Good day,

Firstly, I would like to thank you for opening up the ESG discussion for consultation. There are many individuals like me very concerned about the environment and climate change and if the current governments/UN are handling it well, in particularly, the financial sector. Therefore, it gives me immense pleasure to see a very appropriate response from the Basel committee in trying to incorporate the Environmental risks into the current frameworks. I am sure the committee is well aware that the Banking sector is crucial to the growth and development of the ESG related companies as well as limiting more 'pollution-based' sectors. Incorporating a holistic climate action plan into the banks risk assessments also shows a concern that profit is not everything and the well-being of every citizen on the planet is important as well. This action would be a boost for governments in fulfilling the Cop26 goals and help protect the environment.

I would like to say from the outset that I may not have the experience or the knowledge that my friends from various banks, consulting companies or government agencies possess. However, this topic is closer to my heart and I have tried to do full justice to it.

On Principle 1,2 and 3 I completely agree that banks must consider material physical and transition risk drivers into account when implementing the business strategy. There should also be clearly defined teams and key personnel in all parts of the bank looking at the strategy for environmental risks and growth.

The climate related risks are composed of three components:

1. Geographical location and severity of climate impacts based on geography
2. Sectoral where some sectors are heavily affected by climate change and some less.
3. Flexibility and a nimble-ness in a company to become more climate sensitive and adapt to the changing environmental goals.

I believe that these three risk drivers need to be considered when designing any strategy. The climate risks should be evaluated on all the three parameters.

There should be a clear oversight of who is managing climate risks for the banks. This would include working groups at every part of the bank (Asset Management/ Markets/ Corporate Banking etc). Senior Management should also ensure that there is a regular interaction between the groups and there is a holistic perspective of climate risks and relevant action being taken. Within the executive team, there should be a Chief Environment Officer who would be responsible for the overall assessment of climate related risks and he/she should have a clear vision of the climate related strategy taken by the bank. This strategy and communication of the strategy should be disseminated from his/her office.

On Principle 4, I agree with the principle in general. Climate change risks needs to be assessed across all three lines of defence and a climate scorecard can be made similar to the credit ratings based approach. Basel committee could look at the standardization of the climate related risks.

On Principle 5-12, we currently have a lot of tools on the capital and liquidity side in order to manage the risks. Some of the tools that the regulators and Basel committee has at their disposal without adding a new climate related framework are:

- RWA
    - Credit Risk RWA
    - CVA-Var

    - Market Risk
    - Operational Risk
- Leverage
- GSIB Framework
- NSFR and LCR
- Initial Margin framework
- CCAR analysis and stress tests

Climate risks need to be added to these frameworks as the climate risks are not decoupled from any of these risks. For example, Climate risks can negatively affect the probability of default for certain counterparties and therefore, the climate impacts need to be considered when calculating the creditworthiness of the counterparty. This needs to be factored in the Credit Risk RWA part.

CVA-Var takes the full view of the bank exposure to various counterparties. In order to see a holistic view of the climate related risks, we should also have an "ESG-Var" concept which would use look at all the counterparty exposures together. This would look at the net Climate risks independent of sector/geographies/adaptiveness of the companies.

The Market risk is also certainly very important for two reasons. Firstly, newer products related to climate risks are coming out such as green bonds/ carbon credits which need to be assessed under market risk. Secondly, there could also be a deterioration of the current market due to climate change. For example, it is said that a country like India would be very negatively impacted by climate change which would have a direct impact on the currency as well as on the sovereign and corporate bonds originating from that country. This needs to be taken as a part of Market risk.

Operational risk component can be heavily affected by climate change – particularly on reputational damage as well as on operational breakdown. We have already seen many banks suffering reputational losses for financing fossil fuel projects. We have also seen how heavy flooding and extreme climate events can damage the operations of the banks (particularly with WFH everywhere). Therefore, we need the operational risk to also incorporate climate risks.

On the Leverage framework, the new climate related products need to be defined clearly as a separate asset class and the leverage exposures need to be handled properly.

On GSIB framework, we can add a pillar related to climate risk exposure and mitigation. This could encompass things like a climate risk scorecard depending on geography/size/sector of the counterparty. A bank which manages climate risk poorly can get penalised with a higher GSIB score.

Under the NSFR and LCR frameworks, climate risks need to be taken when calculating liquidity buffers and net cash outflow. This is explained very clearly in the text and I don't need to expand any further on this.

The IM framework, particularly SIMM and CCP IMs need to include new products related to climate as well as incorporate the market risks already mentioned above.

There needs to be a scenario analysis as mentioned using the appropriate factors. Maybe we could use examples of extreme weather events for shocks and temperature increases and GDP/sectoral themes for impacts. We could also use the regulations from COP26 under various scenarios to see the scenario analysis and the risks. WE should also have an analysis between "no climate impact scenario" and "climate impact scenario" to see the risk impacts of climate change. This would

actually double the computation for banks but I am sure they would have the bandwidth to accommodate the requests.

For supervisors, it is very important to have a view of the climate risks and who is in charge at every bank. All the ideas mentioned above must be considered by supervisors and regulators. The supervisors need to be up-to-date on all latest scientific progress on climate change.

Answering the final question is really interesting. On one hand, climate risks are relevant for all risk management systems and yet they need to be shown separately. According to me, the key aspects that we really need to assess are the ESG-Var component as well as the change in risk weights due to climate risks. We should also look at how banks hedge the climate risk by carbon credits/green bonds etc.

I understand that there is no set framework regarding rules or formulas to estimate the climate impact. However, I would definitely love to work a bit more on setting up the framework from a standardized point of view before we move to advanced approach. I am sure other participants will also be having some views on the same and it would be really interesting to see what solutions they come up with.

Thank you for your time in reading my comments. I hope they are useful to you.

Regards,

Seema Mohta