FB- 0334/2024 São Paulo, 14 de março de 2024.

Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2, CH-4002 Basel, Switzerland

**Ref: *"*Disclosure of climate-related financial risks - consultative document"**

The Brazilian Federation of Banks (FEBRABAN) appreciates the opportunity to comment on the Basel Committee on Banking Supervision's (BCBS) Public Consultation on the "Disclosure of climate-related financial" document.

We welcome the Basel Committee on Banking Supervision's continued focus on designing and improving the prudential framework for climate risk. Furthermore, we look forward to closer collaboration with the institution as the topic continues to evolve in the market.

In this regard, FEBRABAN understands that considerations for the Public Consultation should be analyzed to preserve the intended objective of the proposal and suggests that the Committee consider the following points:

**1) PERCEPTIONS ABOUT QUALITATIVE DISCLOSURES (GOVERNANCE, STRATEGY, RISK MANAGEMENT, AND CONCENTRATION RISK)**

Jurisdictions are at different levels of evolution and implementation of climate risk frameworks. Similarly, there are other widely adhered-to market reference initiatives for disclosing information on this risk, such as the IFRS S2. In June 2023, the International Sustainability Standards Board (ISSB) published IFRS S2 - Climate-related Disclosures. The standard integrates recommendations from the Taskforce on

Climate-related Financial Disclosures (TCFD) and incorporates sector-based requirements from the Sustainability Accounting Standards Board (SASB).

Among other established guidelines, IFRS S2 requires the disclosure of information on climate-related risks and opportunities. Another recommendation is that disclosures should be useful for users of financial reports, with the general purpose of informing decisions regarding the provision of financial resources to the organization. Additionally, the framework encompasses the following climate-related aspects to which the entity is exposed:

- Physical risks;
- Transition risks;
- Opportunities available to the organization.

In Brazil, the information required by the IFRS S2 framework will be mandatory for publicly traded companies, investment funds, and securitization companies starting in 2026, as determined by the Brazilian Securities and Exchange Commission (CVM)[1]. Even though not yet mandatory in other jurisdictions, the ISSB standard is already considered a market reference for reporting financial information related to climate change. Therefore, we consider it is essential to fully converge/align the information required by Basel Pillar 3 and IFRS S2 reports. This alignment would enable interoperability of information, as well as restrain an increase in compliance costs for financial institutions, and avoid instabilities caused by potential informational asymmetries in the market.

Therefore, we recommend that the BCBS align the required reports and disclosure items with those indicated by IFRS S2, facilitating the dissemination of information and contributing to the reduction of implementation costs for institutions by avoiding duplication of efforts. As a reference, IFRS S2 itself recommends that entities avoid

[1] CVM Resolution 193, of October 20, 2023.

duplicating the required information through separate reports and seek, whenever possible, to develop and disclose integrated reports.

**2) PERCEPTIONS ABOUT QUANTITATIVE DISCLOSURES**

We would like to reaffirm our agreement with the optional and mandatory suggestions presented by the BCBS. However, we would like to make some points regarding the proposed tables, as highlighted below.

a) Forecasts:

We suggest that the Committee exclude the requirement for projecting portfolios and their respective carbon footprints. This information is still difficult to obtain for the financial sector as a whole and lacks references and reliable methods for predicting the performance of decarbonization measures associated with the Financial Institution's clients and operations.

If these elements remain in the proposal, we recommend it to be optional to promote the establishment of measures to reduce and neutralize emissions from financial institutions' portfolios. In addition, we request clarifying that the term "forecast" in the proposal aligns with the concept of "goals."

b) Sector Exposure and Financed Emissions:

In this Public Consultation, the Committee proposes that emission intensity metrics (Scope 1, Scope 2, and Scope 3) per unit of physical activity (relevant for financed emissions) should be optional and subject to jurisdictional discretion. Furthermore, the Committee acknowledges the challenges related to obtaining this data from banks' counterparts.

We agree with the Committee's premise that this information should be subject to jurisdictional discretion. We also emphasize that we see the disclosure of emissions information following Scopes 1, 2, and 3 as positive. However, it is important to emphasize the importance of this disclosure following standardized methodologies. Therefore, we recommend the disclosure of Scope 3 emissions to be aligned with the publication schedule of the Partnership for Carbon Accounting Financials (PCAF) methodology, considering different sectors, as prioritized by the initiative itself.

c) Exposures subject to physical risk by geographical location:

In the document, the Committee questions whether supervisors should be given the possibility to determine geographical regions or locations subject to physical risk and requests industry suggestions on this point.

In this regard, we believe it is necessary to make the following considerations about this item:

- Definition of criteria for considering the location of the risk, which is the production site, as it would be excessively difficult to consider information regarding the consumption location of the product;
- Classifying regions as prone to climate risk or not is challenging. In a climate change context, essentially, all regions are subject to some degree of risk. Therefore, it is suggested to work on a logic of classifying the degree of risk to which regions are subject. It is also suggested to clarify which events would be considered physical risks, in addition to providing the supervisor with discretion according to local reality. As an additional suggestion, a table could be presented for regional portfolio distribution and its classification regarding climate risk as high, medium, or low. In addition to the rating, it is important to disclose the criteria adopted by the financial institution for the classification of each region.
- We point out that the local jurisdiction should define the granularity of the geographic breakdown so that all Financial Institutions adopts regions at the same level of granularity (respecting the particularities of each country);

- We also consider it is important for the local jurisdiction to define which threats, at a minimum, would be considered in the classification of physical risk, for the supervisor's discretionary use, according to local reality;
- Considering the existence of adaptation finance for regions experiencing significant climate and socioeconomic impacts (e.g., Northeast Brazil) is essential to prevent commercial disincentives for financing these regions at the expense of more developed ones.

d) Emission Intensity by Physical Production and by Sector (TCFD Sectors):

We suggest this information to be optional and subject to jurisdictional discretion due to the difficulty of obtaining physical activity data.

e) Facilitated Emissions by Sector: Financial advisory and capital markets:

Due to the difficulty of measurement and the low maturity of the PCAF methodology, including the assignment of responsibility for different services provided, we suggest excluding this information from the proposal.

It is important to emphasize that during the consultation period with the market on the framework that led to IFRS S2, among the initially planned requirements for disclosing climate risks and opportunities, the need to disclose facilitated emissions was excluded from the final version, published in 2023. That is because the framework recognized the matter lacks maturity and practical application experience. We believe this matter should be revisited in the future when the market presents better maturity.

**3) IMPLEMENTATION DATE**

We suggest that information aligned with or similar to the data required by IFRS S2 should be implemented by January 2027 (with a base date of the fiscal year starting January 2026). Following this proposed date, Brazil would avoid considerable compliance costs for implementing Pillar 3 data before the entry into force of CVM

Resolution 193/23, which, in turn, will already require a set of companies to disclose their information following the same standards as IFRS S2.
Regarding the additional information established by IFRS S2/ISSB, we propose that it would be implemented in a phased manner, according to the understanding of each jurisdiction.

Once again, we appreciate the opportunity to comment on the revisions to the "Disclosure of Climate-Related Financial Risks - Consultative Document." If there are any questions about the considerations presented here, please contact us at com.gestao.riscos@febraban.org.br

Yours sincerely,

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