February 16, 2022

TO: Basel Committee on Banking Supervision https://www.bis.org/press/p211116.htm

FROM: Bâtirente, a group retirement system

Thank you for the opportunity to provide feedback on the document: Basel Committee on Banking Supervision, Consultative Document, Principles for the effective management and supervision of climate-related financial risks, November 2021

Æquo represents Bâtirente, a labor-sponsored pension fund based in Montreal. Bâtirente is a founding signatory to the PRI and an active member of the responsible investment community in Canada and globally. For more information, please visit www.batirente.qc.ca and www.aequo.ca

We commend the Basel Committee for addressing the issue of climate-related financial risks. The proposed principles-based approach will play a very important role improving risk management and supervisory practices related to climate-related financial risks.

Our main comment stems from our strong belief that banks have a significant and crucial role to play in accelerating the transition to a low carbon economy. Banks should not only seek to understand their client's transition strategies and risk profiles, but also guide clients in adopting transition strategies aimed at reducing their own scope 1,2 and 3 emissions following pathways that are aligned with the goal of the Paris agreement or reaching net zero emissions by 2050. Banks should encourage clients to adopt transition strategies and plans that follow guidance by credible third party sources such as the TCFD (see the October 2021 TCFD's Guidance on Metrics, Targets, and Transition Plans). In our view, to be credible, client's transition plans should contain climate-related targets that cover short, mid and long term time horizons, are quantified and measurable and, are based on reliable and verifiable metrics.

The idea that banks can and should encourage best practices of their clients could be weaved into Principle 7 which currently states that banks should consider engaging clients to develop a better understanding of their transition strategies. Banks should assess and monitor the quality of their client's transition strategies using credible frameworks such as the TCFD and adopt processes to facilitate their clients progression toward the adopting best practice transition plans.

Regarding scenario analysis), Principle 12 should be clarified by specifying that a climate scenario should be either aligned with a 1.5 Celsius or a net zero emissions by 2050 pathway. Currently, principle 12 is somewhat ambiguous, recommending that "banks should assess the resilience of their business models and strategies to a range of plausible climate-related pathways." For example, a bank could be of the opinion that the IEA's Sustainable Development scenario is a plausible climate-related pathway despite the fact many suggest it would result in warming higher than 2 degrees. This should be reflected in Principle 18 as well.

Lastly, the Basel Committee should consider adding a principle covering how minimal capital requirements could be strengthened for GHG-intensive exposure that are clearly misaligned with a net zero emissions pathway, in particular for clients, activities and sectors that are involved in exploration and development of new oil and gas fields, new coal production and new LNG infrastructure (as described in the IEA's net zero emissions scenario).

Thank you for the opportunity to provide input.

Best regards,

François Meloche, Æquo (on behalf of Bâtirente)