14 March 2024

Climate Bonds Initiative

Comments on the Basel Committee on Banking Supervision's consultation on the disclosure of climate-related financial risks

The Climate Bonds Initiative (Climate Bonds) welcomes the Basel Committee on Banking Supervision's (the Committee) consultation on a Pillar 3 disclosure framework for climate-related financial risks.

Answers to questions

5.1 General Questions

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?

- Increased transparency leading to better market information and therefore efficiency;
- Increased confidence that climate related financial risks (CRFRs) have been taken into account, therefore improving banks stocks attractivity;
- Regulators and supervisors can get a better consolidated, systemic view because reporting practices are standardized to a degree;
- Best practices in terms of risk assessment are acquired faster by the market via the framework and guidance.

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

- So far, banks have been slower than other actors in the financial sector to adapt to the new realities of an economy under increased stress and volatility from the effects of climate change. Such slow adaptation is in turn more likely to lead to increased levels of CRFRs in the economy.
- Underreporting of CRFRs by banks, and hence and lack of understanding of systemic CRFRs, can lead to increased volatility and potential systemic failure in the banking system with repercussion to the broader economy.
- It would be more difficult for regulators and supervisors to have a systemic view of CRFRs in the system because of lack of standardization of reporting of internationally active banks.
- The under-reporting of CRFRs can also lead to the mispricing of risks in different markets, and hence a misallocation of capital at a systemic level.
- The absence of such disclosures could lead to less incentives for banks to develop the skills, expertise and governance frameworks on CRFRs, leading to poor CRFRs identification, assessments and mitigation actions.
- It would lead to slow progress on CRFRs methodologies and implementation because there would be no channel to communicate best standards and agreed upon methodologies.
- It would lead to internationally active banks having to compose with different national CRFRs reporting frameworks, not using the same standards and therefore lacking comparability.
- We would also like to flag the risks associated with the framework being introduced too late. Delaying CRFRs disclosures could lead to delayed action by both banks and market participants. In the aggregate, this could lead to CRFRs increasing rather than being mitigated in some aspects of the economy, especially in light of the non-linear nature of CRFRs. We would suggest bringing forward the implementation date, while allowing for a longer phase-in during which regulators can act as "safe harbours" for banks to flag issues with implementation, including with data, and exchange best practices.

Q3. Would the Pillar 3 framework for climate-related financial risks help market participants understand the climate-related financial risk exposures of banks and how banks are managing these risks?

- While the proposed framework has the potential to help market participants to understand the climate-related financial risk exposures of banks and how banks are managing these risks, this is only likely to be realised if the disclosures are meaningful and comparable.
- The current lack of agreed upon common methodologies and definition (such as a typology of risks, of time horizons, of geographies, of sectors, of metrics) in the framework are likely to undermine this objective.

- As a result, market participants may be confronted with sparse and potentially confusing data as opposed to comparable data (*see also answer to Q5*).

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 best be achieved?

- Not necessarily in its current form.
- The work of the Committee could be done in coordination with the work of ISSB on guidance on disclosure for internationally active banks, to ensure consistency.
- In addition, the framework should consider its overlap between existing and upcoming requirement on transition plans in different jurisdictions and set out how CRFRs disclosures will fit with the conceptual frameworks of banks transition plans. Ensuring coherence of the overall framework is key both to support action on climate change (and hence the ultimate mitigation of CRFRs) and minimise regulatory burden on firms.

Q5. Would there be any unintended consequences of a Pillar 3 framework for climate-related financial risks? If so, how could these be overcome?

- In its current form, we expect that the proposed Pillar 3 framework for CRFRs could have unintended consequences in at least two important ways.
- Firstly, without further cross-border harmonisation with standardized levels and quality of disclosures, unintended consequence could include markets penalising those banks that disclose a high level of CRFRs, either because they are effectively more exposed, or because they are disclosing more extensively, than other banks. This could be overcome by the supervisors encouraging a standard methodology for disclosure (therefore avoiding the "more extensively"), and by mitigation and adaptation policies to reduce exposure.
- Secondly, the proposed use of exposures to sectors and geographies could lead to excessive and systemic 'de-risking' by banks through decreasing or stopping lending activities to activities in risky sectors or geographies that nonetheless would require significant investment to implement climate mitigation and adaptation measures. In the aggregate, this could exacerbate the lack of available financing to those activities, sectors and geographies that may need it the most from a climate mitigation point of view, leading to increased CRFRs in the system. In other words, CRFRs are not exogeneous, and their likelihood and impact will also depend on banks playing their part in capital allocation to transition economies.

Q6. What are your views on potentially extending a Pillar 3 framework for climate-related financial risks to the trading book?

- We are strongly in favour of the principle of extending the full Pillar 3 framework for climate related financial risks to the trading book. This is because:
    - the trading book is a substantial part of GSIBs exposures, and can also "a priori" include substantial CRFRs;
    - Lack of understanding and disclosures of CRFRs can lead to systemic mispricing of risks and misallocation of capital on markets.
- However, to our knowledge the concepts and methodologies for assessing the CRFRs of the trading book are not yet developed. We urge the Committee to foster their development so that CRFRs can be captured across the whole of GSIBs activities, not just the banking book.

Q7. What are your views on the proposed methodology of allocating exposures to sectors and geographical locations subject to climate-related financial risks?

- We are generally supportive of improving methods of CRFRs assessment.
- We would first suggest that guidance on geographies should be given by the Committee perhaps in liaison with the NFGS, rather than be left to national supervisors. This is because the impact of physical risks materialising does not only affect the geographical areas where the risk materialised, but also the economic activities that are linked to that area via, among others, global supply chain interlinkages.

Hence, some non-national areas may be relevant for assessing certain climate risks, for example the flooding of river delta areas affecting several countries through chains of economic activities.
- We would also suggest the geographical split of counterparties based on the registration of the obligor, because the registration place may affect the nature of CRFRs disclosure available from the counterparty.
- We would however urge the Committee to be cognizant of the possibility for unintended consequences that could happen through systemic and excessive 'de-risking' by banks, by decreasing or stopping lending activities to activities in risky sectors or geographies that nonetheless would require significant investment to implement climate mitigation and adaptation measures. In singular cases, this may help reduce banks' risk profiles. In the aggregate, this could exacerbate the lack of available financing to those activities, sectors and geographies that may need it the most and would contribute to global climate action, and potentially to overall higher levels of CRFRs in the economy.

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

- Generally, and where action has not been taken on a voluntary basis, we support more mandatory disclosures given the need for rapid action.
- Generally, we also support limited national discretion. This is because we understand the proposal to target internationally active banks with a view to provide a harmonized CRFRs disclosure framework, overcoming potential fragmentation from potentially different national disclosure frameworks. Fragmentation could lead to a lack of understanding of CRFRs by market participants and those assessing systemic risks, including international spillovers.
- In particular, we would favour mandatory disclosure by large internationally active banks of a transition plan as well as financed and facilitated emissions.

Q9. What are your views on whether potential legal risks for banks could emanate from, or be mitigated by, their disclosures as proposed in this consultation, and why?

- In our view the proposal could significantly mitigate the legal risks faced by banks associated to the lack of reporting or underreporting of CRFRs. This is because the proposal contains guidelines that will frame expectations and definitions of what internationally active banks are supposed to report.
- Any legal risks emanating from disclosures can in our opinion be mitigated by appropriate transparency and disclaimers notably related to the lack of reliable data.
- In addition, in jurisdictions in which banks face legal risks to their action to mitigate CRFRs, disclosures could support the rationale for mitigation action, demonstrating that it is in direct support of sound financial risk management in line with prudential expectations, thereby potentially limiting legal risks.

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

- We are generally supportive of mechanism, such as assurance, to strengthen the level and quality of disclosures, including CRFRs disclosures.
- However, while assurance of disclosures would be a plus, it may be too early as this is an emerging field. It could lead to perverse incentives of a box-ticking exercise as opposed the openness that is needed at this early stage to encourage the exchange of best practices and learning.
- Assurance should be a next step in the disclosure requirements, coming after banks have been producing the data for a few reporting cycles and data quality has improved with experience of disclosures.

5.2 Qualitative disclosure requirements

Q11. What are the benefits of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements?

- The proposed CRFR disclosure requirements would promote a common disclosure baseline across internationally active banks. Disclosure requirements are a fundamental component of a sound banking system, as providing market participants with meaningful information, such as key risk metrics, reduces information asymmetry and promotes comparability of banks' risk profiles within and across jurisdictions.
- However, the comparability objective will better be achieved if detailed guidance is given on the content of the proposed qualitative disclosures, which otherwise are subject to interpretation and selection. This applies, in particular, to items 1 and 2 in table CRFRB.
- In addition, we would suggest that there is potentially significant overlap between the qualitative disclosures proposed and the content of a bank's transition plan. This is particularly the case for CRFRA 2. We would suggest that this overlap be more explicitly recognized in the guidance and that, where banks' transition plans exist or are mandated, the duplication of reporting and disclosures is minimized to reduce burden on banks as well as to ensure coherence across the framework.

Q12. Should the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?

- Generally, and where action has not been taken on a voluntary basis, we support more mandatory disclosures given the need for rapid action.
- Generally, we also support less national discretion. This is because we understand the proposal to target internationally active banks with a view to provide a harmonized CRFRs disclosure framework, overcoming potential fragmentation from potentially different national disclosure frameworks.
- In particular, and given the lack of take up of voluntary CRFR disclosures, we favour mandatory disclosure by large and internationally active banks in scope of the consultation of a transition plan and of financed and facilitated emissions.
- A phase-in could be introduced, starting with the largest internationally active banks, the GSIBs, then gradually extending to other SIFIs. This would however need to happen in quick succession given the fundamentally urgent nature of climate change (and hence the rise of CRFRs).

Q13. What key challenges would exist for preparers or users of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements? How could these be overcome?

- Generally, the key challenge in the proposed framework is the wide interpretation than can be given to the guidance and hence the need for further guidance to support quality and comparability of disclosures. Examples include:
    - a detailed guidance on forward looking metrics should be provided, including, as suggested in table CRFRB 1 a, how banks intend to support their counterparts and the broader economy's transition;
    - terms such as "short, medium and long term" should be defined;
    - methodologies and climate scenarios should be referencing common standards, potentially developed by the NGFS or another reference institution that would guarantee the comparability of output numbers.
- The definition of geographies and sectors would also rely on such methodologies, to foster comparability and also alignment with climate science, insofar as some climate data may be available only for certain sectors or geographies definitions.
- Exposure to geographies should consider the impact of the materialisation of physical risk not just on a geographical basis but also based on impact throughout chains of economic activities.
- The disclosures requirement overlaps with existing or upcoming transition plan guidance in different jurisdictions. There is an urgent need for clarification of transition plan guidance and disclosures for banks to avoid duplication or efforts and regulatory burden on banks. We would urge the Committee to

work on supporting alignment of transition plan guidance as well as provide a clearer context on how such transition plan will overlap and/ or leverage on the CRFRs disclosure framework under Pillar 3.

Q14. What additional qualitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?

- As the qualitative requirements are applied bank-wide in terms of governance, strategy and risk management, the scope of the concentration risk could be extended from the banking book to include the trading book. In the example given, drought in a specific region, this would potentially affect loans to farmers, which may be a smaller share of exposure, but also commodities trading, potentially a larger share of exposure.
- The Committee should also consider how to use the qualitative disclosures framework to ask banks how they address the possible unintended consequences of de-risking strategies and the possible lack of capital allocation towards economic activities that would otherwise support the decreasing of levels of CRFRs in the economy. This could be done, for example as part of CRFRA 2 as well as as part of banks transition plans.

Q15. How could the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements be enhanced or modified to provide more meaningful and comparable information?

- *See answer to Q13.*

Q16. What are your views on the relevance of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements to understand climate-related financial risks to which banks are exposed?

- We are supportive of the general framing of the disclosures.
- We would however favour more methodological guidance to foster comparability and the possibility for supervisors to have a better informed aggregated, systemic view of CRFRs (*see answer to Q13*).

We would also strongly favour a clarification of the links with banks transition plans in the disclosures framework in order to enhance coherence of the framework, avoid duplication of efforts and limit regulatory burdens for banks (*see answer to Q13*).

5.3 Quantitative disclosure requirements

General

Q17. What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?

- The proposed CRFR disclosure requirements would promote a common disclosure baseline across internationally active banks. Disclosure requirements are a fundamental component of a sound banking system, as providing market participants with meaningful information, such as key risk metrics, reduces information asymmetry and promotes comparability of banks' risk profiles within and across jurisdictions.
- However, the comparability objective will better be achieved if detailed guidance is given on the content of the proposed qualitative disclosures, which otherwise are subject to interpretation and selection. This applies particularly to items in table CRFR1 and 2.

Q18. Should the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?

- Generally, and where action has not been taken on a voluntary basis, we support more mandatory disclosures given the need for rapid action.
- Generally, we also support less national discretion. This is because we understand the proposal to target internationally active banks with a view to provide a harmonized CRFRs disclosure framework, overcoming potential fragmentation from potentially different national disclosure frameworks.
- In particular, and given the lack of take up of voluntary CRFR disclosures, we favour mandatory disclosure by large and internationally active banks in scope of the consultation of a transition plan and of financed and facilitated emissions.

- A phase-in could be introduced, starting with the largest internationally active banks, the GSIBs, then gradually extending to other SIFIs. This would however need to happen in quick succession given the fundamentally urgent nature of climate change (and hence the rise of CRFRs).

Q19. What key challenges would exist for preparers or users of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements? How could these be overcome?

- The key challenge is the wide interpretation/selection possibilities that are left with the proposed level of guidance. We would suggest that the Committee provides more detailed guidance to preparers, namely:
    a. tables CRFR1 and 2: "Scope" to be defined as the banking book as per audited financial statements;
    b. methodology for counting financed emissions should reference an established methodology, such as PCAF;
    c. climate events and geographies, as well as possibly sectors, for table CRFR2, should include reference to climate science based and common scenarios, such as those developed by the NGFS.

Q20. What additional quantitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?

- Financed emissions in Table CRFR1 should not only be used to measure CRFRs, but also to assess how the bank is moving on its transition plan. A specific link should be made to the disclosed transition plan: targets to reduce financed emissions should be set and progress assessed on reducing financed emissions, with corrective measures proposed in the strategy if objectives are missed (*see also answer to Q11*).
- The proposed disclosures in Tables CRFR1 and 2 relate to exposures to non-financial corporates (presumably in the banking book) only. We would suggest encouraging a more widespread approach to CRFRs by including financial corporates and sovereign debt in the banking book and developing corresponding methodologies to assess their transitions and physical risks. We would also suggest working on developing concepts and methodologies to assess the CRFRs in the trading book. The CRFRs of banks should not be limited to CRFRs related to the corporate (or corporate and real estate) lending portfolio of banks, which is only a relatively limited part of the exposure, particularly for GSIBs, SIFIS and many internationally active banks.

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?

- *See answers to Q19 and Q20*.
- We would suggest more detailed guidance to established scenarios and methodologies to improve quality and comparability of disclosures.
- We would also suggest that more assets be included in the scope than just non-financial corporates to provide a more meaningful and accurate understanding of CRFRs faced by banks.

Q22. What are your views on the relevance of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements to understand climate-related financial risks to which banks are exposed?

- We are supportive of the general framing of the disclosures.
- We would however favour more methodological guidance to foster comparability and the possibility for supervisors to have a better informed aggregated, systemic view of CRFRs (*see answer to Q19 and Q20*).
- We would also favour a clarification of the links with banks transition plans in the disclosures framework, including regarding the use of reduction targets for both facilitated and financed emissions (*see answer to Q20*) in order to enhance coherence of the framework, avoid duplication of efforts and limit regulatory burdens for banks.

Q23. What are your views on the calculations required to disclose the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?

- We approve the suggested calculations but would strongly suggest that entry data (sectors, geography, climate events, climate scenarios…) be based on common, science based, official reference scenarios and framing such as those of the NGFS (*see previous answers*).

Transition risk: exposures and financed emissions by sector

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

- As indicated in previous answers, exposures and financed emissions are a useful metric in our opinion only if they are precisely defined within a common agreed upon underpinning methodology (e.g. PCAF for financed emissions,).
- Besides, going from "financed emissions" to "transition risks" requires implementing underlying economic models where, for example carbon taxes, energy modelling and socio-economic assumptions, all play a role. Therefore, exposures and financed exposures in our opinion can be considered rather as a proxy for transition risks, until common methodologies are developed to include transition risks in credit risks. Such common methodologies should include the reference to existing and commonly agreed up scenarios (e.g. NGFS).
- We would however urge the Committee to be cognizant of the possibility for unintended consequences that could happen through systemic and excessive 'de-risking' by banks, by decreasing or stopping lending activities to activities in risky sectors or geographies that nonetheless would require significant investment to implement climate mitigation and adaptation measures. In singular cases, this may help reduce banks' risk profiles. In the aggregate, this could exacerbate the lack of available financing to those activities, sectors and geographies that may need it the most and would contribute to global climate action, and potentially to overall higher levels of CRFRs in the economy.

Q25. What are your views on the availability and quality of data required for these metrics, including by sector, activity, region or obligor?

- We expect the availability, volume, and quality of data to all improve due to disclosure regulations being implemented in an increasing number of regions globally. We however recognise that this stage, the quality and comparability of data may not always be satisfactory.
- A key issue is the lack of science-based climate data availability at a precise time and space scale. Data can be produced, but the issue is the strength of their link with a climate science which is largely available on a planetary rather than local space scale, and on a decade rather than yearly time scale. This is why we recommend referencing the underlying methodologies and scenarios developed by a common research body using the state of the art in the matter, such as the NGFS.
- We would also recommend that in the early stages of implementation, regulators behave as "safe harbours" for disclosing banks, so as to ensure the transparency of discussions of key challenges and exchanges of best practices across the industry.

Q26. What key challenges would exist for preparers to disclose these metrics, including by sector, activity, region, or obligor? How could these be overcome?

- A key challenge is collection of clients emissions data. This can be overcome by supporting consistent emissions disclosures as per emerging regulations, and by developing automated reporting systems at customer and at bank level to collect this data in the same manner as financial data is currently collected. Banks will have to adapt their reporting systems to automate sustainability disclosures in a timely manner.

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

- Financed and facilitated emissions with the proposed improvements as set out in answer to Q24-25-26.

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?

- We do not have a preference for one or the other industry classification system.

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?

- Yes, as indicated in Q19 and Q20, this is a prerequisite in our opinion to ensure consistency and comparability of data in line with common best practices for financial disclosures.

Physical risk: exposures subject to climate change physical risks

Q30. Would exposures subject to climate change physical risks be a useful metric for assessing banks' exposure to physical risk?

- Yes, with the suggestions made in answers to Q19 and Q20. We would suggest that the scope is the banking book, extending to financial corporates and sovereign debt, relying on established methodologies and scenarios such as the NGFSs to frame sectors, geographies, climate events, time scales, etc.

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?

- Yes, there would be limitations in terms of comparability and difficulty in aggregating heterogenous data. This would lead to difficulties for international banks to have a global vision of their exposures, and for the supervisors to fully assess systemic risks, including cross-border spill overs. This is why we favour a top-down approach starting with GSIBs and SIFIS and based on a set of common and agreed upon globally developed scenarios (with localised versions) rather than nationally developed methodologies.

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?

- We want to stress that geographic exposure on its own is insufficient to understand the full nature of physical risks that banks are facing. The materialisation of physical risk is likely to impact economic activities in different areas of the globe, through e.g. global supply chains, and in turn impact banks.
- It hence may also be that the relevant geographic classification may vary according to the sector and the type of risk.

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

- We would be strongly in favour of a better explanation of the links between this framework and the existing Pillar 3 disclosures, especially with regard to operational risks.
- The Committee should consider highlighting the need for banks to report on their own physical risks, i.e. the physical risks affecting its staff, building, systems. The disclosure of climate-related operational risks would also benefit from additional guidance, including commonly agreed upon methodologies and criteria for disclosures. We have noticed that generally few large banks (GSIBs) sufficiently and accurately disclose such risks. However, given the important dependency of some key elements of banking infrastructure (e.g. data centres) and the global nature of 'banking supply chain', operational risks caused by climate-related events should be given due consideration.
- To note: this should also be reported for transition risks.

Bank-specific metrics for quantitative climate disclosures

Q34. What are your views on the prudential value and meaningfulness of the disclosure of the proposed bank-specific metrics on (i) asset quality (non-performing exposures and total allowances); and (ii) maturity analysis?

- We are in favour of the proposed (i) asset quality information as included in tables CRFR 1 and 2. This metric can signal whether climate risks have started to impact, or not, the credit quality of exposed assets. For instance, there may be areas prone to coastal flooding where residential credit quality is overall good. This could trigger preventive action such as information campaigns to mitigate the eventual impact.

- Similarly, we favour the maturity analysis as included in tables CRFR1 and 2. This metric may signal for how long the bank is exposed to the CRFR and help inform the planning and sequencing of the mitigation strategy.

Q35. What challenges would exist for preparers or users of these disclosures? How could these be overcome?

- We do not see particular challenges.

Q36. What additional bank-specific disclosure requirements in respect of banks' exposure to climate-related financial risks should the Committee consider?

- None

Forecasts

Q37. What are your views on the proposed inclusion of forecast information in the Pillar 3 climate-related financial risk disclosure requirements in instances where banks have established such forecasts?

- We are in favour of the inclusion of forecast information as proposed but would like to suggest that it be made mandatory rather than optional. The reason is that we recommend mandatory transition plans to be disclosed by large and internationally active banks, showing not only how they mitigate their CRFRs, but also how they contribute to the broader transition of the economy and hence to the overall mitigation of CRFRs. In our view, the making of such transition plans will require forward looking estimates of financed and facilitated emissions, and targets to decrease them over time in line with international objectives.
- We would also suggest that such forward-looking information for transition risks, as per table CRFR4, be produced in absolute value as the basis for the understanding of CRFRs facing banks. It could also be produced in physical intensity of emissions per output, but this measure cannot be the only measure disclosed as it could lead to perverse incentives in terms of risk mitigations and market participants understanding. In addition, producing an indicator based on absolute values will be consistent with the objective of contributing to the objective of decreasing emissions, and not emissions intensity, in the global economy – and hence ultimately mitigating CRFRs facing banks.

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

- With the suggested changes in previous answers, yes it would, as it would indicate both a trend of exposure to the risk, and the existence of a strategy to measure and monitor it overtime, which is a condition for effective mitigation of those risks.

Q39. What type of forecasts would be most useful for assessing banks' exposure to climate-related financial risks?

- As indicated in previous answers, absolute emissions both facilitated and financed, for physical and transition risks, would be the best approach in terms of forecast.

Q40. What challenges would exist for preparers or users of Pillar 3 disclosures in relation to potential forecast information? How could these be overcome?

- As indicated in previous answers, data availability will remain a challenge in the first few cycles of reporting. However, the challenge of producing forecasts can be overcome by increasingly available forward-looking information from corporate and non-corporate clients, available via transition plans. It can also be overcome by the Committee referencing a number of reference methodologies and scenarios to produce such forecasts, including the work of the NGFS, and in relation to the stress testing exercises that it is developing.

Q41. Where forecast information is not available, what alternative information might be useful to assess banks' exposure to climate-related financial risks on a forward-looking basis?

- We would suggest that some level of forecast information needs to be available at least for GSIBs and SIFIS.

Concentration risk

Q42. What are your views on the usefulness banks' disclosure of quantitative information on their risk concentration, i.e. of the bank's material exposures to sectors or industries subject to transition risk or to sectors/geolocations subject to physical risk relative to its total exposure?

- We think the risk concentration is a very relevant information.

Q43. What are your views on complementing quantitative disclosure of risk concentrations with qualitative disclosure of contextual and forward-looking information on the bank's strategies and risk management framework, including risk mitigation, to manage climate-related concentration risk?

- We are supportive of it.
- We would also point to potential unintended consequences of such risk mitigation on the overall level of CRFRs in the economy and hence the proposal for banks to explain in the qualitative disclosure section – and in their transition plans – how their mitigation measures do not exacerbate challenges in the transition of economies.

Q44. What challenges would exist for preparers or users of disclosures in relation to quantitative and qualitative information on climate-related risk concentrations? How could these be overcome?

- The main challenge would be to identify the time and location where climate risk can be assessed with some precision; again, referencing the state-of-the-art knowledge on climate scenarios for banks and stress testing, and including one or several common reference scenarios for consistency and comparability, such as based on the work of the NFGS.

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?

- Yes, it would, subject to that hazard definition be validated by climate science-based research, such as the NGFSs, for a given sector and location.

Q46. What additional bank-specific disclosure elements on climate-related concentration risk should the Committee consider?

- None

Templates

Q47. What are your views on the structure and design of the proposed templates in relation to helping market participants understand the climate-related financial risks to which banks are exposed?

- We approve them, with the additions suggested in our answers.

Q48. Would the potential structure and design of the templates pose any challenges for preparers or users of Pillar 3 climate-related financial risk disclosure requirements? How could those be overcome?

- More precise scenarios and methodologies for reference as suggested above will help preparers and users.

5.4 Quantitative disclosure requirements subject to jurisdictional discretion

Q49. What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion?

- The benefit of including real estate exposure in the mortgage portfolio by energy efficiency level could help assess the transition risk on these assets associated with policies for improving the energy efficiency of the building stock. It would be important, however, that such disclosure does not result in a lack of support of the banking system for such policies. The design of such policies should include the opportunity for the banking system to lend to support the renewal of the stock of buildings towards more efficiency, which in turn could support banks transition plans and banks' objective of reducing financed emissions.

- It could be relevant to include, also, a measurement of the real estate mortgage portfolio exposure to physical risks, particularly submersion, flooding and wildfires. This could be done as a sub-sector of the real estate sector in the physical risks exposure reporting.

Q50. What key challenges would exist for preparers or users of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion? How could these be overcome?

- The energy efficiency labelling systems for real estate are not homogeneous across jurisdictions, making a global stocktake and assessment difficult for internationally active banks. Working towards interoperable metrics and standards could be a way to make the metric more relevant for banks consolidated strategy and supervisors.

Q51. What are your views on the feasibility, meaningfulness and practicality of banks' disclosure of facilitated emissions?

- We support the disclosure of facilitated emissions as an important component of banks CRFRs. We are also supporting progress on a future methodological standard such as PCAF to calculate those as discussed in previous answers.

5.5 Effective date

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

- We are in favour of the proposed date of Jan 1 2026 and would favour an earlier implementation date if combined with a phase-in stage in which regulators would act as "safe harbours" to allow banks to flag issues and exchange best practices so as to accelerate learning.

Q53. Would any transitional arrangements be required? If so, for which elements and why?

- We are strongly opposed to any transitional arrangements for GSIBs and SIFIs, except for a "safe harbour" phase combined with an earlier implementation date. Climate change is accelerating in a non-linear fashion and we are reaching the limit of what climate science considers to be dangerous. Global banks have the means to be at the forefront of data production and analysis and thereby contribute positively to a better mitigation of CRFRs, but time is of the essence.

Q54. What are your views on the Committee exploring disclosure requirements for the impacts of climate-related financial risks on deposits/funding and liabilities?

- We favour the Committee exploring this topic.

About the Climate Bonds Initiative

The Climate Bonds Initiative is an investor-focused international organisation with a mission to mobilise debt capital markets for climate change solutions. Over the past ten years, Climate Bonds has been working with the financial sector and environmental experts on the development of a green debt market by 1) Tracking market developments and identifying trends; 2) Developing a Climate Bonds Standard and Certification Scheme as a tool to tag investments that are aligned with the Paris Agreement; and 3) Engaging with governments and regulators on how to grow sustainable finance markets.

For more information visit: www.climatebonds.net

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