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16 February 2022

Bloomberg response to Basel Committee on Banking Supervision Consultative Document: Principles for the effective management and supervision of climate-related financial risks.

I. __General comments__

Bloomberg is at the forefront of promoting and implementing a sustainable financial system globally, working with investors, cities, policymakers, regulators, and international institutions to drive the sustainable finance agenda. Bloomberg is a member of multiple sustainable finance expert groups, including in the European Union (EU), Hong Kong, Singapore, and the United Kingdom (UK).[1] At the international level, Bloomberg chairs and provides the Secretariat for the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

Bloomberg welcomes the opportunity to provide feedback to the Basel Committee on Banking Supervision's (BCBS) consultative document on the "Principles for the effective management and supervision of climate-related financial risks". As financiers, banks especially have a fundamental role to play to ensure an orderly low-carbon transition and help reach net-zero targets. Their role as green capital mobilisers should be encouraged as they allocate capital into different sustainable lending activities. Banks should also take precautionary steps when it comes to climate-related financial risks, given the growing impacts of these risks to properties and assets.

Overall, Bloomberg broadly agrees with the high-level principles set out in this consultative document. However, there are a number of areas we believe can be further addressed by the Committee, particularly around:

- Fostering global coordination to minimise gaps in supervisory expectations and regulatory requirements.
- Providing detailed and prescriptive guidance to banks to accompany the high-level principles (e.g., definitions for physical and transition risk as elements of climate risk).
- Integrating mandatory climate-related reporting into the principles; reporting should be made in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and include credible climate transition plans coupled with science-based carbon emissions targets.
- The need for a common set of scenarios to be used when conducting scenario analysis, such as the Network for Greening the Financial System's (NGFS) six scenarios.

We would be very happy to provide any additional information on any of the points raised in this response.

[1] Bloomberg is a member of the: EU Platform on Sustainable Finance; UK Green Technical Advisory Group (GTAG); Hong Kong's Centre for Green and Sustainable Finance, launched by the Green and Sustainable Finance Cross-Agency Steering Group; Hong Kong Securities and Futures Commission (SFC) Climate Change Technical Expert Group (TEG); and the Green Finance Industry Taskforce (GFIT), convened by the Monetary Authority of Singapore (MAS).

II. ***Detailed feedback***

Q1: Has the Committee appropriately captured the necessary requirements for the effective management of climate-related financial risks and the related supervision? Are there any aspects that the Committee could consider further or that would benefit from additional guidance from the Committee?

Bloomberg welcomes the Committee's publication of the proposed principles for the effective management and supervision of climate-related financial risks. This marks an important step forward in fostering global coordination and further cementing the central role that climate-related risk management plays in the global banking system as the risks of climate change continue to grow and reach all sectors of the global economy. As local regulators set out their respective supervisory and regulatory agendas, the Committee has a key role to play in promoting convergence in climate-related risk policies and supervisory approaches at the international level to avoid global market fragmentation.

Overall, Bloomberg agrees with the high-level principles that are set out in the consultative document. As these principles are likely to be issued during a time of substantial evolution of climate information and preparedness, Bloomberg would nonetheless think it helpful to market participants if the Committee would provide more prescriptive guidance in this document, such as references to specific standards and their evolution (e.g. TCFD and NGFS), alongside supporting information around, for example, definitions and differentiations for physical and transition risk as elements of climate risk. We also believe it would be beneficial for the Committee to indicate that it intends to amend these principles on an ongoing basis to anticipate and adapt to changes in climate knowledge and practices, as well as provide further clarity on expectations and timelines for implementation of the principles.

Bloomberg also believes that the Committee could consider further addressing the disclosure aspect of managing climate-related financial risks by providing additional guidance in the proposed principles to help banks develop their capacities to produce robust and decision-useful disclosures. Because of the many benefits of consistent climate-related disclosure, we would strongly urge the Committee to integrate mandatory reporting requirements into its principles. This would in turn help improve the quality and quantity of comparable climate-related data for the end-user community. To that end, we believe banks should apply the TCFD recommendations when making climate-related disclosures. To provide end-users with higher quality and more granular information, banks should disclose both at the four-pillar level (Governance, Strategy, Risk Management, Metrics and Targets) as well as in line with the Task Force's 11 supporting recommended disclosures.

Disclosures need to contain both backward- and forward-looking metrics and activity as well as industry specific key performance indicators (KPIs). The information provided should, at a minimum, include metrics on company greenhouse gas (GHG) emissions (Scopes 1, 2 and 3), a description on carbon emission targets (and steps taken to achieve them), actual and projected financial impacts, and assessments of strategy resilience using scenario analysis. Carbon targets should be science-based and accompanied by a credible net-zero transition strategy.

It is also very important that disclosures are digital, contain machine-readable information that is common and comparable, in addition to binary or metrics-based answers. This will improve the quantity and value of quantitative information which is key in assessing companies' considerations of climate risks. Disclosures should also be written in XML and in a standardised, tabular format. XML defines a set of rules for encoding documents in a format that is both human- and machine-readable, increasing the accuracy of the data extracted by financial institutions.

Bloomberg also notes that the quantification of financial risks is only explicitly mentioned in Principle 5 (Capital and Liquidity Adequacy), and yet this would seem to apply to the other principles, including the internal control framework. Therefore, we would suggest that quantification of financial risks be a general statement that would apply to the internal control framework, capital and liquidity adequacy, the risk management process, management monitoring and reporting, the comprehensive management of credit, market, liquidity and other risks, as well as to scenario analysis.

Q2: Do you have any comments on the individual principles and supporting commentary?

Bloomberg would make the following comments with respect to the individual principles:

- Principle 6: We believe that the Committee should identify key high-level elements of climate risk, where respondents should be prepared to identify, assess, monitor and control during the lifecycle of credits. Moreover, limits should be commensurate with identified risk profiles of supervised institutions, which may include both gross and net limits, depending on hedging instruments or exposures.
- Principle 7: It is generally observed that there are varying levels and quality of data and analytics available to supervised entities. We would therefore suggest that the Committee add language supporting independent benchmarking as appropriate, including exposures, GHG emissions, scoring, and climate risk evaluations and scenarios.
- Principle 8: This principle would benefit from additional language that differentiates and expands on key components of climate risk, such as physical and transition risks, and principles for their inclusion in the credit risk framework. Additionally, Bloomberg would suggest that the Committee add that pre-underwriting pricing considerations commensurate with the climate risks undertaken in the underwriting of specific credit be included in this principle.
- Principle 9: We believe there is a need for further clarity and additional information on hedging, to extend beyond market measures to consider extant methods of climate hedging (such as carbon offsets) and other forms of risk mitigation.
- Principle 12: It is important to provide detailed guidance around conducting scenario analysis for banks to refer to so that the data on scenario analysis is consistent and comparable across entities. To that end, we would recommend the Committee to encourage a common set of scenarios, such as the NGFS' six scenarios which cover the following dimensions: (1) orderly; (2) disorderly; and (3) hot house world.[2] Results from scenario analysis and/or climate stress testing conducted should be included in climate-related disclosures to provide transparency on where banks have the largest exposures; this should be accompanied by an explanation on what actions are being taken to address these exposures.

Q3: How could the transmission of environmental risks to banks' risk profiles be taken into account when considering the potential application of these principles to broader environmental risks in the future? Which key aspects should be considered?

[2] https://www.ngfs.net/sites/default/files/media/2021/08/27/ngfs_climate_scenarios_phase2_june2021.pdf

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Overall, Bloomberg believes that the consistent classification, evaluation and disclosure of climate-related exposures and risks, based on a common global framework, would support the availability of transparent and comparable climate-related data in the market. To support this, it is important for the global financial market to have:

- A common green taxonomy of economic activities and conditions for environmental sustainability, with common baseline metrics and inputs, building on the EU model and work being done at the International Platform for Sustainable Finance (IPSF);
- Consistent disclosure standards (which would benefit from coordination with the International Sustainability Standards Board);
- Consistent and repeatable valuation standards; and
- Common standards around scenarios (such as NGFS, as highlighted in our response to Question 2), in the context of the governance and control frameworks.

It is only when the global financial market has a clear set of global standards to understand what truly constitutes "green" that we will be able to price assets correctly, mitigate risk, and mobilise capital towards sustainable outcomes, in turn enabling the transition to a net-zero carbon economy.