Basel Committee on Banking Supervision, Bank for International Settlements

Re: Consultation on a Potential Pillar 3 Disclosure Framework on Climate-related Financial Risks

The School of Business at the University of Dundee is pleased to offer its insights on the Basel Committee's initial efforts to craft a Pillar 3 framework for climate-related financial risk disclosures. We wholeheartedly endorse the Committee's comprehensive strategy aimed at integrating climate-related financial risks within the global banking system's regulatory, supervisory, and disclosure framework. Furthermore, we eagerly anticipate the results of the post-implementation review of the Pillar 3 Disclosure Framework on Climate-related Financial Risks.

As a globally recognized institution dedicated to making a significant impact through research, the University of Dundee is committed to meeting the diverse needs of our stakeholders and contributing to informed policy-making through rigorous, impactful research. On behalf of the University of Dundee School of Business, this consultation response is authored by Dr Murat Mazibas, Associate Professor of Banking and Finance and a former member of the banking industry.

<u>**General:**</u>

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?

A Pillar 3 disclosure framework specifically for climate-related financial risks aims to enhance transparency and comparability of banks' risk profiles within and across jurisdictions. This comparability is critical for market participants to effectively assess and compare banks' exposures to climate-related risks, enabling better-informed investment and lending decisions. The framework would promote market discipline by reducing information asymmetry and encouraging banks to manage their climate-related risks proactively.

Other benefits would be:

- *Enhancing Financial Stability*: By providing market participants with key information on banks' climate-related risk exposures and management practices, the framework could bring the topic to the top of the regulators' and financial systems' agenda and support the overall stability of the global banking system from potential climate-related risks.
- *Encouraging Forward-Looking Risk Assessments*: The disclosure requirements, especially the forward-looking information due to the nature of the risk exposures, would push banks to develop and enhance their capabilities to assess and manage climate-related financial risks over longer time horizons. Developing such capabilities can further enhance the efforts to quantify, measure and manage climate-related risks. The capabilities developed on the banking side, similar to risk management practices in

general, could further develop such capabilities and practices in the other parts of the financial system and the corporate sector.

- *Accelerating the Availability of Climate-Related Information*: Such mandatory disclosures would stimulate the generation, standardization, and availability of climate-related financial information, which is crucial for assessing risks and opportunities associated with climate change. These could also set an excellent foundation for the task of standardizing the climate disclosure process for international bodies and standard setters, including the International Sustainability Standards Board (ISSB).
- *Facilitating Regulatory and Policy Objectives*: Considering the central position of the banking system within the economic systems, by aligning with global frameworks and standards, such disclosures would also help in meeting countries' and governments' regulatory and policy objectives related to climate risk management and sustainability.

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

Not introducing a Pillar 3 disclosure framework for climate-related financial risks could result in:

- *Increased Information Asymmetry*: Without standardized disclosures, information asymmetry between banks and market participants could increase, leading to inefficiencies in capital allocation and potentially higher costs for banks to access capital.
- *Reduced Market Discipline*: Lack of transparency might hinder the ability of market participants to assess and respond to banks' climate-related risks, thus diminishing the market discipline mechanism.
- *Inhibiting Financial Stability*: The absence of such a framework could lead to underestimation of climate-related risks, potentially affecting the resilience of banks and the broader financial system to climate change impacts.
- *Fragmentation and Inconsistency*: Without a unified framework, disclosures related to climate risks could remain fragmented and inconsistent, complicating comparisons across banks and jurisdictions.
- *Implications Beyond the Banking System*: Without such a unified framework led by the banking system, the effectiveness of the efforts in developing frameworks by other international standard setters would be significantly reduced.

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?

The Pillar 3 framework for climate-related financial risks would significantly aid market participants in understanding the climate-related financial risk exposures of banks and their risk management practices by:

- The framework would offer a comprehensive view of how banks are exposed to and manage climate-related risks through qualitative and quantitative disclosures.

- Disclosures about governance structures and strategic planning in relation to climate risks would illuminate banks' commitment and approach towards managing these risks.
- By mandating the disclosure of specific climate-related financial risks, including those related to governance, strategy, risk management, and metrics, the framework would ensure that banks transparently communicate their risk profiles and management actions.
- The inclusion of forward-looking information and scenario analysis in disclosures would provide insights into banks' resilience and preparedness to address future climate-related 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?

We understand that the Pillar 3 framework for climate-related financial risks is to be designed with a view towards Interoperability with the requirements of other standard-setting bodies. Considering the success of Pillar 3 disclosures in achieving transparency, this is crucial for ensuring a consistent and comprehensive approach to climate risk disclosure across different jurisdictions and sectors. However, challenges to full Interoperability may include variations in disclosure requirements, methodologies for risk assessment, and reporting standards across different regulatory bodies and regions.

Achieving Interoperability will require:

Harmonization of Standards: Close coordination with other international bodies like the International Sustainability Standards Board (ISSB) and the Task Force on Climate-related Financial Disclosures (TCFD) to align methodologies, metrics, and disclosure requirements. The BCBS can lead such efforts.

Flexible Implementation: Allowing for jurisdictional discretion in implementing some aspects of the disclosures can cater to local market conditions and regulatory environments while maintaining a core set of global standards. The BCBS could harvest from their significant experience in implementing Basel Accords across different jurisdictions and local conditions.

Guidance and Support: Providing banks and jurisdictions with guidance, technical support, and best practices to manage variations in implementation and ensure the quality of disclosures.

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

While the Pillar 3 disclosure framework for climate-related financial risks has numerous benefits, it could also lead to unintended consequences:

Data Quality and Availability: Banks may face challenges in obtaining high-quality, consistent, and timely data on climate risks. Poor data quality could mislead rather than inform stakeholders. To mitigate this challenge, standardized data collection methodologies could be developed, data-sharing agreements could be promoted, and the development of third-party verification and assurance services could be encouraged.

Burden on Smaller Institutions: Smaller banks may find it challenging to comply with extensive disclosure requirements due to limited resources. To mitigate this challenge, phased implementation and scaled requirements based on the size and risk profile of the institution could be provided and technical assistance and capacity-building programs could be offered.

Overemphasis on Climate Risks: There is a risk that focusing heavily on climate-related disclosures could divert attention from other critical financial risks. To mitigate this challenge, climate-related risk disclosures could be carefully integrated into a holistic risk management framework that considers a wide range of financial risks.

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

The trading book, by nature, involves assets that are traded frequently and may have shorter holding periods than the banking book. However, climate-related financial risks can impact the valuation and risk profiles of assets in the trading book, especially over longer time horizons or as a result of abrupt market adjustments due to climate events or policy changes.

We are of the view that extending the framework to the trading book is relevant as it ensures a comprehensive view of a bank's climate-related risk exposures across all its activities. However, the main challenges would include defining appropriate metrics and methodologies that reflect the unique characteristics of the trading book, such as market liquidity and the short-term nature of many trading positions. To address the challenges, careful consideration is needed to tailor disclosure requirements for the trading book to be meaningful and not overly burdensome. This could involve differentiating between short-term and long-term positions or focusing on aggregate risk exposures and stress testing results.

Therefore, extending the Pillar 3 framework to the trading book could provide a more complete picture of a bank's climate-related risks, but it requires careful design to ensure the disclosures are relevant, informative, and manageable for banks.

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

The proposed methodology of allocating exposures to sectors and geographical locations subject to climate-related financial risks aims to enhance the transparency and comparability of banks' risk profiles. This method is critical for understanding the potential impact of climate risks on different sectors and regions.

Our views are that the use of standardized classifications, such as the Global Industry Classification Standard (GICS) for sectors and defined criteria for geographical locations, is beneficial for consistency and comparability across banks. Given the diverse nature of climate risks in different regions and sectors, some flexibility in methodology is essential to account for local conditions and risk profiles. Banks may face challenges in accurately classifying exposures, especially in regions with less available climate risk data or sectors where climate impacts are less straightforward to assess.

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

Deciding which elements of the Pillar 3 disclosure framework should be mandatory and which should be left to national discretion is crucial for balancing consistency with the flexibility to adapt to local conditions.

Our views are that key disclosures that provide a baseline understanding of banks' climate-related financial risks should be mandatory. This includes basic qualitative and quantitative metrics on governance, risk management, and the most significant exposures. Elements that are highly dependent on local market conditions, regulatory environments, or the state of data availability could be subject to national discretion. This includes more detailed sectoral breakdowns or specific methodologies for risk assessment. This approach could ensure a consistent global framework for climate risk disclosures while allowing jurisdictions to tailor the requirements based on local circumstances and priorities.

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?

The introduction of Pillar 3 disclosures for climate-related financial risks could bring potential legal risks for banks but also offers opportunities for risk mitigation.

We are of the view that as potential risks, banks may face legal risks related to the accuracy and completeness of disclosed information. Misleading disclosures, either through omission or inaccurate representation of risks, could lead to litigation or regulatory penalties. However, transparent and comprehensive disclosures, guided by clear standards and possibly third-party verification, can mitigate legal risks by providing stakeholders with a realistic view of the bank's climate risk profile and management practices. Therefore, clear guidelines from regulatory bodies on the expectations for disclosures and support for developing robust reporting frameworks can help banks navigate potential legal complexities.

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

We are of the view that the assurance of qualitative and quantitative disclosure requirements is essential for ensuring their reliability, accuracy, and meaningfulness.

We also believe that third-party verification or assurance of climate-related financial disclosures can enhance their credibility and usefulness for stakeholders. This is particularly important as these disclosures play a critical role in investment and lending decisions.

We are also aware that establishing assurance processes, especially for quantitative metrics that may rely on complex models or less direct measures of climate risk, can be challenging and costly for banks.

The lack of standardized assurance practices for climate-related disclosures may lead to inconsistencies in the quality and comparability of assured information. Developing standardized assurance frameworks and methodologies, possibly with the involvement of regulatory bodies or international standards organizations, could help address these challenges.

In summary, while the assurance of climate-related financial disclosures is crucial for their effectiveness, addressing the challenges of complexity, cost, and the need for standardization is essential for making this requirement feasible and meaningful for banks.

Qualitative Disclosure Requirements:

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

The proposed qualitative Pillar 3 climate-related financial risk disclosure requirements offer several benefits:

- They provide stakeholders with a clearer understanding of how banks identify, assess, and manage climate-related risks, enhancing overall transparency in the banking sector.
- By requiring disclosures on governance, strategy, and risk management practices, banks are incentivized to develop and refine their approaches to managing climate-related risks, leading to improved risk management.
- Qualitative disclosures make banks more accountable for their climate risk management strategies and practices, encouraging them to take proactive steps to address these risks.
- Comprehensive disclosures help build confidence among investors, regulators, and the public by demonstrating that banks actively manage their exposure to climate-related risks.

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

Making qualitative Pillar 3 climate-related financial risk disclosure requirements mandatory is crucial for several reasons:

- Mandatory disclosures ensure a baseline level of information is available across all banks, facilitating comparability and enabling stakeholders to make informed decisions.
- Mandatory requirements help achieve consistency in the type and quality of information disclosed, reducing information asymmetry and enhancing market discipline.
- Standardized disclosures improve market efficiency by providing all market participants with access to important risk management information, enabling better pricing of climate risks.

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?

The key challenges in implementing the proposed qualitative disclosure requirements include:

Banks may struggle with accessing high-quality data on climate-related risks. The solution would be for regulators and standard-setting bodies to provide guidance on acceptable data sources and methodologies for estimating risks.

It can be complex to develop a comprehensive understanding of climate-related risks and integrate them into existing risk management frameworks. The solution would be offering training programs and sharing best practices among banks that can help build capacity.

Banks can be at different stages of preparedness for climate risk management and disclosure. The solution would be implementing phased requirements or providing grace periods that can allow banks time to adjust.

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

The Committee should consider additional qualitative disclosure requirements, such as:

- Disclosures on the use of climate-related scenario analysis, including methodologies, scenarios considered, and implications for the bank's strategy and risk management.
- Information on how banks engage with stakeholders, including clients, investors, and regulators, on climate-related risks and opportunities.
- Details on innovative practices or technologies banks adopt to manage climate-related risks or capitalize on climate-related opportunities.
- Information on stress testing and resilience testing for climate-related risks, including key assumptions and outcomes.

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?

To enhance the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements for more meaningful and comparable information, the Committee may consider the following modifications:

- Establishing clear, standardized definitions for key terms and concepts related to climate-related risks and management practices to ensure consistency across disclosures.
- Providing detailed guidance on the depth and breadth of information expected in each qualitative disclosure category to ensure that disclosures are comprehensive and useful.
- Encouraging the integration of qualitative disclosures with quantitative metrics, where possible, to provide context and enhance the understanding of the numbers presented.
- Including examples of best practices in climate risk management and disclosure to guide banks on what constitutes high-quality information.
- Developing a structured reporting framework with specific sections and headings to ensure that all banks cover the same areas of interest, facilitating easier comparison.
- Allowing for dynamic updating of disclosures, especially in rapidly evolving areas like climate science and regulatory landscapes, to keep information relevant and timely.

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?

The proposed qualitative Pillar 3 climate-related financial risk disclosure requirements are highly relevant for understanding the climate-related financial risks banks are exposed to for several reasons:

They provide a nuanced picture of how banks perceive, categorize, and prioritize climate-related risks within their overall risk management frameworks.

Understanding a bank's governance structures and strategic approaches to managing climate-related risks offers critical insights into its long-term resilience and adaptability.

Disclosures about risk management practices reveal how banks are operationalizing their strategies to mitigate climate-related risks, offering a practical perspective on their preparedness and responsiveness.

Qualitative information can highlight innovative practices and adaptation strategies banks are employing to navigate the transition to a low-carbon economy and manage physical risks from climate change.

Information on stakeholder engagement strategies demonstrates how banks are responding to external pressures and expectations regarding climate risk management and sustainability.

Quantitative Disclosure Requirements:

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

The proposed quantitative Pillar 3 climate-related financial risk disclosure requirements offer several benefits:

By quantifying exposure to climate-related risks, these requirements would enhance the transparency of banks' risk profiles, enabling stakeholders to make more informed decisions.

Standardized quantitative disclosures would allow for better comparability across banks, facilitating benchmarking and market discipline.

Quantitative data would provide insights into the magnitude and nature of climate-related risks faced by banks, informing risk management strategies and investment decisions.

Providing clear, quantifiable information about climate-related risks would help build confidence among regulators and investors about the resilience and sustainability of banks' operations.

Standardized quantitative disclosures would contribute to the efficient functioning of financial markets by reducing information asymmetry and enabling better pricing of climate risks.

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

Making quantitative Pillar 3 climate-related financial risk disclosure requirements mandatory is essential for several reasons:

Mandatory disclosures ensure that all banks provide a consistent set of data, which is crucial for comparing risk exposures across the banking sector.

Standardized, mandatory disclosures reinforce market discipline by providing stakeholders with the information needed to effectively evaluate banks' climate risk exposures.

Mandatory requirements facilitate regulatory oversight and ensure banks uniformly account for and disclose climate-related risks.

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?

We are of the view that key challenges and potential solutions for both preparers (banks) and users would be:

Banks may face challenges in accessing high-quality, consistent data on climate-related exposures. The solution would be for regulators and industry bodies to develop guidelines and methodologies for data collection and encourage data sharing.

Quantifying climate-related risks involves complex methodologies that may vary across banks. The solution would be to establish standardized methodologies and provide training and resources to support banks in their implementation.

Smaller banks may find the reporting requirements burdensome. The solution would be to implement phased requirements or tiered approaches that consider the size and complexity of banks.

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

The Committee should consider additional quantitative disclosures such as:

- Quantitative outcomes of scenario analyses under various climate-related scenarios.
- Disclosure of carbon intensity metrics for lending and investment portfolios.
- Specific metrics to quantify banks' exposures to transition risks, including potential stranded assets.
- Detailed breakdown of exposures to physical risks by geography and sector.

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?

The proposed quantitative disclosures could be enhanced by:

- increasing the granularity of disclosures to provide more detailed insights into specific risk exposures.
- allowing for dynamic updating of disclosures to reflect the rapidly evolving nature of climate science and regulatory environments.
- encouraging the integration of quantitative climate risk disclosures with broader financial reporting to provide context and facilitate holistic risk assessment.
- incorporating forward-looking metrics and projections to better assess future risks and opportunities related to climate change.

We are of the view that incorporating these enhancements and considering additional requirements would significantly improve the meaningfulness and comparability of the quantitative Pillar 3 climate-related financial risk disclosures.

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?

The proposed risk disclosure requirements are highly relevant for several reasons:

They provide a direct measurement of the financial risks associated with climate change, which is critical for understanding the actual and potential impact on banks' balance sheets and overall financial health.

Quantitative disclosures serve as a foundational element for banks in developing, benchmarking, and enhancing their climate-related risk management practices.

For investors, customers, and other stakeholders, these disclosures offer vital information that facilitates more informed decision-making regarding investments, lending, and partnership opportunities.

They align with increasing regulatory requirements and market expectations for transparency around financial institutions' exposure to climate risks, thereby supporting the broader transition to a sustainable economy.

Overall, the relevance of these requirements cannot be overstated, as they not only illuminate the risks themselves but also guide the strategic responses to mitigate or adapt to these risks.

Q23. What are your views on the calculations required to disclose the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?

The calculations required for the proposed disclosure requirements are crucial but present both opportunities and challenges:

- The complexity of calculating exposures to climate-related risks underscores the need for standardized methodologies that ensure consistency and comparability across the banking sector. However, developing and agreeing on these methodologies poses a significant challenge.
- Accurate calculations depend on the availability and quality of underlying data. Banks may struggle with data gaps, especially in emerging markets or for specific sectors. Enhancing data collection processes and infrastructure is vital for reliable disclosures.
- Calculations involving scenario analysis and forward-looking information are essential for assessing future risk exposures. These require sophisticated models and assumptions, which must be transparent and subject to rigorous validation processes.
- While detailed calculations can provide more nuanced insights into climate risks, they must be balanced with the practicality of banks' ability to perform these calculations and the usefulness of the information for stakeholders.

To address these issues, the Committee could:

- promote collaboration among banks, regulators, and standard-setting bodies to develop and refine calculation methodologies.
- encourage the development of industry-wide databases and information-sharing platforms to improve data availability.
- provide guidelines and examples to support banks in conducting scenario analyses and making forward-looking projections.
- consider a phased implementation approach, allowing banks time to develop the necessary capabilities and infrastructure for accurate and meaningful disclosures.

Transition Risk: Exposures and Financed Emissions by Sector:

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

Exposures and financed emissions by sector would be highly useful metrics for assessing banks' exposure to transition risk for several reasons:

These metrics directly link to the financial implications of transitioning to a low-carbon economy, helping banks and stakeholders identify sectors most vulnerable to regulatory changes, technological shifts, and evolving market preferences.

They enable banks to benchmark their exposures against peers and industry norms, facilitating strategic decisions to manage and mitigate transition risks.

Disclosing exposures and financed emissions by sector enhances transparency, holding banks accountable for their role in financing carbon-intensive industries.

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

The availability and quality of data for calculating exposures and financed emissions vary significantly by sector, activity, region, and obligor:

Significant data gaps can exist, especially in emerging markets or for specific sectors where reporting standards are not uniform or mandatory.

The quality and consistency of data can vary, affecting the accuracy of risk assessments. This is particularly true for Scope 3 emissions, where methodologies for estimation can differ widely.

There is a need for standardized reporting frameworks and increased transparency from obligors regarding their carbon footprints to improve data quality and availability.

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

We are of the view that the following challenges for preparers (banks) would include:

- Determining financed emissions, especially Scope 3, involves complex calculations and assumptions, requiring expertise and resources.

- The absence of universally accepted methodologies for calculating financed emissions adds to the challenge of producing comparable and reliable metrics.
- Balancing the need for detailed disclosures with obligations to protect client confidentiality and proprietary information.

The following suggestions could be solutions to the challenges listed above:

- Encouraging the adoption of standard frameworks like the Partnership for Carbon Accounting Financials (PCAF) can provide a common methodology for calculating financed emissions.
- Offering training and resources to banks, particularly smaller institutions, can help overcome technical hurdles.
- Promoting collaboration among banks, regulators, and third-party data providers can improve data availability and quality.

Q27. What additional transition risk disclosure requirements should the Committee consider?

The Committee should consider the following additional disclosure requirements:

- Disclosures on the outcomes of climate-related scenario analysis, including the bank's resilience under different transition pathways.
- Information on strategies and actions taken by banks to mitigate transition risks in their portfolios, including green financing initiatives and divestment from high-risk sectors.
- Details on how banks engage with their clients to manage transition risks and support the transition to a lower-carbon economy.

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?

We are of the view that using the Global Industry Classification Standard (GICS) for sector classification is generally appropriate for several reasons:

- GICS provides a widely recognized and consistent framework for sector classification, facilitating comparability across banks and over time.
- The use of six- or eight-digit industry-level codes offers a detailed view of exposures, allowing for nuanced risk assessments.
- While GICS offers a solid starting point, there might be room for refinement to better capture nuances related to climate risks specific to certain industries.

However, ensuring that the chosen classification scheme aligns with the specificities of climate-related risks and the banking sector's needs for accurate risk assessment and management is important.

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?

We are of the view that requiring the disclosure of the specific methodology used to calculate financed emissions would be highly beneficial for several reasons:

- It would enhance transparency, allowing stakeholders to understand the basis of the calculations and compare emissions data across banks consistently.
- Disclosure of methodologies would promote the adoption of best practices and facilitate benchmarking against peers.
- Knowing that a recognized and standardized methodology has been used would build confidence among investors, regulators, and other stakeholders in the accuracy and reliability of the disclosed emissions data.

Physical risk: Exposures Subject to Climate Change Physical Risks:

Q30. Would exposures subject to climate change physical risks be a useful metric for assessing banks' exposure to physical risk?

Exposures subject to climate change physical risks would be a crucial metric for assessing banks' exposure to physical risk. This metric:

- helps banks and stakeholders identify areas of the portfolio that are particularly vulnerable to acute and chronic physical climate impacts.
- provides valuable risk management and strategic planning information, allowing banks to mitigate risks through diversification, insurance, and adaptation measures.
- offers a clearer understanding of the geographical distribution of physical risks, aiding in the assessment of potential financial impacts.

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?

While national supervisors determine the geographical regions or locations subject to climate change physical risk, which allows for tailored risk assessment, it may introduce comparability challenges. In particular, variations in how regions are defined and classified can hinder the ability to compare exposures across banks in different jurisdictions and different national approaches to identifying and classifying physical risks can lead to divergent perceptions of risk levels.

These limitations could be overcome by adopting a global framework that sets out broad categories of physical risks while allowing for local adaptation can ensure consistency and comparability. Also, providing detailed guidance on classification and risk assessment methodologies can help harmonize practices across jurisdictions.

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?

To reduce variability and enhance comparability in classifying geographical regions subject to climate change physical risk, the Committee could:

- develop standardized climate risk zones based on climate science and data, categorizing regions by risk types (e.g., flood, drought, wildfire) and severity levels.

- utilize or develop a global climate risk index that ranks geographical areas based on their vulnerability and exposure to physical climate risks.
- encourage the use of assessments and classifications provided by reputable third-party organizations specializing in climate science and risk analysis.

Q33. What additional physical risk disclosure requirements should the Committee consider?

The Committee should consider additional disclosure requirements related to physical risks, such as:

- Impact assessments that require banks to disclose assessments of the potential financial impact of physical risks on their portfolios.
- Adaptation and resilience measures such as information on measures taken by banks to adapt to and mitigate the effects of physical risks, including investments in resilience and insurance strategies.
- Scenario analysis for physical risks that include disclosures on the outcomes of physical risk scenario analyses and providing insights into how different climate scenarios could impact the bank's exposures.
- Information on banks' engagement with communities in high-risk areas, including support for resilience-building initiatives.

These additional requirements would provide a more comprehensive view of banks' exposures to physical climate risks and their efforts to manage these risks effectively.

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?

The disclosure of bank-specific metrics such as (i) asset quality (non-performing exposures and total allowances) and (ii) maturity analysis holds significant prudential value and meaningfulness for several reasons:

These metrics provide critical insights into the health and stability of banks, revealing how climate-related financial risks might affect asset quality and the potential for increased non-performing exposures.

Information on asset quality and maturity profiles helps banks and stakeholders understand the temporal dimensions of risk exposure and the resilience of banks' portfolios to climate-related shocks, facilitating better strategic planning and risk management.

Transparent disclosure of these metrics enhances confidence among investors, regulators, and other stakeholders by providing a clearer picture of a bank's risk exposure and management effectiveness in the context of climate change.

Q35. What challenges would exist for preparers or users of these disclosures? How could these be overcome?

We are of the view that main challenges for preparers (banks) would be on:

- gathering and analyzing data to accurately report on asset quality and maturity analysis in the context of climate-related risks can be complex and resource-intensive.
- incorporating climate-related financial risks into traditional financial risk models and reporting frameworks presents methodological challenges.
- ensuring that disclosures are consistent and comparable across the banking sector can be difficult due to varying methodologies and assumptions used in risk assessments.

The main challenge for users would be finding it challenging to interpret these disclosures and incorporate them into their analysis due to the complexity of the information and potential variability in reporting practices.

To overcome these challenges, we are of the view:

- Regulators and standard-setting bodies can provide clear guidance and standardized methodologies for calculating and reporting these metrics.
- Offering training programs and resources for banks, especially smaller institutions, can help build capacity for effective disclosure.
- Developing tools and platforms that can assist both preparers and users in analyzing and comparing disclosure data could improve usability and insights gained from the information.

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

The Committee should consider the following additional bank-specific disclosure requirements related to climate-related financial risks:

- Disclosures on the results of climate-related stress tests, including assumptions, scenarios used, and the potential impact on the bank's capital and liquidity.
- Information on concentrations of credit exposure to sectors or geographies that are particularly vulnerable to climate-related financial risks.
- Disclosures on how the bank's lending and investment activities align with its stated climate transition plans or sectoral decarbonization pathways, providing insights into the bank's commitment to supporting a low-carbon transition.
- Detailed information on strategies and measures undertaken by the bank to mitigate and adapt to climate-related financial risks, including green financing initiatives, portfolio realignment, and engagement with high-risk clients on risk reduction practices.

Incorporating these additional disclosure requirements would provide a more comprehensive view of banks' exposures to climate-related financial risks and their efforts to manage and mitigate these risks effectively.

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?

We are of the view that including forecast information in the Pillar 3 climate-related financial risk disclosure requirements is a forward-thinking approach that aligns with the dynamic nature of climate risks. Such inclusion would:

- provide stakeholders with insights into banks' expectations regarding future risks and opportunities, contributing to a more transparent risk assessment process.
- help banks and their stakeholders in strategic planning by highlighting potential growth or risk areas, facilitating better resource allocation toward climate resilience.
- signal to the market and regulators that a bank is not only assessing current risks but is also actively planning for future scenarios, encouraging a proactive rather than reactive approach to climate risk management.

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

Forecast information would indeed be a valuable metric for assessing banks' exposure to climate-related financial risks by:

- offering insights into how banks anticipate climate change and regulatory shifts affecting their portfolios over time.
- helping to pinpoint sectors or regions that may become riskier or offer new opportunities as the climate and economy evolve.
- enabling better risk management by considering potential future impacts on asset quality, capital adequacy, and liquidity.

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

For assessing banks' exposure to climate-related financial risks, we are of the view that the most useful types of forecasts would include:

- projections related to the impact of climate change on loan defaults, sector-specific risks, and geographic vulnerabilities.
- forecasts of how shifts in market conditions, driven by climate change or the transition to a low-carbon economy, might impact the bank's investment portfolio.
- projections on how physical risks (e.g., extreme weather events) could affect operational costs, insurance premiums, and business continuity.
- banks' forecasts related to their own financed emissions and their progress towards achieving net-zero targets.

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

We are of the view that the following challenges would exist:

- The inherent uncertainty in climate projections and economic forecasts can make it challenging to provide accurate forecasts.

- Developing robust forecasting models that integrate climate scenarios with financial metrics is complex.
- Ensuring that forecast information is comparable across banks, given different assumptions and methodologies, is difficult.

The potential solutions would be:

- Adoption of common scenarios and stress testing frameworks, such as those developed by the Network for Greening the Financial System (NGFS).
- Regulators and industry bodies providing guidance on methodologies, including how to account for uncertainty in forecasts.
- Banks disclosing the assumptions, models, and data sources used in their forecasts to enhance understanding and credibility.

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?

When forecast information is not available, we are of the view that the following alternative information could be useful:

- Even if specific forecasts are not available, disclosing the outcomes of scenario analyses under different climate and economic conditions can provide insights into potential risks and opportunities.
- Information on how sensitive the bank's portfolio is to various climate-related risk factors can offer a proxy for understanding potential impacts under different future scenarios.
- Narratives describing potential climate-related risks and opportunities identified by the bank, including plans to address these, can be valuable in the absence of quantitative forecasts.

Leveraging these alternatives can still provide stakeholders with a forward-looking perspective on banks' exposure to climate-related financial risks, supporting informed decision-making.

Concentration Risk:

Q42. What are your views on the usefulness banks' disclosure of quantitative information on their risk concentration, i.e. 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?

We are of the view that disclosing such quantitative information is highly useful because:

- It enables stakeholders to assess more precisely how exposed a bank is to significant climate-related risks and the potential impact on its financial health.
- Investors, regulators, and other stakeholders can make better-informed decisions based on a clear understanding of where the bank's exposures are concentrated.
- It reveals the bank's strategic positioning regarding sectors or geographies with high climate risk, potentially indicating areas of focus for risk management or investment opportunities in green finance.

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?

We are of the view that complementing quantitative disclosure of risk concentrations with qualitative information about the bank's strategies and risk management framework is essential for several reasons:

- Qualitative disclosures would provide the context and narrative that explain the numbers, offering insights into how the bank perceives and manages these risks.
- They would paint a more holistic picture of the bank's approach to climate risk, including policies, procedures, and risk mitigation strategies, which quantitative data alone cannot convey.
- Stakeholders would gain a deeper understanding of the bank's commitment to addressing climate risks and its readiness to adapt to a changing climate.

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?

We are of the view that the following challenges would exist for preparers (banks): First, gathering and analyzing data to disclose risk concentrations and related qualitative information accurately can be challenging due to complexity and scope. Second, integrating climate risk disclosures with existing financial risk reporting frameworks requires careful alignment of methodologies and reporting cycles.

Additionally, the main challenge for users would be on the interpretation and application of the disclosures. In particular, users may find it challenging to interpret and apply the disclosed information due to its complexity or lack of familiarity with climate risk metrics.

Potential solutions to these challenges would be: First, adopting standardized methodologies and providing clear guidance from regulatory bodies can help ensure consistency and comparability of disclosures. Second, offering training and resources to banks, especially smaller ones, to build capacity in climate risk analysis and reporting. Third, developing tools and platforms to facilitate data analysis and interpretation can make it easier for users to leverage disclosed information.

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, e.g. heat stress, floods, droughts, storms, wildfires etc?

We are of the view that dividing exposures subject to physical risk into broadly defined hazards (e.g., heat stress, floods, droughts, storms, wildfires) would be meaningful for several reasons:

- It could help banks and stakeholders identify specific physical hazards that pose the greatest risks, enabling more targeted risk management strategies.
- It could provide insights into the geographical and sectoral vulnerabilities within the bank's portfolio, aiding in assessing potential financial impacts.

- It could inform strategic planning and investment in resilience and adaptation measures to mitigate identified risks.

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

We are of the view that the Committee should consider the following additional disclosure elements:

- Disclosures on the results of stress testing for climate-related concentration risks, including assumptions and potential impacts on the bank's financial position.
- Information on specific measures the bank is taking to adapt to or mitigate climate-related risks in vulnerable sectors and geographies.
- Details on the bank's engagement with clients, industry groups, and policymakers to collectively manage and reduce climate-related concentration risks.
- Insights into how transition risks (e.g., policy changes, technology shifts) and physical risks interact and potentially amplify concentration risks.

Incorporating these elements into disclosures can provide a more nuanced understanding of how banks are addressing and managing climate-related concentration risks, thereby enhancing transparency and supporting informed stakeholder decision-making.

<u>Templates:</u>

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?

We understand that the proposed templates for disclosing climate-related financial risks under Pillar 3 are designed to standardize and streamline the reporting process, making it easier for market participants to understand banks' exposures to these risks.

We are of the view that the templates are structured to capture a broad range of climate-related financial risks, including qualitative and quantitative aspects. This comprehensive approach ensures that stakeholders can assess risks from multiple dimensions, including transition risks, physical risks, and their potential financial impacts.

We support the standardization of the format and content of disclosures. This is crucial for investors, regulators, and other stakeholders who must evaluate and compare different institutions' climate risk profiles.

The proposed templates are a good starting point for presenting information clearly and accessible, which is essential for effectively communicating complex risk information to a wide audience.

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?

The structure and design of the proposed templates for Pillar 3 climate-related financial risk disclosures present both opportunities and challenges:

We expect the main challenges for the preparers (banks) to be in the data collection and management, interpretation of requirements and resource constraints. The main challenges for the users are information overload, interpretation of qualitative information, and analysis of forward-looking information.

We are of the view that these challenges can be overcome by:

- Providing clear guidance and examples, along with training for banks, can help ensure accurate and consistent reporting.
- Encouraging the development and use of tools to ease data collection and analysis can streamline reporting processes.
- A phased approach to implementation, along with targeted support for smaller banks, can address capability gaps and ease the transition.
- Developing resources to help users interpret and analyze disclosures effectively can enhance the utility of the information provided.

We are of the view that addressing these challenges through targeted solutions can improve the utility and effectiveness of climate-related financial risk disclosures for all stakeholders.

<u>Quantitative Disclosure Requirements Subject to Jurisdictional Discretion:</u>

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

We are of the view that allowing jurisdictional discretion in the implementation of the disclosure requirements would offer several benefits:

- It would enable adjustments to the disclosures based on local market conditions, regulatory frameworks, and the specific risks prevalent in different jurisdictions, making the disclosures more relevant and useful.
- Jurisdictional discretion could facilitate a phased approach to implementation, allowing time for banks and regulators to develop the necessary infrastructure, methodologies, and expertise, especially in emerging markets or where data availability is a challenge.
- This would provide space for innovation in risk assessment and disclosure practices, allowing jurisdictions to develop and share best practices that could be tailored to address unique climate-related financial risks.
- It would enable alignment with local regulatory priorities and objectives concerning climate change and financial stability, supporting more coherent and integrated regulatory approaches.

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?

We are of the view that the following key challenges would exist for preparers (banks) and users:

- Different approaches to disclosures might lead to inconsistencies, making it difficult for global investors and other stakeholders to compare banks across jurisdictions.
- Jurisdictions may interpret and implement the guidelines differently, leading to a patchwork of standards and increasing complexity for multinational banks.
- There is a risk that jurisdictions might opt for minimal compliance, potentially undermining the objectives of enhancing transparency and managing climate risks effectively.

We are of the view that potential solutions would be:

- Adopting a 'global standards with local flexibility' approach would establish a core set of global disclosure standards while allowing for jurisdictional discretion on specific elements. This approach ensures a baseline level of consistency.
- International regulatory bodies and standard-setting institutions could provide guidance, support, and best practices to help harmonize approaches and facilitate capacity building in jurisdictions with less developed frameworks.
- The Committee could encourage collaboration among regulatory authorities to share experiences, challenges, and solutions, aiming for greater harmonization of disclosure practices over time.

Q51. What are your views on the feasibility, meaningfulness and practicality of banks' disclosure of facilitated emissions?

The disclosure of facilitated emissions (aka emissions attributed to a bank's financing activities, including underwriting and advisory services) poses several considerations:

In terms of feasibility, while challenging, it is increasingly feasible for banks to estimate facilitated emissions, thanks to evolving methodologies (e.g., PCAF) and better data availability. However, significant efforts are needed to standardize these methodologies and ensure data quality.

In terms of meaningfulness, disclosing facilitated emissions can provide a more comprehensive view of a bank's climate impact, highlighting areas where the bank indirectly contributes to emissions through its financing activities. It is meaningful for assessing a bank's overall climate strategy and alignment with global climate goals.

Finally, practicality depends on the availability of reliable data and standardized methodologies. Challenges include varying levels of transparency among clients, diverse financing structures, and the need for sector-specific emission factors.

To enhance the feasibility, meaningfulness, and practicality of such disclosures:

- Continued development and adoption of standardized methodologies for calculating facilitated emissions are crucial.
- Developing and providing sector-specific guidelines to help banks accurately estimate emissions associated with different financing activities.
- Transparency in the methodologies used and engagement with stakeholders must be encouraged to improve the understanding and interpretation of facilitated emissions data.

Overall, while there are challenges to disclosing facilitated emissions, advancements in methodologies and growing stakeholder demand for transparency make it an increasingly important and achievable aspect of climate-related financial risk disclosures.

Effective Date:

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

The feasibility of the potential effective date hinges on several factors: preparation time, regulatory alignment and industry readiness. Given these considerations, we are of the view that the feasibility of the effective date should ideally reflect a balance between the urgency of enhancing climate risk disclosures and the practical realities of implementation across the banking sector. It is crucial that the chosen effective date allows banks adequate time to prepare without diluting the momentum towards improved transparency and risk management concerning climate-related financial risks.

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

We are of the view that transitional arrangements are mostly likely necessary for several reasons:

- A phased approach might be required to allow banks to gradually build up their reporting capabilities, especially for more complex or data-intensive disclosures. Initial phases could focus on qualitative disclosures and basic quantitative metrics, with more detailed and comprehensive reporting phased in over time.
- Transitional arrangements could provide time for capacity building within banks, especially smaller institutions. This period could be used for training, setting up data collection processes, and developing methodologies for climate risk analysis.
- Given the challenges in data availability and quality, as well as the need for standardized methodologies for certain disclosures (e.g., financed emissions, scenario analysis), transitional periods can allow for the development and refinement of these methodologies.

We are of the view that the following elements will require transitional arrangements:

- Disclosures involving complex calculations or data not currently collected by banks (e.g., detailed sectoral breakdowns of climate-related exposures, financed emissions calculations).
- Given the methodological challenges and the need for reliable models, banks may need more time to develop robust scenario analysis and forecasting processes.
- Due to resource constraints, small and medium-sized banks might require additional time and support to comply with the requirements.

Finally, we are of the view that transitional arrangements should be designed to support the banking sector's gradual compliance with the disclosure requirements, ensuring that the quality and utility of the disclosed information are not compromised. Tailored guidance, benchmarks for progress, and opportunities for feedback during the transition period can help ensure that banks are well-prepared to meet the full requirements by the final implementation date.

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?

We are of the view that exploring disclosure requirements for the impacts of climate-related financial risks on deposits, funding, and liabilities by the Committee is a forward-looking initiative that reflects the comprehensive nature of climate risks in the banking sector. Here are several key perspectives on this exploration:

Such an initiative would have strategic importance in two points. First, this initiative recognizes that climate-related financial risks impact not just the asset side of the balance sheet but also the liabilities and funding strategies of banks. Understanding these impacts is crucial for a holistic risk management approach. Second, disclosures regarding the impacts on deposits, funding, and liabilities can provide insights into the bank's resilience and stability in the face of climate-related disruptions, offering a more complete picture of financial health.

There would be potential benefits from such an initiative: First, such disclosures would enable depositors, investors, and regulators to make more informed decisions based on the bank's vulnerability to climate risks and its funding stability. Second, transparency about how climate risks affect funding and liabilities could drive market discipline, encouraging banks to adopt more robust climate risk management practices to maintain depositor confidence and funding stability. Third, banks could use insights from these disclosures to adapt their funding strategies, potentially diversifying their funding sources or adjusting their liabilities structure to mitigate climate-related risks.

However, the following challenges must be considered:

First, developing methodologies to accurately assess and disclose the climate-related impacts on deposits, funding, and liabilities is complex, given the indirect nature of these impacts and the need for forward-looking assessments.

Second, there may be challenges in obtaining reliable data to assess the impact of climate risks on funding and liabilities, especially predictions related to depositor behaviour or market access under different climate scenarios.

Third, finding the right balance between providing meaningful disclosures and protecting sensitive information related to funding strategies and liabilities management will be crucial.

In order to overcome these challenges, the Committee should:

- work collaboratively with banks, regulatory bodies, and financial industry groups to develop standardized frameworks and methodologies for assessing and disclosing these impacts.
- consider a phased approach to implementation, starting with qualitative assessments and gradually moving towards more quantitative disclosures as methodologies mature and data availability improves.
- provide guidance, resources, and tools to help banks assess the impacts of climate risks on their funding and liabilities, including scenario analysis and stress testing methodologies.

In conclusion, we are of the view that exploring disclosure requirements for the impacts of climate-related financial risks on deposits, funding, and liabilities is a critical step towards understanding and managing the full spectrum of climate risks in the banking sector. Addressing the challenges will require a collaborative approach, methodological innovation, and a commitment to excellence in transparency and risk management.

Many thanks for the opportunity to contribute to this vital and timely initiative.

Best regards,

On behalf of the University of Dundee School of Business

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