Thank you for giving us this consultation opportunity.

We are representing an alliance that consists of more than 140 civil society organisations in Switzerland, united in the understanding that climate change is systemically relevant and has double materiality for the financial sector. Hence, we do focus our comments on the topic of climate-related risks.

Overall, we are convinced that the given principle-based guidance alone will not be sufficient to timely and effectively address the risks of climate change. The current guidance remains generic and largely relies on existing tools, which cannot account for the specific nature of climate-related financial risks and the radical uncertainty of unmitigated climate change. More concrete precautionary measures are required, such as adjusting Pillar 1 capital requirements. The priority for Pillar 1 capital measures should be the exposures (exposures related to the fossil fuel sector, which are not compatible with the international climate commitments), which are clearly identifiable as a source of climate-related risks - transition risks and systemic risks - based on the evidence from climate science.
We therefore recommend adding more specifics to the Core Principles, in particular on the usage of transition plans in risk management and supervisory reviews.
And we recommend the BCBS to review capital rules so that they reflect climate-related risks and implement measures such as “one-for-one” requirements for fossil fuel financing as an effective, yet moderate measure compared to measures such as sanctions or bans.

In addition, we would like to comment on the following specific Core Principles:

● CP8 Supervisory approach and CP9 Supervisory Techniques and Tools:
We recommend to add and include transition plans as part of a forward-looking approach and a long-term view. Transition plans are a tool to help supervisors understand and oversee climate-related financial risks in a forward-looking manner for individual banks and also for the banking and financial system as a whole. Financial supervisors already recognised the role of transition plans as a source of information and a possible supervisory tool. It is important that the time horizon as per the Paris Agreement objectives (2050) is recognised as a common anchor point for transition planning. Supervisors should then assess if banks have appropriate climate targets, including intermediate targets, set and if they are reaching those targets to mitigate the risk.
Transition plans are essential to understand banks’ climate strategy, targets, their achievement and, based on these, assess if banks are in the position to manage their climate-related risks. Transition plans aggregated across institutions can also be a key supervisory tool to understand the level of risk in the system, as every individual bank is not in the position to properly assess its impact on systemic risk of climate change.

● CP10 Supervisory reporting:
The revised Core Principles mention that supervisors have the powers to require banks to provide information to assess if climate-related financial risks are material. In order to make this meaningful provision more explicit, we recommend including banks’ Transition plans (see our comment for CP 8 and CP 9 on why we believe transition plans can be an effective tool).

● CP15 Risk management process:
Taking again a focus on climate-related risks: There are still many challenges in the management and supervision of climate-related risks, such as lack of expertise, understanding of transmission channels data, credible measurement methods, etc. These have already been pointed out by numerous supervisors, who had previously put supervisory guidance in their respective jurisdictions (see reports by the BCBS1, NGFS2, Bank of England3, ECB4). Therefore there is a need for an additional specification of the approaches to be used in order to provide more concrete guidance and clarity to the institutions and supervisors.
Again, we recommend introducing Transition plans as a tool to manage climate-related financial risks on top of the given generic risk management guidance, since specifics of climate-related risks can hardly be addressed with the existing methods and tools (see also our comments on transition plans under CP 8, 9 and 10).
- Transition plans should be recognised under CP15 as a tool to manage climate-related risks over time. The time horizon of consideration for such transition plans should be anchored around 2050, which is an internationally agreed timeline to mitigate climate risk overall that is based on conclusive scientific evidence.
- Transition plans should be based on the double materiality principle (i.e. consider risks and impacts), as banks' climate impacts are the most meaningful proxy of their transition risks. From the supervisory perspective, impacts are fundamental to assess climate-related systemic risk.

Else, we recommend that the principle mentions the limitation of stress tests as prudential tools in the case of climate-related financial risks, as they are not able to reflect the whole complexity of climate impacts and remain exploratory exercises. Banks and supervisors should clearly disclose the limitations of climate scenario analyses. This is of fundamental importance, as policymakers / regulators increasingly rely on these exercises, which prevents them from taking the necessary ambitious and timely measures to address climate-related financial risk.

● CP 16 Capital adequacy:
We support the guidance to supervisors to use the powers and require banks to maintain additional capital for material exposures, in particular sectoral capital requirements.
We do recommend to specify this principle by adding that dedicated capital requirements should be used to cover climate-related financial risks- These risks are not yet covered by the Pillar 1 capital requirements while the majority of banks recognise them as material. Such additional capital requirements include Pillar 2 capital add-ons for climate risk at the individual institution level, as well as dedicated sectoral systemic risk buffers to account for the systemic climate-related risk. Supervisors already recognised that both - unmitigated climate change and delayed and disorderly transition - pose a major risk to the stability of the financial system.

Thank you for taking this into consideration and with best regards,
Asti Roesle, Climate Alliance Switzerland