

General feedback

- Thank you for this important consultation. Sustainable Finance Lab not only welcomes this initiative, we believe it is absolutely crucial for the financial system resilience and market integrity in a context marked by intensifying nature and climate related impacts, to do a holistic review of the prudential framework and anchor climate and nature-related risks in regulation.
- The Sustainable Finance Lab is a Netherlands-based international academic think-tank that aims to ensure a sustainable and stable financial system by bridging academic knowledge and practice.
- SFL especially stresses the importance of taking both climate and nature related risks into account in this consultation.¹ Climate goals cannot be achieved in a world where biodiversity continues to decline at the current accelerating pace. That is why an integrated approach, also with regards to disclosure, is needed.
- SFL supports the role the Basel Committee is taking in transitioning from disclosure based on voluntary action to regulation in securing financial system resilience and market integrity. The Basel Committee's role therein is to provide an ambitious global reference point, a baseline, on prudential requirements, including disclosures, and this initiative is welcome and crucial to mitigate risks of cross-jurisdictional fragmentation.
- The standards designed by the ISSB (IFRS S1 and S2) are being translated into local regulatory requirements at increasing speed across jurisdictions. The ISSB helpfully provides a global baseline for private sector firms generally and a building blocks approach. As this standard is being increasingly taken up, it is helpful for the Basel Committee to evolve its own prudential disclosure framework and to articulate it with that of the ISSB, thereby helping promote consistency and readability of information for market participants.
- Considering the forward-looking nature of climate-related risks, and the degree to which these could prove material at a microprudential and macroprudential level, this necessarily implies an evolution of the scope of Pillar 3 disclosures to incorporate comparable forward-looking climate and nature-related information, as foreseen in this consultative document.
- Comparability between climate-related information is important. The Sustainable Finance Lab stresses the importance of disclosure on absolute targets. The goals of individual financial institutions should add up to what is needed at the macro level.
- We urge the Committee to complete the work on reviewing Pillar 1 and 2 of the Basel framework, in line with the Q4 2024 communicated timeline.
- We generally urge the Basel Committee to mandate the changes proposed in this consultation for all internationally active banks.
- We also urge the Basel Committee to finalise this work as soon as possible, targeting an implementation date starting January 2025, at least for the qualitative information envisaged in the consultation.

¹ Knijp, G., R. van Tilburg and A. Simic (2024), Finding a way with nature; How central banks and supervisors can start acting on nature-related risks (see: <https://sustainablefinancelab.nl/en/new-report-finding-a-way-with-nature/>)

Qualitative information section

We fully support enhanced disclosure of qualitative information. It is particularly important to contextualise new disclosed information and metrics, making sure it is decision-useful for market participants. We believe, however, that more clarity and specificity is required in this section.

- Qualitative disclosures should be aligned with the requirements of the Committee's Principles for the effective management and supervision of climate-related financial risks.
- We strongly support the Basel Committee's proposal to include transition plan disclosures (Q15). In this regard:
 - The BCBS should ensure consistency and comparability of the disclosed transition plan information – by providing specific guidance on the information to be disclosed (e.g. absolute objectives in terms of emissions reductions, other metrics and targets underpinning emissions reductions objectives, implementation and engagement strategy, etc.) as well as on scenario analysis and key assumptions as a critical underpinning to this exercise.
 - Transition plan disclosure requirements should take into account and seek alignment wherever possible with NGFS/FSB work, more advanced frameworks on transition plans such as the UK TPT' Disclosure Framework, the European ESRS, as well as ongoing work by the Singapore MAS and the EU EBA on “prudential transition plans”.
 - Critically, in determining transition plan disclosure requirements, the Basel Committee should reflect on the fact that this tool is not just about climate and nature-related risk management but should also constitute the “new normal” for a bank's strategic planning and decision-making. Transition plans disclosure requirements are critical to enable market participants to assess banks' readiness and resilience in a rapidly changing macroeconomic and climate context, with risks materialising at far greater speed than climate scientists had initially foreseen. Assessing this readiness means understanding the degree to which a bank incorporates this new reality in its strategy and adjusts its internal processes accordingly, including risk management, and governance.
 - Transition plan disclosures should include Scope 3-related emissions and associated absolute targets as mandatory, given that Scope 3 emissions form the largest part of emissions associated with the financial sector.
 - The disclosures should notably cover progress achieved towards the stated targets/forecasts as well as risk mitigating actions by banks focused on client engagement, escalation/disengagement policies, transition-linked products.
 - Carbon credits should only be used for the achievement of GHG emission reductions which cannot be achieved by other risk mitigating measures leading to effective emission reductions, since carbon credits will not mitigate the transition risk of individual exposures nor allow for mitigation of climate-change related risks at the systemic level.

Quantitative information section

Questions 17-29:

- **Mandatory disclosures of Scope 1, 2 and 3 emissions as indicators of climate-related financial risks are welcome.** BCBS should further work with supervisors to establish a uniform understanding, definitions, and methodologies for climate-related financial risk metrics.
- **Emission disclosures should be viewed in the context of qualitative information such as banks' actions to achieve reductions in the financed GHG emissions** (such as engagement with their clients, conditions attached to the provision of financing), in particular in the context of transition planning and transition plan disclosures.
- **Transparency over the underlying emission calculations methodologies, as well as key underpinning assumptions, should be required.** The Committee should also provide guidance on which methodologies should be used to calculate the financed emissions to help the banks navigate the uncertainties in this developing field and ensure credibility and comparability of the information.
- **Disclosure of facilitated emissions should be made mandatory** and not subject to jurisdictional discretion. With their capital market activities, banks contribute significantly to the financing of fossil fuel and other industries, which are major emitters of GHG and, via this, contribute to the physical and transition risks in the system.

Questions 37-41, 49-51:

- **Disclosure of forward-looking metrics and targets should be mandatory for all jurisdictions**, as this information is key when looking at climate-related risks which are by nature forward-looking (as stated in the consultation document itself).
- However, this may be challenging for certain jurisdictions, in the absence for example of relevant regional transition pathways, including sectoral ones, to support the disclosure of meaningful targets.
- We encourage Basel Committee members to engage in regular dialogue with relevant counterparts on this matter (e.g. the ISSB, who is closely looking at this issue, central banks from key regions concerned with this matter, regional networks).
- This issue also stresses the importance of disclosing adequate qualitative information (especially transition plans), to help market participants assess the situation on a case-by-case basis.