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Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

Dear Basel Committee members:

International Banking Federation comments on BCBS Consultative Document Disclosure of climate-related financial risks

The International Banking Federation welcomes the opportunity to provide feedback on the BCBS's consultative document *Disclosure of climate-related financial risks* ("consultative document"). We understand that the Committee is publishing this consultative document to seek the views of stakeholders on the outcome of its initial work and its preliminary proposal for bank-specific Pillar 3 disclosure requirements that would complement the International Sustainability Standards Board (ISSB) framework and provide a common disclosure baseline for internationally active banks.

Alignment with the objectives of Pillar 3

Pillar 3 disclosures aim to promote market discipline in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.[1] Any final requirements for the disclosure of climate-related financial risks should therefore be **narrowly tailored to reflect the Pillar 3 objective of providing market participants with the key information necessary to understand a bank's risk exposures and the adequacy of a bank's regulatory capital.** It is important that the BCBS maintain a prudential risk-based approach and provide for a risk-based materiality approach application throughout the entire framework. We encourage the Committee to evaluate whether the proposal aligns with the primary objectives of Pillar 3 disclosures and ensure that it does not conflict with and/or duplicate corporate reporting disclosure. We recommend that the Committee publish a detailed summary of this assessment to inform preparers and users of Pillar 3 disclosure.

[1] DIS10 - Definitions and applications (bis.org)

We believe the consultative document includes several proposed requirements that sweep significantly more broadly than climate-related financial risk and therefore would impose an onerous disclosure burden relative to their usefulness to understanding a bank's climate-related financial risk exposure. Examples include disclosure of forecasts in Templates CRFR1, CRFR4, and CRFR5; and facilitated emissions related to capital markets and financial advisory activities by sector (Template CRFR5). While they may provide some information related to borrowers and clients of an institution, such areas have little relevance to regulatory capital and risk exposures and thus we do not believe they should be considered within the Pillar 3 framework.

We understand the need to provide market participants with key information regarding climate-related risk drivers. Climate risk is not and should not be considered a separate risk category given that climate-related financial risks are "cross-cutting" in nature because they drive more traditional risks, including credit, market, insurance, operational, and legal risks. Climate risk factors should be seen as a driver of financial risks rather than a risk category of their own[2] and this is not always clear in the illustrative templates.

International harmonization and level playing field

We appreciate that the BCBS has been coordinating with other international bodies and standard setters, including the ISSB, as it explores use of Pillar 3 of the Basel Framework to promote a common disclosure baseline for climate-related financial risks across internationally active banks. We recommend reviewing the ISSB framework for inter-operability, and the rationale for any additional BCBS requirements should be provided by the Committee before finalization of any proposals. We recommend complementarity with ISSB and jurisdictional climate-related standards. This will reduce confusion for users and alleviate reporting burden for preparers. The BCBS should also not duplicate corporate disclosure requirements in a Pillar 3 context.

Data / Methodology Challenges

Data challenges persist for banks regarding measurement of climate-related risks, partly due to reliance on data provided by clients and counterparties, and due to the lack of maturity and homogeneity of methods (e.g. Scope 3, facilitated emissions). The Pillar 3 disclosure requirements may therefore be reliant on data that is limited/inadequate or based on nascent methodologies. Data availability/ timing /disclosure maturity may also vary by jurisdiction and by size and complexity of banks. These limitations can result in unreliable disclosures that provide limited decision-useful information to the market. Disclosures should be flexible taking into account the situation of each bank and allowing banks to adapt their disclosures as data quality evolves over time. Banks should therefore primarily disclose with the use of available data, wherever possible.

[2] Climate related risk drivers and their transmission channels (bis.org)

We would also highlight that financed emissions data will likely be volatile for several years. The lack of consistent and comprehensive counterparty reporting on emissions and energy data leads to low/poor data quality scores, especially for small to medium-sized counterparties. Reliance on proxies, estimates, and third-party data will result in low data quality scores and may lead to errors and volatility in financed emissions. This will remain a challenge until climate-related disclosures, including GHG emissions, are mandated by regulators for sectors in the real economy. To mitigate against claims of greenwashing and to provide consistency in how proxies are being used, we urge the BCBS to provide guidance on the use of proxies including provision of qualitative criteria.

Financed emissions

The use of financed emissions as a proxy for transition risk could be misleading and disincentivize some banks from providing transition financing to the high-emissions sectors that need finance to transition. As transitioning may take significant time, financed emissions of banks providing the transition financing of these companies may increase in the near term. This should be recognized in the BCBS proposal. Also, given the challenges regarding the calculation of financed emissions, guidance from the BCBS would be appreciated. Moreover, banks should be requested to disclose what methodology they are using when calculating financed emissions.

Facilitated emissions

As argued above, facilitated emissions have little relevance to regulatory capital and risk exposures and thus we do not believe they should be considered within the Pillar 3 framework. Indeed, facilitated emissions do not carry any direct financial risk to banks. Moreover, given the novelty of the methodology to calculate facilitated emissions (PCAF methodology was only issued in December 2023), and the lack of practical experience and market consensus on the use of the methodology, it would also be premature to include facilitated emissions in the scope of the proposal.

Geographical regions/locations subject to climate change physical risks

We suggest that at this stage climate risk concentrations by geography should not be disclosed. We propose that the information related to physical risk be kept for supervisory reporting instead. The BCBS should envisage time to learn from the existing approaches, taking into account their heterogeneity and possible second order effects first. For this reason, relying on public disclosures is not appropriate at this time and may also not be adequate.

Forecasts

We note that existing disclosure frameworks use the term targets while the BCBS's use of “forecasts” also appears to mean targets at times – e.g., when referencing “achieving emissions forecasts” – while in other instances it appears to refer to forecasting future conditions. Given the uncertainty and resulting legal and reputational risk stemming from disclosing forecasts, where institutions might be held accountable for inaccuracies, we suggest removing forecasts from the Pillar 3 framework. Where forecasts mean targets, we suggest using the latter term. It would be inappropriate for banks to provide forecasts in this context, which they do not do so in Pillar 3 or financial reporting disclosures currently.

Consolidation

We believe that disclosure should be at the highest consolidated level.

Thank you for considering our comments. We would be pleased to discuss our response at your convenience.

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