Response to Basel Committee Banking Core Principles review by Climate Safe Lending Network.

Climate Safe Lending Network is an international multi-stakeholder collaborative dedicated to accelerating the decarbonization of the banking sector to secure a climate-safe world.

The proposed amendments by the committee are welcome, however require significant clarification and attenuation in order to be effective, in particular in relation to long term environmental risks upon which the banking system is critically dependent.

In particular:
- the time horizon, especially for systemic risks, needs to be appropriately long term and science-based in its assessment (e.g. taking into account the irreversible nature of risks outlined by international agencies such as IPCC) and sufficiently near term in consequential outcomes (such as the imposition of adequate macro-prudential measures based upon a bank's contribution to systemic risks)

- The mandatory disclosures required by supervisors should now include impact reporting for key environmental indicators (e.g. financed and facilitated emissions reporting as prescribed by PCAF) and entity-level Transition Plans which describe transition strategies in pursuit of climate goals (as informed by bodies such as the Transition Plan Taskforce, GFANZ etc)

- Given the existential risks to the banking system caused by climate change or the loss of nature and biodiversity, such risks must be treated systemically using a precautionary approach considering:
(a) risks posed to the system beyond those caused directly to the institution (e.g. beyond a narrow interpretation of climate-related financial risks into a comprehensive assessment of the contribution towards broader systemic climate risk which threatens the financial system as a whole)
(b) the treatment of the risks in (a) with a full range of prudential measures (macroprudential capital adequacy measures - such as those proposed under a 'one-for-one' rule, systemic risk buffers, credit guidance etc) - see:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4245871

As with the current status of existential global risks such as climate and nature - the question is not so much whether we are trending in the right direction, but whether we are making progress commensurate to the nature of the risk itself. Similarly, the BIS and Basel Committee through the Banking Core Principles review is trending in the right direction - but further clarity and guidance is required to ensure that the pace of change of credible supervision by regulators on climate-related and nature-related risks is commensurate with protecting the long-term sustainability of the banking system.

Page	Principle	
1	1	...corrective actions to address **<u>long term</u>** safety and soundness concerns
1	1	Essential Criteria (2) … primary objective of banking supervision is to promote the **long-term** safety and soundness of banks and the banking system **and the systems upon which they are critically dependent.**
2	1	Essential Criteria (6) ...unsafe or unsound practices or actions that have the potential to jeopardise the bank or the banking system **or the critical systems upon which the banking systems depends upon.**
5	3	(2): systemic risks that have the potential to affect the stability of the banking system **(including but not limited to climate-related, nature, social inequality risks)**
6	4	Essential Criteria (4) - note [7] re NBFIs: These institutions should be subject to a form of regulation commensurate to the type and size of their business **and taking into account their impact on the sustainability of the broader banking system.**
11	8	(1) The supervisor uses a well defined **science-based** methodology
11	8	(2) The methodology and processes addresses, among other things…ADD: **the bank's impact and contribution to underlying risks to climate, nature, the economy or society which in turn could undermine the stability of the banking system**
12	8	(5) Adds (**d): the climate (GHG emissions) and nature impacts of bank's activities and the potential for environmental risks being transferred via the economy to the wider banking sector**
14	9	(4) : Adds (**g) assessments of the bank's levels of capital in relation to its contirbution to systemic environnental risks through its impact on climate (GHG emissions) and nature.** [suggest addition references to macro-prudential tools, Systemic Risk Buffers, One-for-One capital rules, etc]
15	9	(11): Adds **(e) may work in collaboration with scientific advisory bodies to inform specific enviornmental risks**
16	10	(1) : information that allows for the assessment of the materiality of climate-related financial risks and emerging risks to banks **or to the systems upon which the banking system depends**.
31	15	(14) : ***move [note 34] reference to 'where relevant…climate-related financial risks*** *into the main text of (14)* ***At a minimum, banks' stress-testing programmes cover... climate related risks***
64	28	(2) adds to the list: **Financed Emission Reports** [adds reference to PCAF] **and** T**ransition Plans (containing strategies for alignment to climate goals, including impacts on nature, just transition, adaptation & resilience)** [adds ref to GFANZ guidance on Transition Plans, Transition Plan Taskforce]