Neil Esho,
Secretary General
Basel Committee for Banking Supervision
Basel, Switzerland

October 5, 2023

Dear Neil,

Congratulations to the Committee and the Secretariat for pulling together a masterful revision of the Basel Core Principles to take into account emerging areas of risk, developments in the industry, and the experiences from the IMF-World Bank FSAP assessments. What is remarkable is that this has been achieved with impressive parsimony and focus, resulting in a document that enhances the relevance and utility of the standard without adding more pages. Having been involved with both the development and implementation of the earlier avatars of the BCP, I can only marvel at the resolve and creativity through which this has been achieved.

I would still venture to offer two suggestions that could add to the utility and impact of the BCP.

1. **Climate related financial risks deserve a standalone principle.**

The consultative paper has done a yeoman job in identifying and incorporating the essential criteria measurement, management and governance of climate related financial risks in different principles. Yet, spreading these important criteria across the principles does not offer a holistic picture of how the guidance for this key risk area is either expected to be handled, or is being implemented by banks and their supervisors in different jurisdictions. I appreciate that there are two strong views in the room - one, that climate related financial risks eventually map into the standards buckets and can be dealt with under the corresponding principle; and two, that these are unique risk drivers and need to dealt with holistically.

If ever there was a time to put aside the orthodoxy, it is now. We are at a very difficult stage in the climate discussions with slippage in all agreed climate goals. The management of climate related risks in all areas of the economy is acknowledged to critical to the health of the planet and its population, making it even more important to for all sectors to both provide clear guidance on expected behavior and equally, to monitor its implementation. Having a standalone principle will allow such a determination to be made. The financing decisions of the banks not only subject them to physical and transition risks, but are also important contributors to shaping the incentives for greening of the economy. Besides, banks continue to play the key role in most financial systems, and their actions and their areas of focus tend to be important for signaling purposes for the rest of the financial system including the other standard setting bodies.

Technically, it should be eminently possible to extract the guidance as given in the consultative paper from all relevant principles and together with the June 2022 BCBS guidance document on the effective management and supervision of climate related risks, craft a 30th standalone CP. Assessments against this principle would give all stakeholders a better and clearer idea of how these are being dealt in the jurisdiction; while banks and supervisors would be able to more easily make a case for legislative changes or public policy interventions to support their compliance. In addition, any published assessments against the principle would also lead to quicker dissemination of evolving best practices and provide useful guideposts in this area. Else, no assessment or self-assessment will bring to light how banks are faring in their efforts in this crucial area as the observations on the degree of compliance would be dissipated across different criteria in different principles. it would also allow for a dynamic updating of the principle as new insights are gained into the transmission and management of climate related financial risks. Understandably, there may be some worry about compliance with this principle being universally low in the initial years, but this will actually work to combat stigma while at the same time providing useful inputs to the international discussions.

It could be argued, as the paper does, that the heterogeneity in context and practice would render any isolation of climate related risks into a single principle less effective. Not doing so, however, would be a missed opportunity - If the prognosis put out by the UN Climate Panels holds, banks and their supervisors need to step in now to make a meaningful contribution to the climate agenda. Deferring this to the next revision of the BCP may just be too late.

2. **The interplay between bank supervision and financial inclusion should find more prominent mention.**

It is widely accepted that the intersection of financial stability, inclusion and integrity can pose unique issues for banks and their supervisors. Financial inclusion is now a key public policy goal in all jurisdictions, and impacts bank risk management and vice versa. The Committee has already done significant work in this area through the 2016 guidance[1] but this doesn't come across in the consultative paper. In fact, the word 'inclusion' or 'inclusive finance' does not figure anywhere in the document. True, the references to 'proportionality' and the expanding role of NBFIs covers some aspect of this interplay, but banks remain the main agents of inclusion in most countries. At the least, the introduction should reference the role of banks in promoting inclusive finance while managing the associated risks and reference the gist of the guidance document.

I hope that you find these suggestions useful and I do hope that they can still be addressed.

With best regards,

Aditya Narain
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Washington D.C., USA

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[1] Guidance on the application of the Core Principles for Effective Banking Supervision to the regulation and supervision of institutions relevant to financial inclusion, September 2016.