address. Consequently, templates should not mix up non-financial climate-related data and risk parameters. The link does not seem to be justified and it is premature to require public disclosure of this information.

In parallel, supervisory reporting requirements enable supervisors to obtain confidential information about regulated entities in order to discharge supervisory or regulatory functions.

It is important that any final disclosure requirements do not conflate these different aims. We are concerned that the current proposed disclosure framework would see the Pillar 3 framework being used for additional purposes which are more aligned to supervisory oversight and monitoring market developments than providing market discipline and transparency to market participants.

The BCBS should not impose Pillar 3 disclosure requirements for climate-related information simply because other market participants may find such disclosures useful—commercially or otherwise—as more general market intelligence. Unless a clear relationship between the proposed metrics and traditional financial risks exists or is established, their disclosure as part of the Pillar 3 framework is not appropriate. Before imposing significant new quantitative disclosure requirements, the BCBS should provide evidence as to how the proposed quantitative metrics are relevant for the market to assess banks' capital adequacy and risk exposures across traditional risk stripes. The quantitative disclosure templates broadly refer to "transition risk" and "physical risk" but the BCBS does not substantiate its assumption that the proposed aggregated metrics will provide information to the market about banks' capital adequacy and material risk exposures.

Also as discussed above, the proposed disclosure will not be consistent and comparable across banks given the well-known challenges that banks face with respect to availability and quality of the necessary data. The proposed disclosures would potentially require banks to disclose data before regulations that would generate additional supporting information come into force, or to disclose data that is not currently available in some jurisdictions. Data and methodological challenges are highly relevant in assessing whether the proposed disclosure will achieve the BCBS' objective of promoting consistency and comparability. These challenges are also relevant in assessing the cost-benefit of the proposed disclosure as well as potential legal risks to which banks could be exposed.

We also recommend flexibility in relation to the specific disclosure requirements. For example, robust methodologies on physical risks are still very much in development. Given this, physical risk should be reported only in a qualitative manner.

Transition risk: exposures and financed emissions by sector

Q24. Would exposures and financed emissions by sector be a useful metric for assessing banks' exposure to transition risk?

Q25. What are your views on the availability and quality of data required for these metrics, including by sector, activity, region or obligor?

Q26. What key challenges would exist for preparers to disclose these metrics, including by sector, activity, region, or obligor? How could these be overcome?

Q27. What additional transition risk disclosure requirements should the Committee consider?

Q28. What are your views on the appropriateness of classifying sectors according to the Global Industry Classification Standard (GICS) with a six- or eight-digit industry-level code?

Q29. Would it be useful to require disclosure of the specific methodology (such as Partnership for Carbon Accounting Financials (PCAF)) used in calculating financed emissions?

Financed emissions are not an accurate indicator of credit risk exposure driven by transition risk. It is unclear how BCBS views emissions as reflective of transition risk that could drive credit risk, for example, which is the probability of a financial loss resulting from a borrower's failure to repay a loan. The absolute financed emissions of a bank's lending portfolio do not have a relationship to probability of default and do not indicate increased credit risk exposure. Instead, they indicate the total amount of Scope 1, 2, and 3 GHG emitted by a bank's clients, including clients' operations and entire value chains – effectively, a crude indicator of the size of a firm's business and the sector in which it operates. Without further context, emissions metrics could be misleading in a Pillar 3 context and could impede or disincentivize transition finance to the high-emissions regions and sectors that are most in need of it. As transitioning takes time, a bank's financed emissions may increase in the short term due to its provision of transaction finance for such regions or sectors.

We are also concerned that the focus on exposures to specific sectors overstates the link between the exposure that a particular sector has to climate-related risks, and the financial risk that a bank faces through its credit exposures to that sector. These are two separate things. A bank is not necessarily exposed to increased climate-related financial risk solely because it has exposure to entities in a sector that faces increased climate-related risk.

In addition, because of the way the information is required to be disclosed (by scope 1, 2 and 3), financial institutions are likely to end up engaging in double/triple counting when reporting financed emissions (i.e., the same emissions may count towards more than one scope category). This would result in the publication of financed emissions multiple times higher than the real emissions of a given sector.

In relation to data, we are concerned that there are significant quality problems, including with the information that banks receive from customers, which is not yet sufficiently standardized, giving rise to differences in terms of impacts. The lack of raw data leads to the use of estimates at the level of each relevant sector/client/geography/etc. This results in banks facing at times very high levels of uncertainty within their disclosed figures for certain metrics, which reduces the usefulness of banks' disclosures for market participants.

The key challenges relate to:

- The availability of high quality and regularly updated data, leading to low data quality.
- The timeliness of the data received by banks. For example, in the case of scope 3 data, this will not become available until 15 months after the relevant year end. Banks need a further 3 – 6 months to consolidate this information and check it, at which point the data is almost 2 years old.
- Lack of homogeneous data.
- The required classification level - we are concerned about a breakdown with too much granularity because data quality in this respect is even more complicated (e.g., granularity of NACEs/GICs when requested beyond GICs Level 2).
- The requirement to disclose Scope 3 financed emissions, given the limited guidance to date on value chain related impacts as well as the lack of commonly agreed methodologies. Development of clear methodologies is a key prerequisite for requiring disclosure of Scope 3 financed emissions, while additional guidance would mitigate problems such as double counting of financed emissions (including where financed emissions are counted towards more than one of Scope 1 – 3).

In relation to the appropriateness of classifying sectors according to GICS, the BCBS should avoid mandating a specified classification system but rather develop a standard mapping system between the most commonly used systems (e.g., NACE, NAICS, SIC) in order to avoid confusion, as our experience is that a counterparty that falls clearly into one identifiable category under one system could often fall within multiple different categories under another system. Further work on mapping between the different systems could be carried out at an industry level to ensure a harmonized approach that is capable of being adopted by as many market participants as possible. As mentioned above, we would welcome a second consultation from BCBS on these potential disclosures in order to allow time for this work to be undertaken.

Generally, it is of the utmost importance for the BCBS to take into consideration financial institutions with international presence in order to support recent efforts ongoing in the EU and in other jurisdictions to rationalize the burden of reporting/disclosure.

Physical risk: exposures subject to climate change physical risks

Q30. Would exposures subject to climate change physical risks be a useful metric for assessing banks' exposure to physical risk?

Q31. Would there be any limitations in terms of comparability of information if national supervisors at a jurisdictional level determined the geographical region or location subject to climate change physical risk? How could those be overcome?

Q32. What alternative classification approaches could the Committee introduce for the classification of geographical region or location subject to climate change physical risk to reduce variability and enhance comparability amongst banks?

Q33. What additional physical risk disclosure requirements should the Committee consider?

We reiterate our overarching comment that the detailed disclosure templates and proposals go beyond the policy intent of the Pillar 3 requirements. Exposures subject to physical risks do not equate to risk of financial loss to a bank, and it is dangerous to position this to the market in this way. Exposure and impact are not linear – exposure going up does not necessarily mean that a bank's financial risk exposure is increasing. This is particularly true when aggregating exposures to all physical risks, which will result in a very large number that is not meaningful.

Comparability of disclosures poses an additional challenge as in-scope banks will likely not disclose based on the exact same hazards, same scenarios and same time horizon. As such, the banks that have done the most work to identify potential and actual physical risks will appear to be in a worse position than banks that have not yet identified such risks in detail and so have less information to disclose. However, as discussed above, qualitative disclosures are more suited to addressing physical risks.

Banking supervisors are not positioned to determine which geographic locations are subject to physical risk. Assessment of physical risks and how they may increase over time should be based on climate science. Jurisdictional supervisors are generally not equipped to make this determination. It is also important to note that an area could be subject to physical risk, but exposures located there may not be at risk of financial loss (e.g., risk of default), and therefore the determination of a location as "subject to physical climate change risk" is not automatically meaningful for bank disclosure related to its own risk profile.

BCBS should consider giving banks that have developed the capability to collect information on and quantify their residual risks the possibility to disclose their net exposure, i.e. net of private and public insurance coverage, based for example on available national catastrophe schemes or similar frameworks, to better reflect their actual exposure to physical risks.

Bank-specific metrics for quantitative climate disclosures

Q34. What are your views on the prudential value and meaningfulness of the disclosure of the proposed bank-specific metrics on (i) asset quality (non-performing exposures and total allowances); and (ii) maturity analysis?

Q35. What challenges would exist for preparers or users of these disclosures? How could these be overcome?

Q36. What additional bank-specific disclosure requirements in respect of banks' exposure to climate-related financial risks should the Committee consider?

For the proposed bank-specific metrics (e.g., asset quality – non-performing loans and total allowance – and maturity analysis), disclosing entities should have the option of using the accounting regime already used in certain jurisdictions for disclosing these metrics.

We recommend that the BCBS eliminate the requirement to disclose allowances by sector. Allowances by sector are not required of any other Pillar 3 disclosures, and would potentially be competitively sensitive at that level of disaggregation.

Forecasts

Q37. What are your views on the proposed inclusion of forecast information in the Pillar 3 climate-related financial risk disclosure requirements in instances where banks have established such forecasts?

Q38. Would the proposed forecast information be a useful metric for assessing banks' exposure to climate-related financial risks?

Q39. What type of forecasts would be most useful for assessing banks' exposure to climate-related financial risks?

Q40. What challenges would exist for preparers or users of Pillar 3 disclosures in relation to potential forecast information? How could these be overcome?

Q41. Where forecast information is not available, what alternative information might be useful to assess banks' exposure to climate-related financial risks on a forward-looking basis?

We have significant concerns with respect to disclosure of forecasts:

- **References to "forecasts" appear to be referring to portfolio decarbonization targets**: the characterization of this information as forecasts is problematic and misleading. When setting portfolio decarbonization targets, banks are not forecasting their own view of the future, but rather explicitly using external science-based scenarios (e.g., IEA NZE) aligned with NZE 2050 to align with a target outcome for the purposes of business strategy. Pillar 3 disclosure of portfolio decarbonization targets set for alignment purposes (e.g., with NZE 2050) would not provide meaningful information in the context of the risks addressed in Pillar 3 disclosures.

- **It would be misleading for the BCBS to position banks' portfolio decarbonization targets as representative of banks' financial risk exposure**: Banks have set portfolio decarbonization targets for strategic business purposes, not as risk management tools. Portfolio decarbonization targets are not relevant for assessing a bank's financial risk exposure and it would be misleading for the BCBS to position banks' targets to the markets in this way. Moreover, including granular business strategy-related disclosure, such as banks' portfolio decarbonization targets, would be unprecedented in the Pillar 3 context. Pillar 3 does not include granular business strategy disclosures more broadly and the BCBS has not provided any evidence for why banks' climate-related business strategies uniquely merit this level of granular disclosure in the Pillar 3 context.

- **Disclosure of forecasts would not provide meaningful information for the market and would be misleading:** Disclosure of actual forecasted information would be wholly inappropriate in the context of Pillar 3 disclosure. Forecasts will require highly speculative forward-looking estimates and projections which, if disclosed in this degree of detail, could be misleading to market participants and open firms to legal risk. If this information is required by supervisors, it should be reported privately to those supervisors.

- **Meaningfulness of forecasts and targets given changing methodologies**: Given the changing science and developing methodologies for developing forecasts and targets, information on forecasts and targets will not be comparable between banks for the foreseeable future, and publication of forecasts and targets would not provide useful or relevant information to the wider public. It is important that any information banks are required to publish is reliable, and that banks are able to react flexibly to changes in science and adapt their targets, forecasts and any plans for achieving their targets accordingly, and focus their attention on managing their transition strategy and climate-related risks without needing to assess whether information that they have previously published may have become misleading in the preceding weeks or months.
- **Potential for discouraging banks from developing forecasts**: As noted in the consultation paper, banks are still in the early stages of developing forecasts addressing climate-related financial risks, and both the underlying information and the methodologies are still evolving. Requiring banks to publish forecast information if they produce such forecasts may have the unintended consequence of discouraging banks from developing forecasts and other metrics that may be useful for internal risk management, in order to manage the legal risks associated with publishing this information.

Concentration risk

Q42. What are your views on the usefulness banks' disclosure of quantitative information on their risk concentration, ie of the bank's material exposures to sectors or industries subject to transition risk or to sectors/geolocations subject to physical risk relative to its total exposure?

Q43. What are your views on complementing quantitative disclosure of risk concentrations with qualitative disclosure of contextual and forward-looking information on the bank's strategies and risk management framework, including risk mitigation, to manage climate-related concentration risk?

Q44. What challenges would exist for preparers or users of disclosures in relation to quantitative and qualitative information on climate-related risk concentrations? How could these be overcome?

Q45. In relation to the disclosure of exposures subject to physical risk, would it be meaningful for assessing banks' climate-related concentration risk if these exposures were divided into six or seven broadly defined hazards, eg heat stress, floods, droughts, storms, wildfires etc?

Q46. What additional bank-specific disclosure elements on climate-related concentration risk should the Committee consider?

Information related to concentration risk is not relevant for the purposes of the Pillar 3 disclosures. In addition, there is currently no common international definition of what constitutes concentration risk for climate-related financial risks.

Several challenges need to be addressed before defining what constitutes concentration risk for climate purposes, including:

- A classification of exposures is needed. While some jurisdictions are working on taxonomies, these are not complete (e.g., the EU taxonomy only defines activities that contribute to environmental objectives) or harmonized at an international level.
- This classification would not be risk-based, so it would not indicate whether or not concentration poses a greater risk to the bank.

Templates

Q47. What are your views on the structure and design of the proposed templates in relation to helping market participants understand the climate-related financial risks to which banks are exposed?

Q48. Would the potential structure and design of the templates pose any challenges for preparers or users of Pillar 3 climate-related financial risk disclosure requirements? How could those be overcome?

In relation to the templates for transition plans (included in table CRFRA), requiring disclosure of transition plans wrongly assumes that a bank's transition plan is a risk management tool and that disclosure will inform the market about a bank's capital adequacy and material risk exposures—transition plans are strategic business plans, not climate risk management tools. Metrics that may be used to measure progress towards transition targets or commitments are often entirely different to those being developed to evaluate the potential impact of climate-related financial risks on different risk types.

While the EU CRR / CRD legislation has introduced the concept of a prudential transition plan which includes information on the assessment and embedding of financial risk considerations related to the transition (per the EBA's consultation on its draft guidelines on ESG risk management), this disclosure is in the very early stages in Europe and will likely start out under Pillar 2. Pillar 2 coverage would be sufficient given that this is private and potentially sensitive information for competition purposes.

Inclusion of transition plans in Pillar 3 disclosures would not provide information that is relevant to market discipline. When developing the Pillar 3 disclosure regime, the BCBS expressly excluded information on business strategy from these disclosures and the Consultative Report does not establish a clear link between the information in transition plans and the information that is within scope of Pillar 3 (i.e., information relevant to capital adequacy and to assessing exposure types relative to each major risk stripe - credit, market, operational, liquidity). In addition, the time horizons for transition plans (10 – 30 years) are not consistent with the shorter-term risks that Pillar 3 disclosures are designed to address.

As mentioned above, the BCBS should not impose Pillar 3 disclosure requirements for climate-related risks simply because other market participants may find such disclosures useful—commercially or otherwise—as more general market intelligence. Unless a clear relationship between the proposed metrics and traditional financial risks exists or is established, their disclosure as part of the Pillar 3 framework is not appropriate.

A more appropriate place to publish information on transition planning would be alongside other corporate non-financial disclosures, in line with the ISSB standards, and in fact banks are already starting to publish this information in their corporate disclosures.

Quantitative disclosure requirements subject to jurisdictional discretion

Q49. What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion?

Q50. What key challenges would exist for preparers or users of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion? How could these be overcome?

Q51. What are your views on the feasibility, meaningfulness and practicality of banks' disclosure of facilitated emissions?

With respect to the feasibility, meaningfulness and practicality of disclosure of facilitated emissions, the methodologies for calculating these are not yet mature. The PCAF standard was only issued in December 2023 and there is no market consensus on its use at this stage. As a result, there is not enough experience of its use to know how well it works. We strongly urge the BCBS to remove template CRFR5 as an item even for national discretion.

With regard to the disclosure of mortgage portfolio exposures by energy efficiency level, disclosure of this data alone would not meaningfully reflect credit risk exposure driven by transition risk. Simple disclosure of real estate exposures by energy efficiency level will not be sufficient for market participants to extrapolate the suggested insights – this would require extensive disclosure around inputs and models, as well as additional calculation and assumptions on the part of market participants. Operationally, lack of available data will make producing reliable, comparable, or meaningful disclosure nearly impossible. At the mortgage level, the information on energy efficiency levels is sparse and there is not a reliable or comprehensive source to pull this information. While estimation of energy efficiency levels is permitted, most banks do not have the expertise to produce these estimates reliably or in a way that is comparable across banks.

Effective date

Q52. What are your views on the feasibility of the potential effective date of the Pillar 3 climate-related disclosure requirements?

Q53. Would any transitional arrangements be required? If so, for which elements and why?

Pillar 3 was initially intended to foster market discipline through public disclosures about banks' capital structure, capital adequacy, and risk management. The Pillar 3 disclosures were built over time in order to reach an adequate level of data reliability, consistency and comparability across banks, and indeed significantly improved the ability of financial markets participants to assess banks' risks management processes, capital structure, risk exposures and capital adequacy. We would welcome a similar approach here, with the disclosures building over time as (1) the BCBS develops a deeper understanding of what information is useful to the market in assessing how climate risk is driving banks' traditional financial risk exposures; and (2) climate-related data quality, reliability, and availability increases and methodologies develop that allow for more comparability and consistency of disclosure.

In addition, there are a large number of disclosure standards being finalized or implemented in various jurisdictions at the moment, or in the first few years following implementation. We recommend allowing additional time for some of these disclosure obligations to bed in, for banks and market participants to absorb the additional information and for supervisors to assess whether further information is needed, before implementing a further public disclosure obligation.

Liquidity risk

Q54. What are your views on the Committee exploring disclosure requirements for the impacts of climate-related financial risks on deposits/funding and liabilities?

The link between climate-related risks and banks' liabilities is even more uncertain than on the asset side. It is therefore too soon for the BCBS to explore these disclosure requirements.