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To: Basel Committee on Banking Supervision

From: Adele Shraiman and Ben Cushing, Sierra Club (United States)

Subject: Consultation on principles for the effective management and supervision of climate-related financial risks

The Sierra Club welcomes the Basel Committee's decision to publish principles for the effective management and supervision of climate-related risks. As the primary global standard setter for banks, the Basel Committee's recognition of climate-related risks provides a significant opportunity for mobilizing regulatory tools to address them. In addition, these principles are an important first step towards improving the consistency of supervisory approaches to climate-related financial risks across multiple jurisdictions.

However, there are still a few areas of concern. Most notably is the omission of supervisory interventions designed to move beyond the study and identification of climate-related risks, and secure the behavioral changes that will protect the resilience of the financial system in the face of these shocks. In addition, a general lack of specificity and urgency make the principles weaker and less impactful than needed.

First, the principles published by the committee do not appropriately respond to the urgency of the ongoing climate crisis. Instead, the principles propose a gradual approach to allow for building expertise and developing risk management capabilities. While financial regulators delay intervention, the climate crisis continues to intensify and climate-related risks to our financial system grow each year. We simply cannot afford to delay concrete action, notably the implementation of risk-adjusted capital requirements, which would substantively shift the behavior of financial institutions.

Second, the guidance does not provide sufficient detail, making it difficult to implement and unlikely to have significant impact. The high level guidance does not offer real incentives for financial institutions to change their behavior by requiring them to internalize and mitigate their exposure to climate risks. Even in cases where supervisors do identify climate risks, identification of risks alone will not be enough to change bank practices and improve resilience to shocks. More substantial guidance would require firms, upon the identification of climate-related risks, to provide detailed operational plans, including metrics and milestones, which would address the identified risk and align with the firm's existing public climate commitments.

Third, the guidance does not make recommendations on the use of capital requirements, which are some of the most important supervisory tools for ensuring the resilience of financial institutions, and indeed, of the entire financial system. In order to shield from the most severe risks, supervisors must increase capital requirements for fossil fuel exposures in order to improve system-wide resilience and incentivize financial institutions to move away from these risky investments.

Moving forward, it is important for the committee to prioritize precautionary measures which would protect the financial system from a climate-driven crash. It is clear that certain financing activities expose financial institutions to an undue amount of risk. Chief among these is financing for fossil fuels, which not only contribute to catastrophic levels of planetary warming, but also risk a precipitous decline in value, totalling massive losses for their financial backers. There is ample evidence that the long-term impacts of unabated climate change far outweigh the short-term costs associated with the orderly transition away from fossil fuels, and supervisors around the world, including the NGFS and the ECB, acknowledge the benefits of early action on climate change. Therefore, it is paramount that regulators adopt precautionary measures now, before it is too late.

The Sierra Club reaffirms its support for the Basel Committee's draft principles, and acknowledges this important first step for establishing global standards for supervisory interventions to manage climate risks. Now, the committee must seek to strengthen supervisory principles to provide regulators with guidance for improving sector-wide resiliency and pushing financial institutions to adopt clear policies which align with the Paris Agreement's emissions reductions goals.