March 14, 2024

VIA ELECTRONIC SUBMISSION

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

Re: Consultation Paper on Pillar 3 Disclosure Framework for Climate-Related Financial Risks

Ladies and Gentlemen:

On behalf of its members, the Risk Management Association's Climate Risk Consortium (the "Consortium") thanks the Basel Committee on Banking Supervision (the "BCBS") for the opportunity to comment on its public consultation paper seeking feedback on a Pillar 3 disclosure framework for climate-related financial risks (the "Consultation Paper").[1]

Launched in September 2021, the Consortium seeks to assist banks in integrating climate risk management throughout their operations and to prepare the banking industry to navigate the transition to a low-carbon economy. The Consortium, representing 30 leading international banking organizations, also aims to advance climate risk management practices in the banking industry and facilitate banks' development of risk frameworks, taxonomies and standards.

The Consortium appreciates the efforts of the BCBS to advance climate-related financial risk management and supervision, as well as the BCBS's desire to "promote a common disclosure baseline for climate-related financial risks across internationally active banks."[2] Further, the Consortium appreciates the BCBS's ongoing coordination with other international bodies and standard setters, including the International Sustainability Standards Board (the "ISSB"), as well as jurisdictional authorities that are developing

[1] BASEL COMM. BANKING SUPERVISION, CONSULTATIVE DOCUMENT: DISCLOSURE OF CLIMATE-RELATED FINANCIAL RISKS 1 (Nov. 2023), *available* here [hereinafter "Consultation Paper"].

[2] *Id.*

disclosure requirements for climate-related financial risks. The Consortium agrees with the BCBS on the importance of "ensur[ing] interoperability of future frameworks."[3]

Reflecting the input of members' climate risk professionals, this letter sets forth the Consortium's concerns regarding the feasibility and utility of many of the proposed disclosure items (particularly the proposed disclosures requiring quantitative information), and, ultimately, the appropriateness of incorporating climate-related disclosures within the Pillar 3 framework at this time. The Consortium respectfully submits the following recommendations:

1. The Consortium recommends that the BCBS not finalize Pillar 3 climate-related disclosures until additional analysis is completed and other disclosure frameworks that are farther along in their development have been implemented. The Consortium proposes that, in the interim, the BCBS issue a revised proposal that reflects the comments it receives in response to the Consultation Paper as well as developments in the field of climate-related financial risk analysis, including lessons learned through banks' disclosures under other, more advanced, disclosure frameworks.

2. If, however, the BCBS were to proceed with finalizing Pillar 3 climate-related financial risk disclosures in the near term, the Consortium recommends that the BCBS pare down the disclosure items and afford jurisdictional discretion across all of the disclosure items. The Consortium respectfully submits that its proposed revisions would align the disclosures more closely with the objectives of Pillar 3, and better account for nascent analytical capabilities and jurisdictional variability in the relevance of key risk metrics, while also promoting banks' development of analytical capabilities by focusing on certain, core disclosure items that appear in frameworks that are further along in their implementation. As discussed in Part II, the Consortium recommends limiting Pillar 3 disclosures to qualitative information and quantitative information regarding a bank's material exposures by sector and exposures subject to physical risk by geographical area. The Consortium recommends certain other revisions to the proposal to promote a resource-efficient Pillar 3 disclosure framework.

Part I of this letter identifies several factors that undermine the value and appropriateness of Pillar 3 climate-related financial risk disclosures at this time within the context of the objectives and principles guiding the development of Pillar 3 disclosures. The factors outlined in Part I support the Consortium's recommendations regarding the timing for issuing Pillar 3 climate-related financial risk disclosures, and animate the Consortium's

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3 *Id.*

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recommendations with respect to specific components of the proposal, as outlined in Part II.

I. Several factors would likely undermine the ability of the proposed disclosures to further the objectives of Pillar 3.

The Consortium is concerned that introducing the proposed disclosures in their current form in the near term would not further the objectives of Pillar 3 to "promote market discipline and enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital."[4] The Pillar 3 framework recognizes that "transparent, high-quality disclosures" are necessary in order to promote market discipline, and defines five principles that should guide the content of Pillar 3 disclosures. Under those principles, Pillar 3 disclosures should be "clear," "comprehensive," "meaningful to users," "consistent over time" and "comparable across banks."[5]

As discussed below, the Consortium believes several factors would likely undermine the ability of the proposed disclosures to meet the standards set by Pillar 3's principles for disclosures and, thus, the utility of a Pillar 3 framework at this time, including: (A.) underdeveloped climate-related financial risk analytical capabilities; (B.) variability across jurisdictions in policy and climate impacts; (C.) the likely substantial changes in the field of climate-related financial risk analysis over a reasonably short period of time; and (D.) the ongoing development of other climate-related financial risk disclosure regimes.

A. <u>Climate-related financial risk analytical capabilities are underdeveloped such that climate-related related financial risk disclosures would fail to provide relevant information regarding the risk exposures of a bank</u>.

The Consortium appreciates the BCBS's desire to use Pillar 3 to help address "globally disparate levels of technical expertise, data and a lack of internationally agreed terms and methodologies necessary to facilitate consistency and comparability of disclosures" related to climate-related financial risk.[6] As the BCBS acknowledges in several places in the Consultation Paper, analytical capabilities related to climate-related financial risk are

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4 *Id.* at 3. *See also* BASEL COMM. BANKING SUPERVISION, DIS DISCLOSURE REQUIREMENTS – DIS10 DEFINITIONS AND APPLICATIONS, available <u>here</u> [hereinafter "<u>DIS10</u>"].

5 DIS10, *supra* note 4.

6 Consultation Paper, *supra* note 1, at 7.

continuing to evolve.[7] Efforts to calculate quantitative climate change-related information are frustrated by incomplete and unreliable data, uncertain and rapidly evolving methodologies and an evolving understanding of climate change.

Calculating Scope 3 financed emissions, as proposed in the Consultation Paper, presents particular challenges. Standards for computing financed emissions are underdeveloped and subject to changes in relatively short periods of time. For example, the Carbon Accounting Financials standards' recent updates to guidance issued only the year before are significant enough to result in materially different figures, at least for some banks.[8] In light of "the potential costs and difficulties related to Scope 3 emissions reporting" and "questions about the current reliability and robustness of the data," the U.S. Securities and Exchange Commission (the "SEC") removed Scope 3 from the climate-related financial risk disclosure rule for public companies it adopted on March 6, 2024.[9]

Producing the forward-looking information as required by several proposed disclosures in instances where a bank has established forecasts also would present significant challenges.[10] Climate-related projections beyond one year currently are subject to significant uncertainty. Banks' primary forward-looking tool for assessing climate-related financial risk, scenario analysis, is in its infancy and has limited use as a reliable analytical tool due to significant gaps in data and methodological immaturity. What is available in terms of data and methodology today is likely to continue changing.

Because the information that would be disclosed would be subject to significant questions about reliability, Pillar 3 climate-related financial risk disclosures would depart from other Pillar 3 disclosures, such as those concerning credit and operational risk,[11] where there is greater consensus and certainty regarding the methodologies, data and information that is disclosed.

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7 *Id.* at 1, 2, 7.

8 *See* P'SHIP CARBON ACCT. FINS., PCAF DATABASE USER BRIEFING FEBRUARY 2024 (2024).

9 Securities and Exchange Commission, The Enhanced and Standardization of Climate-Related Disclosures for Investors 257 (March 6, 2024), *available* here.

10 *See* Consultation Paper, *supra* note 1, at 7.

11 *See* BASEL COMM. BANKING SUPERVISION, STANDARDS: PILLAR 3 DISCLOSURE REQUIREMENTS – UPDATED FRAMEWORK 1, 15, 26 (2018), *available* here.

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B. Variability in jurisdictional approaches to climate change and climate change impacts could render disclosures that are not meaningful or comparable across banks.

In addition to limitations in analytical capabilities and data, the linkage between certain metrics, such as Greenhouse Gas ("GHG") emissions, and climate-related financial risk varies by jurisdictions. For example, the Consultation Paper proposes the disclosure of GHG emissions-related metrics as indicators of a bank's transition risk exposure.[12] GHG emissions are less indicative of transition risk in jurisdictions that have not adopted emissions reduction policies, such as the United States. In the United States, prudential approaches to climate-related financial risk do not encourage GHG emissions reduction as a de-risking strategy.[13] Banks operating in the United States are less likely to incorporate GHG emissions metrics in their decision-making (*e.g.*, credit underwriting) and risk management activities than in other jurisdictions where emissions reduction is encouraged or assessed by prudential regulators.

Requiring disclosures of information that may not be sufficiently meaningful as risk indicators or reflective of how banks assess or manage risks in some jurisdictions would be inconsistent with Pillar 3's principles that the disclosures be "meaningful to users" and "comparable across banks."[14] For information to be "meaningful to users," disclosures should highlight "a bank's most significant current and emerging risks and how those risks are managed."[15] Thus, GHG emissions disclosures would not render information that is consistent with the principles of Pillar 3.

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12 *See* Consultation Paper, *supra* note 1, at 20–22 (requiring disclosures concerning transition risk exposures and financed emissions by sector (Template CRFR1)); *id.* at 28–30 (requiring disclosures concerning transition risks and emissions intensity per physical output and by sector (Template CRFR4)); *id.* at 31–32 (requiring disclosures concerning transition risks and facilitated emissions related to capital markets and financial advisory activities by sector (Template CRFR5)).

13 U.S. federal bank regulators declined to include in their climate-related financial risk management guidance, released in October 2023, provisions encouraging or mandating financial institutions to make emissions reduction commitments or develop transition plans, explaining that issuing expectations with respect to such matters were "beyond [their] statutory mandate relating to safety and soundness." *See* Principles for Climate-Related Financial Risk Management for Large Financial Institutions, 88 Fed. Reg. 74183, 74184–85 (Oct. 30, 2023). The Board of Governors of the Federal Reserve System did not incorporate financed emissions in the transition risk module of the pilot climate-related scenario analysis exercise it launched in early 2023 confirm with six U.S. globally systemically important banks. *See* BD. GOV. FED. RSRV. SYS., PILOT CLIMATE SCENARIO ANALYSIS EXERCISE PARTICIPANT INSTRUCTIONS 21 (2023), *available* here.

14 *See* DIS10, *supra* note 4.

15 *Id.*

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C. Introducing Pillar 3 climate-related financial risk disclosures at this time may prematurely prioritize the development of certain prudential metrics over others, and potentially jeopardize the temporal consistency and comparability of banks' disclosures.

An aim of the proposal is to identify key prudential metrics with respect to a bank's climate-related financial risk. However, given the nascence of the field of climate-related financial risk analysis, ongoing challenges in the availability, reliability and quality of climate-related data, and the jurisdictional variability in approaches to and impacts of climate change, there is significant uncertainty and variability around key prudential metrics. Given the resources involved in developing the capabilities to produce climate-related disclosures and the tendency for path dependency, introducing a Pillar 3 framework now may inappropriately promote and prioritize the development of certain metrics over others and impede consensus and standardization of best practices.

Moreover, the pace of developments in best practices for climate-related financial risk analysis may lead to the identification of more relevant key risk metrics than those included in the proposal and more appropriate methodologies for calculating the quantitative information. While the BCBS anticipates considering revisions to improve the Pillar 3 climate-related financial risk disclosures over time,[16] changes in methodologies and revisions to the metrics may jeopardize temporal consistency and comparability of banks' disclosures.

For these reasons, the Consortium urges the BCBS not to introduce Pillar 3 disclosures without greater certainty with respect to whether the disclosure items would produce information that provides market participants with clear, comprehensive and meaningful information that is consistent over time and comparable across banks.

If the BCBS proceeds with finalizing climate-related financial risk disclosures in the near term, Pillar 3 climate-related disclosures should focus on the disclosure of metrics that banks across several jurisdictions are or will be required to disclose under more advanced disclosure regimes, and for which there is greater certainty regarding the reliability of the information disclosed. Under such a rubric, as discussed further in Part II, the proposed quantitative forecast disclosures, disclosures concerning transition risks in the context of real estate exposures in the mortgage portfolio by energy efficiency, facilitated emissions disclosures and quantitative liquidity risk disclosures should be excluded from the Pillar 3 climate-related financial risk disclosure framework until additional analysis on the feasibility of producing information under and the appropriateness of the metrics.

[16] Consultation Paper, *supra* note 1, at 1.

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D. <u>Other, more advanced climate-related financial risk disclosure frameworks should be prioritized over a Pillar 3 disclosure framework to promote the development of banks' climate-related financial risk analytical capabilities most efficiently</u>.

As the BCBS acknowledges in the Consultation Paper, "global frameworks to improve the consistency, comparability and reliability of climate disclosures" are developing.[17] Many of the disclosure items the BCBS proposes in the Consultation Paper appear in a number of disclosure frameworks that are farther along in their development and implementation than the proposed Pillar 3 climate-related financial risk disclosure framework. The focus across regimes on a common band of disclosure items helps to focus resources and advance capabilities in core areas more efficiently.

The Consortium urges the BCBS to postpone the finalization of Pillar 3 climate-related financial risk disclosures until more advanced frameworks are implemented to enable the Pillar 3 framework to reflect the lessons learned through banks' disclosures under other frameworks and promote efficiency and prioritization in banks' development of climate-related financial risk analytical capabilities. The BCBS should continue to encourage and monitor the development of best practices in climate-related financial risk management and rely, at least for the time being, on the efforts of international and domestic disclosure regimes to propel developments in climate-related financial risk disclosures.

The Consortium proposes that, in the interim, the BCBS reissue a proposed framework for Pillar 3 climate-related financial risk disclosures that reflects the comments submitted in response to this Consultation Paper and developments in the field of climate-related financial risk analysis.

II. If the BCBS finalizes the proposal in the near term, the proposed disclosure framework should be recalibrated to focus narrowly on disclosures most likely to align with the objectives of and principles for Pillar 3 disclosures, provide national discretion with respect to all of the disclosure items, and make certain other changes to reduce the burden associated with new disclosures.

The Consortium recommends that if a Pillar 3 climate-related financial risk disclosure framework is introduced in the near term, the proposal should be recalibrated by paring down the disclosure items, making all of the disclosure items subject to national discretion, and making certain other changes. Specifically, the Consortium recommends that the disclosure framework:

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17 *Id.*

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- Be limited to the following: (i) the qualitative disclosures represented in Tables CRFRA and CRFRB;[18] (ii) the quantitative disclosures represented in Template CRFR1 (transition risk – exposures and financed emissions by sector),[19] less the disclosure requirements for financed emissions, allowances and forecasts, and subject to a materiality threshold with respect to all sectors; and (iii) the quantitative disclosures represented in Template CRFR2 (physical risk – exposures subject to physical risks),[20] less the disclosure requirement for allowances (as discussed in Part II.A. below);

- Include safe harbor provisions to protect against potential regulatory enforcement and litigation exposure given the limited ability to produce reliable quantitative information;

- Afford jurisdictions discretion with respect to any of the disclosure items (as discussed in Part II.F. below);

- Suggest that jurisdictions adopt a phase-in approach to implementation (as discussed in Part II.G. below);

- Suggest that jurisdictions adopt a disclosure cycle that lags financial reports (as discussed in Part II.H. below);

- Provide banks with flexibility to determine the appropriate period of the data to be reported given current capabilities; and

- Suggest that jurisdictions enable multi-tiered regulated entities to make consolidated disclosures (as discussed in Part II.I. below).

The Consortium asserts that proposed quantitative disclosure items other than those identified directly above would present risk of rendering information that is unreliable and inconsistent with the objectives or principles guiding the development of Pillar 3 disclosures and should be excluded from a Pillar 3 climate-related financial risk disclosure framework at this time. In particular, a near-term Pillar 3 disclosure framework should exclude the disclosure items represented in Template CRFR3 (transition risk – real estate exposures in the mortgage portfolio by energy efficiency level); Template CRFR4 (transition risk – emissions intensity per physical output and by

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[18] *See id.* at 15–19.

[19] *See id.* at 20–22.

[20] *See id.* at 23–25.

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sector); Template CRFR5 (transition risk – facilitated emissions related to capital markets and financial advisory activities by sector); and quantitative liquidity risk disclosures (as discussed in Part II.E. below).

The recommended revisions to the disclosure framework are intended to focus on disclosure items that are most likely to render information that provide market participants with insights into climate-related risk exposures across jurisdictions, and thus better align with the objectives of and principles guiding Pillar 3 disclosures. In other words, the recommended disclosure framework would be more likely to provide market participants with information regarding a bank's climate-related financial risks that are clear, comprehensive, meaningful, consistent and comparable across banks. The recommended revisions also are intended to focus banks' resources on developing analytical and data capabilities in areas that are relevant across disclosure frameworks.

The Consortium also requests that the BCBS consider the inclusion of safe harbors and regulatory safeguards to help protect banks from potential regulatory enforcement and litigation exposure that may arise as a result of the disclosures, particularly given that the reported metrics could be imperfect estimates.

Certain recommendations identified in the preceding paragraphs are discussed in more detail below.

A. <u>Pillar 3 quantitative climate-related financial risk disclosures should be limited to disclosures of exposures by sector and exposures to physical risk by geographical area</u>.

The Consortium recommends that the quantitative disclosures be limited to the sectoral exposure information represented in Template CRFR1, less the disclosure of financed emissions, allowances and forecasts, and subject to a materiality threshold with respect to all sectors; and the information regarding physical risk by geographical area represented in Template CRFR2,[21] less the disclosure requirement for allowances. Physical risk disclosures should require only basic analysis at this time, and include qualitative disclosures regarding what analysis is conducted as a way to begin to understand potential physical risk exposure for assets by clients in different sectors, and what data gaps exist that make it difficult to establish whether there is any material risk for a certain percentage of a given sector. Other recommended adjustments to Templates CRFR1 and CRFR2 are discussed below.

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[21] *See id.*

1. Disclosure of exposures by sector should be limited to material exposures.

Template CRFR1 requires disclosure with respect to the 18 sectors established by the Task Force on Climate-Related Financial Disclosures ("TCFD").[22] Disclosures with respect to the 18 sectors should be limited to material exposures as determined by a bank to align with Pillar 3's principle that disclosures should provide useful information regarding a bank's risks.

2. Disclosure of exposures by sector should not be accompanied by financed emissions metrics.

Template CRFR1 requires a bank to disclose financed emissions by sector. For the reasons discussed in Part I, transition risk disclosures should not include GHG financed emissions metrics. The Consortium believes that disclosure of GHG financed emissions in tandem with transition risks exposures would be inappropriate at this time. The ability to accurately calculate GHG financed emissions, and the linkage between GHG financed emissions and risk exposure remains opaque and is subject to jurisdictional variability. Additional analysis on GHG financed emissions metrics should be undertaken prior to their inclusion in Pillar 3 disclosures. If the disclosure framework retains GHG financed emissions metrics, such disclosures should be presented in a table that is separate from the exposure metrics and only be required if deemed material by a bank. In addition, the disclosure items should permit the inclusion of caveats and explanations, including to clarify if disclosed emissions do not present risks to capital adequacy or safety and soundness.

3. Disclosure of allowances when reporting on transition risk and physical risk would not be meaningful to users.

Templates CRFR1 and CRFR2 each require banks to disclose allowances (*i.e.*, the total on-balance accumulated impairment amount recognized under the applicable accounting framework used by the bank in preparing financial statements).[23] The Consortium believes that the disclosure of allowances in the context of climate-related financial risk would be inappropriate because of the variability in the reasons for the allowances.

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22 *Id.* at 5, 20–22. The 18 TCFD sectors include oil and gas, coal, electric utilities, air freight, passenger air transportation, maritime transportation, rail transportation, trucking services, automobiles and components, metals and mining, chemicals, construction materials, capital goods, real estate management and development, beverages, agriculture, packaged foods and meats and paper and forest products. TASK FORCE CLIMATE-RELATED FIN. DISCLOSURES, RECOMMENDATIONS OF THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES 16 (2017), *available* here.

23 Consultation Paper, *supra* note 1, at 20–25.

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4. Disclosure of forward-looking quantitative information where a bank has set forecasts would not render useful risk-related insights and should be excluded from the Pillar 3 disclosures.

For the reasons discussed in Part I, the Pillar 3 disclosures should not include disclosure of forward-looking information beyond one year to avoid disclosing information that is highly uncertain and therefore fails to meet the BCBS's principles guiding the development of Pillar 3 disclosures. Moreover, as discussed above, the prudential relevance of emissions reduction forecasts is subject to jurisdictional variability.

B. Pillar 3 quantitative climate-related financial risk disclosures should not include disclosure of real estate exposures in the mortgage portfolio by energy efficiency level (Template CRFR3).

The Consultation Paper proposes the disclosure of real estate exposures in the mortgage portfolio by energy efficiency to provide insight into banks' transition risks.[24] In the BCBS's view, the disclosure of these exposures "may assist market participants in assessing the risk profile and returns of a bank's mortgage-backed real estate portfolio in the context of jurisdictional energy efficiency regulations."[25]

The Consortium does not agree that the disclosure of this metric, as represented in Template CRFR3, would provide market participants with key information and comparable data. There is widely acknowledged uncertainty regarding the reliability of energy efficiency ratings and varying availability of the ratings. Energy efficiency ratings may not be available for all real estate that may be within a particular portfolio. Moreover, requesting energy usage data may present privacy issues in the United States. Such disclosures would neither be meaningful to users nor comparable across banks due to the uncertainty of the ratings and lack of comparable data and ratings systems across jurisdictions.

C. Pillar 3 quantitative climate-related financial risk disclosures should not include disclosure of emissions intensity per physical output and by sector (Template CRFR4).

As discussed in Part I and Part II.A.2, GHG financed emissions metrics should not be included in a Pillar 3 climate-related financial risk disclosure framework at this time. Moreover, as discussed in Part I, as a general matter, forecasts beyond one year are unlikely to render useful information to users. The forecasting formula in Template CRFR4 also presents specific challenges. The formula for calculating the point in time

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24 *See id.* at 26.

25 *Id.* at 7.

distance to a bank's forward-looking GHG emissions reduction target places in the denominator a bank's *individual* emissions reduction targets. These targets will vary among banks of different sizes and with different GHG emissions portfolios (*e.g.*, some banks will have greater Scope 3 emissions than others). With varying and inconsistent results, it would be difficult for market participants to compare these forward-looking targets to assess climate-related financial risk across banks.

D. <u>Pillar 3 quantitative climate-related financial risk disclosures should not include disclosure of facilitated emissions related to capital markets and financial advisory activities by sector (Template CRFR5)</u>.

The Consultation Paper proposes disclosure of information related to facilitated emissions, or "the gross emissions of a counterparty that is attributed to the bank providing capital markets and financial advisory services ([*e.g.*], equity underwriting, securitisation, etc[.]) to that counterparty."[26] As the BCBS notes, a method for calculating facilitated emissions does not yet exist.[27] Relatedly, a bank may not be easily able to obtain data concerning GHG facilitated emissions from its counterparties.[28] These data and methodology-related challenges concerning facilitated emissions call into question the meaningfulness and utility of facilitated emissions disclosures at this time. Further, even if such disclosures are subject to jurisdictional discretion for implementation (and thus, presumably, would only be adopted by jurisdictions that have the requisite data and methodology to render them useful), there are significant comparability concerns even among banks within the same jurisdiction given the extent to which banks engage in capital markets and financial advisory services activities.

The Consortium believes that the disclosure of this metric would be premature given that, as discussed above, standards for measuring facilitated emissions have not yet been developed. The Consortium believes that disclosure of facilitated emissions as an indicator of transition risk is disjointed from the Pillar 3 goal of providing market participants with meaningful information, and therefore should be not be included in a finalized BCBS disclosure framework for climate-related financial risks.

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26 *Id.* at 8.

27 *See id.* ("The [BCBS] notes that the Partnership for Carbon Accounting Financials is still in the process of developing a calculation method for facilitated emissions with respect to capital markets activities.").

28 *See id.* ("The [BCBS] also recognizes this metric may pose challenges where banks have difficulty in obtaining this data from their counterparties.").

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E. <u>Pillar 3 quantitative climate-related financial risk disclosures should not include quantitative liquidity risk disclosures</u>.

The Consultation Paper solicits market participants' feedback on requiring the disclosure of liquidity risk (*i.e.*, climate-related financial risks on deposits/funding and liabilities).[29] The Consortium believes that the BCBS's proposal should consider including the disclosure of climate-related financial risks on deposits/funding and liabilities only as qualitative disclosures.

At this time, little is understood about how and the extent to which climate-related financial risk could impact a bank's liquidity. For example, federal bank regulators in the United States only suggest that banks assess whether climate-related financial risks could affect a bank's liquidity position, and if it does, incorporate those risks into liquidity risk management practices and liquidity buffers.[30] This suggests prudential recognition, at least in the United States, that the liquidity risk impacts of climate change may be undetermined, highly variable or unlikely to be material at this time for most internationally active banks.

For these reasons, disclosing quantitative information about liquidity risk exposures would not further the principles underlying Pillar 3 requiring that disclosures be "meaningful to users" and "comparable across banks."[31] However, qualitative disclosures would provide market participants with information on banks' progress in developing approaches to identify, measure and manage potential climate change-related liquidity risk as banks are in the process of identifying, managing and monitoring (or beginning their approach to the identification, management and monitoring of) such risks. The Consortium accordingly recommends that, if the BCBS is considering including liquidity risk disclosures, such disclosures be only qualitative in nature.

F. <u>The implementation of all disclosure requirements should be subject to jurisdictional discretion</u>.

The implementation of all disclosure requirements included in the Consultation Paper should be subject to jurisdictional discretion due to the nascence of climate-related analytic capabilities and data and varying policy or prudential approaches to climate-related financial risk discussed above. The Consortium believes that a final framework should allow for jurisdictional discretion on all disclosure items to best

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[29] *Id.* at 13.

[30] 88 Fed. Reg. at 74188.

[31] *See* DIS10, *supra* note 4.

account for the varying policy or prudential reasons for a jurisdiction's respective approaches to climate-related financial risk as a prudential measure.

G. Jurisdictions should be encouraged to adopt a phase-in approach to implementation to allow time for the development of better data and data-collection methodologies and to allow to prepare for disclosure requirements.

The BCBS invites feedback on the feasibility of implementation by January 1, 2026.[32] The Consortium requests that the framework recommend that jurisdictions adopt a phase-in approach to compliance deadlines, focusing first on qualitative disclosures. A phase-in approach would allow institutions appropriate time to understand the various climate disclosure regimes that are either currently established or are in development. Furthermore, with respect to quantitative disclosures, the Consortium recommends longer phase-in periods generally to mitigate transition risks and support banks' safe and sound implementation of such disclosure requirements. Longer phase-in periods for quantitative disclosures would also offer additional time for climate-related data, methodologies and standards to develop. The ultimate implementation date should be flexible and tied to the implementation of other standards, such as those required by the ISSB.

H. Publication of Pillar 3 climate-related financial risk disclosures should lag the financial reporting cycle and banks should be afforded flexibility with respect to the time periods of the data that is reported.

Disclosure dates should allow for a reasonable period (*e.g.*, six months) between the date of finalization/publication of banks' financial statements and/or other Pillar 3 disclosures and the date on which banks must make disclosures under the finalized framework. Though the BCBS requires that a bank's Pillar 3 report be published concurrently with its financial report for the corresponding period,[33] given that the climate-related financial risk disclosures are distinct from other disclosures because of its newness and the burdens associated with reporting, there should be some allowance.

Many publicly-traded banking entities in the United States are required to file their annual reports (inclusive of audited financial statements) with the SEC within 60 days of their fiscal year-end, which, for many banks is December 31. Therefore, most entities will file their annual reports by the end of February each year, at which time they would also make their Pillar 3 disclosures in line with BCBS requirements. However, processes for collecting and processing the relevant data to be reported may leverage other data

[32] Consultation Paper, *supra* note 1, at 9.

[33] DIS10, *supra* note 4.

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collection processes that begin January 1 (*e.g.*, borrower data collection). It would thus be difficult for banks to collect counterparty information as required by the currently-proposed Templates CRFR1, CRFR2, CRFR3 and CRFR4 in time to make a meaningful Pillar 3 disclosure if the disclosures must be made concurrently with financial reports.[34] For purposes of efficiency, there should be greater flexibility around the publication date of the Pillar 3 climate-related financial risk disclosures.

Additionally, the information that the Consultation Paper requires to be disclosed would not be currently reportable in a banking organization's financial reports. Requiring Pillar 3 climate-related financial risk disclosures to be made contemporaneously with other Pillar 3 disclosures and the release of financial reports therefore places an undue burden on institutions required to meet financial reporting deadlines. In addition, given current capabilities, banks should have flexibility to determine the appropriate period of the data to be reported.

I. Pillar 3 climate-related financial risk disclosures should be required only at the holding-company level.

Because many banks manage and assess all risks, including those related to climate, on an enterprise-wide level, a final framework should require climate-related financial risk disclosures only at a holding-company level to streamline reporting for both a regulated holding company and a regulated subsidiary. Requiring both the regulated holding company and the regulated subsidiary to submit Pillar 3 disclosures concerning climate-related financial risk would likely be redundant and reduce both the clarity and utility of the disclosures.

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34 *See* Consultation Paper, *supra* note 1, at 22 (suggesting that financed emissions could include counterparty-reported emissions); *id.* at 24 (requiring the reporting of exposures towards corporates located in a geographical region or location subject to climate change physical risk based on the geographical location of the activity of the counterparty); *id.* at 27 (suggesting that information to report the gross carrying amount by energy efficiency buckets based on the specific energy consumption of the relevant collateral could be obtained from the bank's counterparty); *id.* at 29 (requiring the reporting of GHG intensity metrics per physical output for each counterparty).

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III. Conclusion

The Consortium appreciates the opportunity to provide these comments. We look forward to continuing its engagement with the BCBS on these issues.

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Sincerely,

Edward J. DeMarco, Jr.

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General Counsel
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