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CDP Response to BIS Consultative document on Disclosure of climate related financial risks

To: Bank for International Settlements

CDP welcomes the opportunity presented by this consultation, and we commend the BIS's effort in strengthening the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability, and the potential design of such a framework. Our overall impression is that the proposed recommendations represent a bold step in this direction and will be instrumental in the tackling systemic risk and overall threat to financial stability across international banks.

We are pleased to offer the feedback below from our perspective as a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with over 740+ investors with US$140 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 23,000 organisations around the world disclosed data through CDP in 2023, worth over 66% of global market capitalisation, and over 1,100 cities, states and regions.

CDP disclosure is fully TCFD aligned since 2018, this year CDP is incorporating the IFRS S2 Climate-related Disclosures requirements into its global environmental disclosure platform. CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero-carbon, sustainable and resilient economy. CDP data powers the global ESG ecosystem and is incorporated into platforms like Bloomberg, MSCI, DJSI, and Euronext, among others. CDP is also a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative. CDP's work with financial regulators spans across a range of jurisdictions, including the Securities and Exchange Commission and Central Bank of Brazil, the US Securities and Exchange Commission, UK's Financial Conduct Authority and Bank of England, the Bank Negara Malaysia and the Hong Kong Stock Exchange, among other global exchanges.

Based on our experience working with financial institutions and regulators worldwide, we have focused our responses to the areas where we have the greater expertise we have.

Kind regards,

Pietro Bertazzi
Director of Global Policy and External Affairs

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?

Data reported through a high-quality disclosure regime like the one outlined in the consultation document enables stakeholders to understand and manage climate-related risks, opportunities, dependencies and impacts. Disclosure also provides crucial insights for understanding and evaluating a bank's progress toward a low-carbon future from a holistic, whole-of-society perspective. CDP commends BIS for the framework on Pillar 3 which paves the foundation for a common language for banks in terms of standardizing climate-related disclosures and promoting comparability of banks' risk profiles within and across jurisdictions.

Having a standardised approach to Pillar 3 disclosures as they pertain to climate-related financial risks is critical to minimizing reporting burden and to boosting comparability of information disclosed. It can provide clarity in the form of guidance for disclosing banks to provide relevant and meaningful data, as well as for the wider ecosystem of stakeholders that use this data and that support banks in their efforts to collect and disclose high quality data to work. This will promote market discipline and improve the resilience of the global financial system. Equipped with relevant, decision-useful climate-related data, banks will be better equipped to accurately price environmental risk, reorienting the flow of capital to support the transition to a net-zero economy. Beyond this, there is an opportunity for the framework to drive forward consistency in climate risk-related disclosures that enable more meaningful assessments of progress to address key sources of risk.

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

CDP believes that the absence of a standardised approach risks fragmentation across jurisdictions in their approach to introducing climate-related disclosure expectations and requirements. This can make cross-jurisdictional assessments more difficult and less meaningful.

There is also a risk that jurisdictions do not introduce high-quality, comprehensive disclosure requirements for banks, which in turn may undermine global efforts to take steps to mitigate systemic risk in the absence of sufficient disclosures to understand climate-related risk exposures and the current processes in place to mitigate these.

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?

Yes, CDP believes that 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.

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?

CDP welcomes the arrival of the proposed framework by the BIS Committee on Pillar 3 as an initial step towards delivering greater consistency and comparability in environmental reporting across global banks. It is encouraging to see the Committee addressing how the Pillar 3 disclosure framework for climate-related financial risks would further its mandate to strengthen the regulation, supervision and financing practices of banks worldwide with the purpose of enhancing financial stability. We believe that the proposed framework is suitable for these purposes.

We applaud the alignment with ISSB S2; this will help to ensure that the Pillar 3 framework is relevant in the many jurisdictions adopting S2. CDP acknowledges the work of BIS in facilitating cooperation among central banks in order to ensure stability and resilience in financial systems. CDP agrees with BIS that to allow banks to operate in a global market, it is crucial that disclosure policy and regulation adopted by different jurisdictions, as well as disclosure standards those policies rely on, are consistent and interoperable.

CDP supports BIS's focus on interoperability. For CDP, interoperability fundamentally means that the content of one standard aligns with others in terms of concepts, definitions, metrics, taxonomies and coverage. It should also ensure that the means for communicating sustainability-related actions, plans and targets must be digitally interoperable. CDP welcomes Pillar 3 framework for climate-related financial risks aims at complementing the ISSB framework and provide a common disclosure baseline for internationally active banks and hence would be sufficiently interoperable with the requirements of other standard-setting bodies. We believe this will contribute significantly to the coherence and effectiveness of the proposed standards. CDP encourages the Committee to continue working towards interoperability to ensure disclosure in the most meaningful and relevant ways, minimizing reporting burden and boosting comparability of information to ensure data can be used in the most impactful ways by international banks and other data users.

Although the alignment with S2 helps to identify and adequately price climate risk, focusing solely on climate leaves out a wide range of other, linked risks that also need to be accounted for in order to ensure the resilience of the global financial system. Thus, while a strong starting point, CDP would suggest that this alignment with ISSB is best viewed as a first step toward a more expansive approach to environmental risk management, and the committee may consider broadening its environmental focus through alignment with frameworks like TNFD in due course.

The TNFD has been a groundbreaking initiative to set a globally recognized standard for nature-related financial disclosures. Aligning with the Framework, albeit in a phased manner, will provide banks with a cohesive, comprehensive, and globally recognized set of guidelines to measure and disclose their nature-related financial risks and opportunities. This will not only simplify the reporting process but also enhance the comparability of biodiversity-related information across different entities.

National disclosure policies should lean on a 'building-block' approach, using the global baseline offered by the IFRS standards developed by the ISSB for capital markets and the GRI Standards developed by the GSSB for broader impact disclosure.

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

If the Pillar 3 framework is not suitably interoperable with existing climate-related disclosure standards and related jurisdictional disclosure requirements of banks, this may increase the reporting burden as well as the fragmentation in agreed upon concepts, definitions, and metrics that are being communicated and capacity is being developed around.

It is critical, therefore, that the conversations between relevant bodies including standard setters takes place to mitigate this concern. Standard setters and relevant bodies could also develop relevant mapping documentation and guidance which in turn could support in the accurate interpretation of disclosure requirements.

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

CDP is supportive of sectoral breakdowns of exposures as a meaningful way to inform sector-specific approaches and strategies to risk mitigation.

However, the reference to any commercial industry classification like GICS could be avoided. This is also a question of whether the GICS, consumer-orientated classification system captures climate impacts/risks appropriately. For reference, noting that the EBA takes the IEA classification and high-impact sectors as a basis.

Geographical split may be harder to provide a meaningful breakdown for general purpose financing risk assessment – an example of which may include international companies producing in one country but selling in another, and CDP reiterates the Committee's concern that geographical regions determined by national supervisors may create dispersions across reported data.

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

CDP acknowledges that some jurisdictions will need to modify or phase in certain elements in light of relevant market conditions. However, given that international banks and their stakeholders require a common set of disclosure practices at a global level, we would urge BIS to adopt a mandatory positioning where possible and to ensure that any exercise of national discretion should be minimal, timebound, and is intended to expedite the full adoption of the Pillar 3 framework.

a. Mandatory

The questions on qualitative aspects such as governance, strategy and risk management may be made mandatory since they very much align with disclosures practices embedded in globally relevant frameworks such as ISSB and, historically, in the TCFD recommendations. These issues are fundamental to prudential banking in every jurisdiction and a lack of progress on these issues could undermine the global financial system. Strengthening the governance structure and internal strategy among banks and sensitising the board with climate related information is therefore a crucial need.

CDP also believes that the questions pertaining to the financed emissions (especially category 15 on investments in the GHG Protocol) should be made mandatory. For banks, financed emissions are the most significant part of their total GHG emissions. CDP data has revealed that portfolio emissions of global financial institutions are on average over 750 times greater than direct emissions. This indicates that the markets require complete, robust disclosure of category 15 emissions in order to adequately understand and price banks' climate-related risks. Lack of quality data on portfolio emissions could lead to unpriced or mispriced risk, potentially undermining the stability of the financial system.

b. National discretion

CDP appreciates the ambitious plan of the committee to include disclosures on forecasting, concentration risk, and facilitated emissions. However, CDP believes these elements may be left to mature over time and be applicable according to nations' discretion.

We reiterate that relevance of national discretion is encouraged on certain elements as mentioned above, however, to allow for level playing field across the global banks, we would urge BIS to adopt a mandatory positioning where possible and to ensure that any exercise of national discretion should be minimal and temporary. CDP believes that while recognizing the pivotal role environmental disclosure plays laying the ground for taking much-needed action towards a sustainable future, it is clear that voluntary disclosure alone may present inherent limitations. However, a balance must be struck between the urgency of the climate crisis and the capacity limitation of disclosing banks. CDP therefore recommends that maturity time-period may be specified to enable banks prepare ahead of adoption of these disclosures.

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

Qualitative disclosures are important and provide narrative and context necessary for data users to fully understand the quantitative elements of the disclosure. The TCFD recommendations, which have informed policy and regulation around the globe and have culminated into the IFRS S2 Climate-related financial disclosures, emphasize and encourage qualitative disclosure, most of which are aligned to the proposed changes in Pillar 3 rules. This will allow users to understand how climate-related risks and opportunities are integrated into disclosing entities overall governance structures, risk management system, and business strategy. CDP's own disclosure approach requires disclosing companies to provide qualitative elements within their disclosures which are crucial for stakeholders our stakeholders to understand the institution's commitment, strategies, engagement activities and initiatives on climate-related issues.

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

It will be essential to mandate the proposed qualitative disclosure requirements in order to enhance comparability, benefiting data users and other stakeholders. Since these proposed rules align with the requirements in the new standards such as ISSB and emerging regulations such as ESRS, SEC, among others, mandating a unified approach simplifies compliance efforts for banks, effectively preparing them for regulatory requirements.

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?

Since sustainability reporting frameworks are evolving across jurisdictions, the fragmentation across markets often leads to challenges such as capacity constraints to understanding which framework to follow and how to report against them. CDP believes such lack of capacity may arise among banks with regards to collecting and reporting relevant information. CDP questionnaires allow the banks and FIs to understand the primary ask for sustainability data through learning by doing exercise, enabling them to understand their own strengths and weaknesses. In the process, banks understand not only how to uncover risks and opportunities but also track and benchmark progress. We would be happy to discuss with BIS how our platform could support efforts to improve disclosure capacity among banks.

Gathering primary actionable data form clients and investees can be another challenge, as banks require sufficient information from their clients in order to make and achieve targets. CDP offers its Banks Program which facilitates key strategic engagement, environmental disclosure and data insights among banks, financial institutions, large buyers and suppliers, including small and medium-sized enterprises (SMEs). It is powered by CDP's extensive ecosystem of financial actors, disclosers and Supply Chain members. This program enables banks to request data from their portfolio companies through CDP and then subsequently use that data to make better environmentally informed decisions.

Fragmentation of standards and definitions often lead to confusion on interoperability. Coherent disclosure based on global standards promote better transparency and drive meaningful and efficient action toward sustainability, by facilitating comparability and avoiding fragmentation. For example, the CDP Climate Change questionnaire is fully ISSB aligned and, in due course, would also be incorporating TNFD recommendations.

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?

CDP would like to emphasize the need to extend the proposed requirements to go beyond climate to cover the holistic environmental picture. These issues are also being widely integrated in the mandatory and voluntary policy landscape. Hence, we suggest including these enhanced requirements to navigate the evolving risk landscape. The nexus of climate and other nature topics such as water, forest, biodiversity, etc. requires looking at these topics together for accurate risk profile mapping. For this reason, we would propose requiring banks to report their efforts to embed an environmental risk assessment process in their overall risk processes.

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

The proposed disclosure requirements consider sector-specific exposure, acknowledging the varying sensitivities and resilience of sectors in transitioning to a low-carbon economy. The proposed quantitative disclosure on climate-related financial risks is essential to understand banks' climate risk profiles with precision, and to track progress over time. This data helps users comprehend the performance in banks' efforts to reduce portfolio exposure to climate-related risks. The use of TCFD-defined 18 subsectors aids banks ahead in this journey, aligning their disclosures with TCFD recommendations. Data users benefit from enhanced comparability to assess exposure concentration in these sectors. We appreciate that the Pillar 3 framework's disclosures are expected irrespective of banks' individual materiality assessments.

In addition to above, the disclosure of exposure to physical risks by geographical area is particularly noteworthy. Given the frequency and severity of climate change-induced events, coupled with their localized nature, the impacts vary across geographical locations and the susceptibility of assets cannot be treated as a one-size-fits-all scenario. Despite concerns about inconsistent practices and incomparability, disclosing such information is crucial for accurately understanding exposure to physical risks. Addressing these concerns requires proactive involvement at a jurisdictional level and national supervisors can ensure that the metrics outlined in the proposed Pillar 3 requirements are adhered to. Leveraging their expertise and authority, they can assess the vulnerability of specific areas to climate-related events. Collaboration with relevant government agencies, scientific institutions, and other stakeholders is essential for gathering and analyzing data on climate risks. This would allow national supervisors to establish guidelines and frameworks for businesses and financial institutions for their respective jurisdiction.

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

Yes, and at a minimum, the mandate should include financed emissions. CDP's analysis finds that for financial institutions, the average reported financed emissions are 750 times larger than operational emissions. The figure varies significantly across regions, but the overall trend is clear.

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?

Please see our response to Question 13.

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

Disclosures relevant to implementation of relevant taxonomies have started to gain traction among various jurisdictions such as in EU. CDP suggests including disclosure on globally aligned taxonomy (for example, the Green Asset Ratio as in EU taxonomy or relevant equivalent).

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?

Please see our response to Question 15.

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

Yes, we believe that exposures and financed emissions by sector are useful metrics for assessing banks' exposure to transition risk. This would also be further aligned with wider disclosure standards, since financed emissions by asset class are also requested under ISSB S2, by industry, and by scope. CDP has also included disclosures on financed emissions breakdowns by sector and emissions scope in its questionnaire.

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?

CDP is working closely with PCAF to align reporting requirements around financed emissions and associated portfolio impact metrics in our questionnaire and would support the proposal to require banks to use its methodology. This would help consistency and comparability among disclosures.

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

CDP welcomes and supports the forecast of physical intensities.

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?

Jurisdiction-specific taxonomy-related exposures could be a useful indicator to assess banks' exposures. At the bank level, this may include green capex ratios or green revenue ratios. At the counterparty-level for example, in the EU regulation, the capex component is useful to assess exposure to companies investing in the transition from a forward-looking perspective. Similarly, capturing exposure to companies that are investing into new fossil fuel related projects would be another way to identify financial risk. Other valuable disclosures would include investment in adaption-related activities, and the share of green bonds and loans as well as sustainability-linked products as defined by globally recognized and/or jurisdictionally relevant standards.

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

CDP supports the potential implementation date of 1 January 2026, which is one year and after the expiration of the ISSB's proposed transitional arrangements. By 2026, FIs will know what data they need to make ISSB disclosures, the real economy will understand what they need to report, and entities will have had enough time to build capacity. Also, the sustainability related disclosure guidelines by EU ESRS, UK, Singapore would have been enforced by 2026 to enable the market mature and build sufficient capacity and knowledge around the subject.

CDP would be honoured to support BIS in its efforts to drive sustainability reporting among global banks and would be happy to work with BIS and banks to gather and synthesize data.

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

Banks can use the first year to become familiar with the requirements of BIS using climate as a basis. This relief will enable international banks to initially embed systems and procedures to provide high quality disclosures on climate-related risks and disclosures. As noted above, 2026 is becoming a focal year for mandatory climate reporting, and any delays beyond this timeframe should be avoided. If necessary, the framework could mirror phased approaches as seen in jurisdictions like the EU, the US, and Hong Kong, which have limited relief for Scope 3 emissions. As noted previously, Scope 3 emissions form an outsized proportion of banks' overall emissions profile, and so delaying this reporting requirements would undermine the value of Pillar 3 framework.