Comments from Climate Safe Lending Network on the BCBS Climate Risk Disclosures consultation:

We are very pleased to provide the following input to the BCBS and have listed out the questions as per the numbering in the consultation document.

In addition we draw attention to the joint letter sent by ourselves and a range of stakeholders regarding the concept of full transparency in carbon accounting disclosures. (Separately attached)

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

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? 10 Disclosure of climate-related financial risks

The Pillar 3 framework proposed would only be interoperable with other relevant bodies if:

- There was inclusion of Qualitative (Strategy) aligned with the frameworks set out by the Transition Plan Taskforce and GFANZ (which are interoperable with one another)
- There should be due regard to net zero targets frameworks (SBTI, the alliances which constitute GFANZ) by inclusion within the Pillar-3 framework full disclosures on the
    - Net zero target date and intermediate milestones
    - The forecast cumulative financed emissions [see reference to 'Expected Cumulative Emissions' in GFANZ paper on Decarbonisation Contributions (GFANZ, 2023)]

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

The risk of embedding disclosures within Pillar-3 framework is that it may edit out factors on the basis of sensitivity, data availability or other factors making disclosure 'difficult' which may have the unintended consequence of leading others to conclude that these factors are not important. It is essential that there is consistent awareness of the incompleteness of the pillar-3 framework since it will never be able to cover all of the necessary indicators of climate-related risk.

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

Since all revenue which are material to a business model should be relevant to an assessment of the entity, the Pillar-3 framework should be applied. This is particularly relevant for revenues which may (abruptly) cease in a disorderly transition and/or to activities which may be subject to litigation or legal risk.

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

The general premise of allocating exposures to sectors and geographical locations is logical BUT it does not include the overlay of insights about:

(a) in the case of sectors exposed to transition risks, the degree to which those exposures have transitioned or are ready to transition or are subject to path dependency risks (e.g. costs of writing off existing infrastructure before its planned retirement date). For example, the GICS code for Steel – 15104050 does not automatically indicate whether the underlying process is emissions intensive (blast-furnace) or transitioned (electric arc/ green hydrogen); nor whether the asset is near the end of its life and is planned to be replaced or if it is still required to run economically for many years. This is where reference to **taxonomies** can be helpful although the jurisdictional differences in classification are making comparability more difficult, so instead, using some of the underlying metrics (such as **emissions intensity per unit production**) may be a superior way of achieving the most useful disclosure insights.

(b) In the case of geographic areas subject to physical risks, the degree to which the exposures are sufficiently **adapted or resilient.** For example, property in a flood zone could be categorised as high risk due to its location, however if it is floating infrastructure, or sufficiently protected by natural/physical protective local solutions, this may have a relevant mitigating effect which counteracts the physical risk.

(c) There should be due regard to second-order effects and impacts such as the way that in the above example (b) adaptation efforts to protect exposures could lead to greater risks being passed on to others (e.g. diverting flood risk to other communities) and therefore arising as transition risks as a second-order climate-related risk.

In practical terms, the most logical place for the considerations in (b) and (c) would be within Qualitative (Strategy) disclosures

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

Given increasing polarisation within the global community, leaving disclosure items to national discretion undermines harmonisation and comparability. Especially given the multi-national nature of many of the largest financial institutions, it is important to avoid situations of jurisdictional arbitrage based on political grounds.

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?

Litigation and legal risks may crystallise with or without timely disclosure and it is important that delaying, avoiding or diluting disclosure should never be used as a means of reducing legal risks. Indeed timely, comprehensive and meaningful disclosures are a precondition for an orderly financial market capable of managing risk competently.

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

It is important that quantitative disclosures are prepared consistent with internationally agreed frameworks (for example in relation to the GHG Protocol etc) and it may be helpful to ensure limited assurance at the level of compliance with accepted methodologies in order to prevent synthetic metrics designed to distract from a true and fair view. There are also helpful disclosures on data-quality scoring offered in frameworks such as PCAF which can be adopted into the Pillar-3 framework on the basis that organisations apply best efforts to improve data quality to an acceptable standard in a reasonable timeframe.

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

The qualitative pillar-3 disclosures will be helpful only to the extent that they are meaningful. The disclosures should as far as possible follow best-practice guidelines – for example in relation to Strategy this would equate to the outcomes of Transition Plan guidance set out by the Transition

Plan Taskforce and GFANZ. They should be as concise and understandable as possible and not seek to distract the users of information. They should also provide the necessary context for understanding the data – for example the Governance and Strategy sections should provide clarity about the nature of how relevant climate-related risk decisions are made, which policies currently apply and when/how these will be reviewed.

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

Yes – and in reference to best practice especially in relation to Strategy, which should follow the guidance of the Transition Plan Taskforce and GFANZ.

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?

There may be degrees of caution regarding statements especially where strategies and intentions can infer constructive obligations. It is important that regulatory authorities assist in disambiguation by ensuring there is a standardised application of language in relation to terminology (intentions, targets, policies, commitments, plans) and mandate preparers to provide the full context for disclosures including limitations, exclusions and/or the mechanisms of dealing with conflicts between climate risk approaches and other strategic priorities.

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

Within [Strategy] there should be adequate description of the intersection of climate-related financial risks and other relevant considerations including – externalised climate impacts which may fall more upon others than the retained exposures; the social implications for communities impacted by activities; the impact and dependencies on nature. See the Good Transition Plan (Climate Safe Lending Network, 2021) for more details.

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 response to Q12 / reference to best practice guidelines on Transition Plans, and response to Q13 / consistent use of language

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?

These appear to cover a core set of relevant factors. The most important of these are in relation to the Strategy insofar as it reflects a high quality Transition Plan following best practice. This can be enhanced by relevant metrics relating to future forecasts - for example estimating the cumulative financed emissions of activities. In Governance, the principles, policies and decision-logic behind investment and lending choices is more important than the hierarchy of roles involved in decisions on its own. The unintended consequence risk of concentration risk is that there is a sudden move to exit an area (for example a region subject to high physical risk) rather than investing in adaptation and resilience.

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

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

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?

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

The limitation of sector exposures to non-financial exposures opens a significant loophole which enables emissions to be overlooked if they are intermediated by another financial institution. For example a loan to a coal plant would be calculated on the basis of entity-level data, emissions factors etc. Whereas a loan to a financial intermediary lending to the same coal plant would count as a financial institution exposure, avoid receiving a GICS code (NACE code K) and would therefore be disaggregated from Pillar-3 reporting. This would inadvertently encourage intermediation without reducing systemic climate-related risks. There is documented case evidence of transactions which have supported climate 'emissions reduction targets' which in fact have rerouted exposures to financial intermediaries. It is essential that this loophole is closed by including financial institution exposures, extending to the scope3 of those underlying institutions thereby **ensuring full look-through to the real-economy climate-related activity and its associated risk.**

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? Disclosure of climate-related financial risks

See response to Q20: without the principle of **full look-through** there is a giant loophole of hiding emissions through intermediation. Only once this has been closed can meaningful comparability be achieved.

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?

Again, see response to Q20: when positions were unwound in the Global Financial Crisis of 2008, many banks only discovered exposures after intermediary holding positions were traced through to the ultimate risks – this further underlines the need to have **full look-through** in order to assess the underlying risks.

Q23. What are your views on the calculations required to disclose the proposed Quantitative Pillar 3 climate-related financial risk disclosure requirements? Transition risk: exposures and financed emissions by sector

The disclosures should separate out financed emissions from facilitated emissions as they are different categories. Likewise, within the concept of **full look-through** where there is a chain of intermediation, it will be necessary to separate out financed emissions [Bank scope 3: client scope 1+2] from the elements of the chain e.g. Bank scope 3, client scope 1-3; Bank Scope 3, intermediary scope 3, client scope 1-3 etc]

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

Yes, however facilitated emissions insofar as they provide fee-generating revenues that the bank's business model relies upon are also relevant and should be assessed indepenedently.

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

Data quality is patchy but improving relatively quickly. It is important that there is a **precautionary approach** to data quality, ensuring that applied emissions factors for low data quality scores are set at levels which are prudently high, and that there are no omissions which would otherwise cause complacency.

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

Q27. What additional transition risk disclosure requirements should the Committee consider?
Litigation risk. Given the recent court cases being brought by various actors against financial institutions for their role in financing high emission business activities and fossil fuels in particular, there is a potential contingent liability (transition risk) which should be assessed. Relevant to this is the recent UN Special Rapporteur on Human Rights assessment of financial institutions involvement in raising bonds for Saudi Aramco to support fossil fuel expansion. Future legal risk may be difficult to quantify as the case history is not yet well established, however there is mounting evidence that this is likely to be a very relevant transition risk exposure for some financial institutions.
Additionally, with regard to transition, the necessary pace of change can only be judged in relation to scientific assessments (e.g. of planetary boundaries). Setting context-based metrics which relate transition reporting and risk metrics to those planetary boundaries (as proposed under the UNSDPI indicators) may be essential to ensure that data is appropriately set in context to judge sufficiency. Future policy development is likely to guided by the unfolding reality that the scientific assessments predict, therefore this is highly relevant in determining future policy-related transition risk.

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?
See response to Q7 on limitations of GICS codes and need to attach to taxonomies.

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?
PCAF is widely recognised as the industry standard. However financial institutions application of the PCAF methodology may vary subtly but significantly; data quality scores may vary widely; portfolio coverage rates may vary (and different assumptions/figures may apply about the aspects of the portfolio not covered in reporting. Therefore whilst PCAF is the most applicable framework, it may be insufficient to declare that disclosures were prepared ‘using PCAF methodology’ without giving more parameters to contextualise the reported information.

Q30. Would exposures subject to climate change physical risks be a useful metric for assessing banks’ exposure to physical risk?
Clearly exposure to physical risks can be linked to areas of geographic vulnerability. However, they are also a function of adaptation and resilience at a local level and can be influenced by adaptation investment. It is important that the assessments do not result in increased pressure by financial institutions to ‘cut off’ geographies, but rather to incentivise addressing physical risks by investing in appropriate adaptation and resilience.

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?
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?
Q33. What additional physical risk disclosure requirements should the Committee consider? 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?
Q35. What challenges would exist for preparers or users of these disclosures? How could these be overcome?

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

For forecast data, it is useful to include the weighted average forecast of Expected Cumulative Emissions (effectively the integral of financed emissions over time) over the period of the entire lifetime of the asset. See GFANZ publication https://assets.bbhub.io/company/sites/63/2023/11/Transition-Finance-and-Real-Economy-Decarbonization-December-2023.pdf p69 in relation to ECE (page 69). [GFANZ, 2023]

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

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

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

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? Concentration risk

Q42. What are your views on the usefulness banks' disclosure of Quantitative information on their risk concentration, ie 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?

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?

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?

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, eg heat stress, floods, droughts, storms, wildfires etc?

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

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?

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

Given increasing global polarisation on the topic of integrating environmental and social concerns into financial institution strategies, it is important that there is a robust international level playing field. In some jurisdictions, additional disclosures have only applied to institutions who pursue sustainability objectives leading to the perverse incentive that those contributing most to climate risk have less to disclose. It is the role of the Basel Committee to ensure that there is universal and comprehensive disclosure to high standards which are prepared in such a way to be concise and meaningful.

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?

Q51. What are your views on the feasibility, meaningfulness and practicality of banks' disclosure of facilitated emissions? Disclosure of climate-related financial risks

Facilitated emissions requires applying the same methodologies as financed emissions as prescribed by PCAF. It is only meaningful when reported separately – see also response to Q23

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

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

5.6 Liquidity risk

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