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Bloomberg response to the Basel Committee's consultation on a Pillar 3 disclosure framework for climate-related financial risks

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?

Bloomberg observes that better and standardized disclosures by banks will create more transparency for bank stakeholders, which include equity and debt holders, as well as deposit holders. Bloomberg therefore supports the Basel Committee's recommendation to create a clearer and more consistent reporting framework for climate-related financial risks in the banking sector as it will promote market discipline and increase stakeholder confidence.

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

See above our response to Question 1.

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 be achieved?

Bloomberg recognizes the unique considerations each organization must make in adopting assumptions, climate pathways, and impact assessments tailored to their operational model, sectors, and geographical locations. Despite this diversity, we advocate for standardization in output values and the types of pathway scenarios used by firms, emphasizing the need for a common approach to regulating climate risk disclosures.

To enhance coherence, we propose increased alignment between the disclosure frameworks suggested by the Basel Committee and the European Banking Authority (EBA). We particularly support the Basel Committee's comprehensive disclosures of financed emissions across various metrics and functions.

Furthermore, we highlight that the European Union's Corporate Sustainability Reporting Directive (CSRD) will capture global firms by virtue of its extraterritorial nature. Additionally, several jurisdictions are endorsing or intending to adopt the ISSB standards. Given these trends, we encourage the Basel Committee to align its disclosure requirements as closely as possible with the CSRD and ISSB standards.

Finally, we suggest incorporating proportionality into the Pillar 3 disclosure requirements. This approach aims to foster broader coverage and improved data quality from non-public and SME-type companies, promoting a more inclusive and robust disclosure landscape.

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

Bloomberg believes that the overarching objective should be to introduce mandatory disclosure obligations. Disclosure requirements that are left to national discretion could undermine the comparability and consistency of this information, while comparability and consistency are crucial to boost stakeholder confidence in the banking sector.

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

Bloomberg recommends, at the minimum, that the information undergoes a rigorous review process, either by an internal audit function or third-party, where individual supervisory and regulatory authorities deem appropriate.

Qualitative 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?

As highlighted in our response to Question 8 above, Bloomberg believes mandatory disclosure requirements should be preferred to ensure consistency and comparability of the information.

Bloomberg notes that aligning qualitative disclosures around governance, strategy and risk management to the ISSB/TCFD framework further benefits comparability not just across banks but also across sectors and jurisdictions.

Quantitative 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?

As highlighted in our response to Question 8 above, Bloomberg believes mandatory disclosure requirements should be preferred to ensure consistency and comparability of the information.

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?

Bloomberg suggests enhancing the physical risk templates with more granular analysis, given the location-specific nature of the risk (see our response to Question 33 for more details).

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

Bloomberg believes that financed emissions are a useful metric to understand banks' exposure to transition risks. To date, financed emissions reporting varies widely across banks. We therefore agree with the BIS proposal to prescribe a single methodology such as the PCAF methodology for financed emissions accounting.

Bloomberg would also like to provide the following additional recommendations:

- We observe that banks tend to report financed emissions by sector. We recommend using a consistent sector definition, as this will allow for easier comparison across banks.
- We observe that banks tend to report for their top emitting sectors. We recommend requiring banks to report for all sectors, so as to obtain a complete picture of financed emissions and transition risk.
- Bloomberg supports separate reporting for Scope 1 and 2, and Scope 3. However, as acknowledged by PCAF, the comparability, coverage and reliability of Scope 3 data varies greatly per sector and data source. Given these challenges, Bloomberg urges the BIS to provide additional guidance on Scope 3 reporting requirements.
- Requiring banks to disclose the share of the balance sheet for which they have emissions data, and for what share of their balance sheet they used proxies/estimates.
- We observe that banks have a higher disclosure rate for certain asset classes (especially loans) compared to others. We recommend that banks make explicit which asset classes they left out of scope of emissions reporting, and how much of the banks' balance sheet these omitted asset classes comprise.
- We observe that banks' financed emissions reports often span several pages of reporting, which creates challenges when capturing data. We recommend requiring emissions disclosures in a tabular format.
- Bloomberg further recommends requiring banks to report PCAF data quality scores associated with their emissions reporting, to provide further transparency on the quality of the reported data.

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

Bloomberg notes that financed emissions are a useful but not perfect metric; for instance, they are not highly correlated with transition risk for a number of reasons, including the ability to pass costs onto customers and the lack of substitutable products in some sectors.

A range of alternative metrics have been developed. For example, BloombergNEF has developed a tool for considering revenues at risk from the transition.

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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?

Bloomberg agrees with this proposal.

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?

As highlighted in our response to Question 24 above, Bloomberg supports the use of the PCAF methodology and agrees with this proposal.

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?

See our response to Question 33.

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?

Bloomberg suggests allowing firms to bucket exposures into high, medium and low physical risk within locations provided by supervisors by types of exposure, and explain their methodology for doing so. We note that this information would still be standardised to the extent that total exposure in each location is fixed, but a more granular assessment would be provided within the location.

This approach would also have the benefit of enabling supervisors to specify broader geographical regions and include those that are more heterogeneous in terms of their exposure to physical climate change risk.

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

Bloomberg notes that physical risks are highly location-specific, such that regional groupings may not adequately reflect the physical risks a bank is exposed to. This complexity is further compounded by the fact that many corporate counterparties will have physical locations across multiple regions, which may be difficult to reflect in a regional breakdown.

For these reasons, we see limited value in a regional breakdown of physical risk exposure. As an alternative, the Committee could consider asking banks to disclose exposure information based on:

- A set of scenarios, ranging from lower to higher warming outcomes; and/or
- A set of time horizons, ranging from short term to long term; and/or

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- A set of risk factors/ perils, such that stakeholders gain insight into which perils the bank is most exposed to.

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

The proposed information groups Scope 1, 2 and 3 emissions together. Bloomberg recommends separating the forecasts for Scope 1 and 2 from the forecast for Scope 3 given that Scope 3 data (and forecasts) are subject to a greater degree of uncertainty than Scope 1 and 2.

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, e.g. heat stress, floods, droughts, storms, wildfires etc?

Bloomberg supports this proposal. Different perils have different impacts, and banks may diversify peril exposure in order to better understand the banks' physical risks.

In addition, as noted in our response to Question 21 above, Bloomberg recommends requiring banks to provide a quantification of their physical risk across scenarios (low warming vs high warming scenarios), time horizons (short-, medium- and long-term scenarios), and the type of risks they are most exposed to.

Effective date

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

Bloomberg agrees with the proposed implementation date of 1 January 2026.

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?

Liquidity risk is generally measured on a much shorter time scale than climate-related risks (days vs years). In addition, market liquidity is also a function of market perception and behavior. We therefore consider that although liquidity risk could be impacted by climate-related financial risks, this is likely to not be as material as the potential credit risk impacts.