ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

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Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

February 16, 2022

Dear Basel Committee members:

Re: CBA[1] Comments on BCBS Consultative Document Principles for the effective management and supervision of climate-related financial risks

Thank you for the opportunity to provide comments on the BCBS's consultative document *Principles for the effective management and supervision of climate-related financial risks* ("consultative document"). We support the Committee's decision to promote a principles-based approach for improving risk management and supervisory practices for climate-related financial risks. We believe that a principles-based approach is appropriate as climate risk management is an emerging and rapidly evolving discipline where maturation and growth in expertise is ongoing. We support flexibility for supervisors to adopt the principles in a manner that is suitable to the state of development of banks in their jurisdiction. In this letter, we provide overall comments on key areas with additional comments included in the attached appendix on the various principles.

Transverse nature of climate-related financial risks

Given the transverse nature of climate-related financial risks and their correlation to a variety of risk categories, we support integrating governance of climate-related financial risks into existing risk management frameworks and structures, where applicable. Banks already have well-developed and effective policies, procedures, and controls for addressing traditional risk categories. We believe that regulators should consider how to leverage existing risk frameworks to address climate-related financial risks. This would avoid duplicative frameworks that would lead to inefficiencies in governance policies and procedures.

We appreciate that the Committee appears to recognize this, based on the direction of BCBS principles 8 – 11, which indicate that banks should understand the impact of climate-related risk drivers on their credit risk profiles, market risk positions, liquidity risk profiles, and operational risk profiles, and ensure that risk management systems and processes consider material climate-related financial risks. We support an integrative approach to considering climate-related financial risks in existing risk management frameworks and we offer some points for consideration in relation to specific risk types under principles 8 – 11 in the attached appendix.

[1] The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals. www.cba.ca.

Pillar 2 approach

We agree with the Committee's focus on a Pillar 2 supervisory approach to address climate-related financial risks through the use of various tools including the internal capital and liquidity adequacy assessment processes. We would caution regulators, though, against changing the capital and liquidity adequacy frameworks to account for climate-related financial risks, until more work is done to assess the impacts. We would highlight that measurement tools with respect to climate-related financial risks are still in the early stages of development and may produce results that are incomplete. In addition, we note that the time horizons for capital and liquidity planning are typically 1 to 3 years while the time horizons for particular climate-related financial risks can extend over a much longer time period (e.g., 30 years), which is beyond the scope of our current internal assessments. We also believe that any changes in capital requirements should be reflected in Pillar 2 instead of Pillar 1.

We are encouraged by the guidance of BCBS principle #5, which notes that climate-related financial risks will probably be incorporated into ICAAPs and ILAAPs iteratively and progressively, as the methodologies and data used to analyze these risks continue to mature over time and analytical gaps continue to be addressed. We believe this is appropriate and reflects the time needed to develop related tools including scenario analysis and data measurement which are crucial to climate risk management.

Clear and consistent terminology

We support the use of clear and consistent terminology in the BCBS principles for climate-related financial risks and we believe this has largely been achieved. This will help facilitate a common approach for adopting the principles both within and across jurisdictions and avoid any confusion. One suggestion that we have is to modify the wording for principles #12 and #18 which refer to "scenario analysis, including stress testing". These two concepts are different with scenario analysis being a relatively new tool in relation to climate-related financial risks. Supervisors are considering the impacts of transition and/or physical risks on generally static bank balance sheets under different climate scenarios that span longer time horizons (e.g., 30 years)[2]. However, stress testing is a more well-established process that considers the impact of broader macroeconomic shocks to the financial system over much shorter time periods (e.g., 3 – 5 years). We suggest that the Committee update principles #12 and #18 to reference scenario analysis only based on the current focus of regulatory work.

Proportionality

We appreciate the Committee highlighting that the proposed principles were drafted in a way to accommodate a diverse range of banking systems and are intended to be applied on a proportionate basis depending on the size, complexity, and risk profile of the bank or banking sector. Another key consideration will be the capacity of each bank to invest in the necessary capabilities to effectively identify, assess, monitor, manage, and report climate-related financial risks. For small and medium-sized banks in particular, investments in these capabilities represents a significant cost. Drafting the principles in a way that considers the size and capabilities of different banks is also important from the perspective of ensuring that undue burden doesn't undermine the competitiveness of small and medium-sized banks. We also suggest that subsidiaries of foreign banks be permitted to adopt guidance from their parent bank

[2] For example, NGFS Technical document – Scenarios in Action – A progress report on global supervisory and central bank climate scenario exercises (October 2021) - [scenarios-in-action-a-progress-report-on-global-supervisory-and-central-bank-climate-scenario-exercises.pdf (ngfs.net)]

as long as the risk management frameworks of their parent bank meet the expectations of the BCBS principles.

We agree with the Committee that proportionality should be specifically considered in relation to scenario analysis with an initial focus on large internationally active banks given the significant complexity and early stage of development of these exercises. As processes mature and challenges around data availability and data quality are overcome, banks of all sizes will be able to further develop their tools and capabilities in this area.

Supervisory principles

Similar to the principles for banks, we also support the supervisory principles that are presented in the consultative document but would also like to highlight some key points in this area. We recommend that supervisors share best practices and practical guidance to help banks understand their expectations. We suggest this take the form of examples rather than prescriptive guidance.

We also recommend that supervisors provide banks with enough time to meet their expectations and develop capabilities to conceptualize and adapt control frameworks for risks emanating from climate change. We would also request that supervisors engage the industry as they develop the timelines for their supervisory reviews to ensure that expectations can be met.

Implementation

While no specific implementation date is proposed, we recommend a transition period for adopting the principles that is sufficiently robust given the various challenges faced by banks and regulators including the constantly evolving nature of climate-related financial risks. In addition, we note that various regulatory and standard setting bodies are becoming involved in the climate risk space and there is a lack of standardized methodologies and consistency across jurisdictions. We believe that additional time would be helpful for regulators to review feedback and preliminary data from initial consultations within their jurisdictions. Regulators will then be better positioned to determine the best path forward collectively, with our preference being a harmonized approach which provides clarity and consistency and reduces the operational burden on banks.

We note that regulators have increased their requests for information and data on banks' management of climate-related financial risks. It is important to highlight that banks are at different stages of maturity in their journey with respect to collecting data and building tools and infrastructure capabilities. Regulators should have realistic expectations on what banks can deliver in light of various factors including a lack of available and complete data sources and the absence of developed and tested models to measure the impact of climate-related financial risks.

We believe that a phased-in adoption approach with appropriate interim milestones should be considered for banks' as existing data infrastructure is not yet built to identify and report climate-related data elements. Banks will need time to update their data infrastructure and the industry needs time to develop governance processes and standards in this area. Similarly, we believe that a phased-in approach should be taken by Supervisors with respect to the supervisory review process. As such, we believe the BCBS has made a prudent decision by proposing a principles-based approach that should provide greater time for the advancement of methodologies and tools.

Thank you for considering our comments. We would be pleased to discuss any questions you may have on our response at your convenience.

Sincerely,

Attachment

Cc: Judy Cameron, Senior Director, Regulatory Affairs and Strategic Policy, OSFI
Stéphane Tardif, Managing Director, Climate Risks Hub, OSFI
Theresa Hinz, Managing Director, Prudential Policy and Strategic Policy Liaison, OSFI
Vlasios Melessanakis, Director, Prudential Policy and Strategic Policy Liaison, OSFI

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Overall comments

- We broadly agree with the principles set out in the consultative document for the effective management and supervision of climate-related financial risks.
- More specifically, we highlight some overarching themes to consider from our comments:
    - Board involvement to meet the expectations in the principles should be reasonable and limited to an oversight role.
    - Consideration of the extent to which these principles are to be applied to a bank's affiliates and joint ventures, especially if a bank does not have direct control over those affiliates.
    - We believe that the BCBS should not be looking to address external disclosure on climate-related financial risks and their management as that would fall under the purview of securities regulators (IOSCO). Any Pillar 3 disclosures should continue to be specific to the Basel III framework, if considered necessary. A safe harbour approach would also be desirable to encourage disclosures.

I. Introduction (p. 5 – 6)

- **Paragraph #10** notes that different time horizons should be considered in the process of risk identification and assessment as well as scenario analysis. We suggest that the BCBS provide examples of time horizons.

II. Principles for the management of climate-related financial risks (p. 6 - 11)

Corporate Governance (p. 6 – 7)

Principle 1: Banks should develop and implement a sound process for understanding and assessing the potential impact of climate-related risk drivers on their businesses and on the environments in which they operate. Banks should consider material climate-related financial risks that could manifest over various time horizons and incorporate these risks into their overall business strategies and risk management frameworks. [Reference principles: BCP 14, SRP 30, Corporate governance principles for banks]

We agree with this principle. Banks should develop a process for assessing the potential impact of climate-related financial risks. We also believe that supervisors should give banks enough time to develop and implement processes for understanding and assessing the impact of climate-related risk drivers on their businesses and on the environments in which they operate. The impact of climate

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change on business is still quite vague at this time and there are a number of challenges that banks are facing (e.g., data availability and quality, lack of standards, etc.). **Additional considerations:** • We request consistency across different regulatory bodies on their approach to what is considered material. • **Paragraph #12** mentions "short, medium and longer-terms" in reference to the time horizons that should be considered. We propose that examples be provided.
Principle 2: The board and senior management should clearly assign climate-related responsibilities to members and committees and exercise effective oversight of climate-related financial risks. The board and senior management should identify responsibilities for climate-related risk management throughout the organisational structure. [Reference principles: BCP 14, SRP 30, Corporate governance principles for banks]
We agree with this principle. There should be clear allocation of responsibilities and the relevant staff should be adequately trained. We request further clarity on the BCBS's expectations for boards and senior management, although we believe that boards and senior management should have the flexibility to determine which persons and committees should be responsible for the oversight of climate-related financial risks. Flexibility should also be extended to how the mandate of the persons and committees should be modified to consider climate-related financial risks.
Principle 3: Banks should adopt appropriate policies, procedures and controls to be implemented across the entire organisation to ensure effective management of climate-related financial risks. [Reference principles: BCP 14, SRP 30, Corporate governance principles for banks]
We support this principle. We believe that climate-related financial risks are transverse risks. See comments in our cover letter.
Internal control framework (p. 7 – 8)
Principle 4: Banks should incorporate climate-related financial risks into their internal control frameworks across the three lines of defence to ensure sound, comprehensive and effective identification, measurement and mitigation of material climate-related financial risks. [Reference principles: BCP 26, SRP 20, SRP 30]

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We agree with this principle. As noted in our cover letter, we believe that climate-related financial risks should be treated as transverse risks and banks should be provided with adequate implementation time to incorporate climate-related financial risks into their internal control frameworks. **Additional considerations:** • **Paragraphs #18, 19, 20 –** We suggest expanding the current focus to cover ongoing monitoring and engagement with clients in addition to the onboarding/credit review stage. In order for banks to effectively measure and manage climate-related financial risks (i.e., physical & transition risks), they need to work closely with their clients to support their client's low-carbon transition plans.
Capital and liquidity adequacy (p. 8)
Principle 5: Banks should identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes. [Reference principles: BCP 15, BCP 24, SRP 20, SRP 30]
We agree with this principle, however we note that most banks are not currently able to fully incorporate the long-term implications of climate-related risks into their internal capital and liquidity adequacy assessment processes as appropriate models and data are not currently available. Additional time is needed for implementation. Please see additional comments in our cover letter.
Risk management process (p. 8 – 9)
Principle 6: Banks should identify, monitor and manage all climate-related financial risks that could materially impair their financial condition, including their capital resources and liquidity positions. Banks should ensure that their risk appetite and risk management frameworks consider all material climate-related financial risks to which they are exposed and establish a reliable approach to identifying, measuring, monitoring and managing those risks. [Reference principles: BCP 15, SRP 30]
We agree with this principle and the use of "where appropriate" and "where possible" in the guidance provided in paragraphs #26 & #27. The risk management frameworks should be flexible enough to consider future developments in view of the uncertainties related to the environment.

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Additional considerations: • **Paragraph #26** – *"Where appropriate, banks should consider risk mitigation measures such as establishing internal limits for the various types of material climate-related financial risks to which they are exposed, e.g., in their credit, market, liquidity and operational risk profiles."* There are various risk mitigation measures and establishing limits directly for these risks may not be the most relevant example for individual banks. We suggest removing 'such as establishing internal limits' so that the language is not as prescriptive or suggest changing the language to 'such as but not limited to'. • Supervisors should provide guidance on how banks should reflect climate-related risks in their risk appetites to ensure consistency across jurisdictions. We suggest the BCBS consider this area for further guidance as well. Furthermore, supervisors should recognize existing data gaps and that this is an evolving space (i.e., lack of standards, methodologies, etc.).
Management monitoring and reporting (p. 9)
Principle 7: Risk data aggregation capabilities and internal risk reporting practices should account for climate-related financial risks. Banks should seek to ensure that their internal reporting systems are capable of monitoring material climate-related financial risks and producing timely information to ensure effective board and senior management decision-making. [Reference principles: BCP 15, SRP 30, Principles for effective risk data aggregation and risk reporting]
We agree with this principle. Internal reporting systems should ensure timely reporting to senior management so that effective decisions can be made, given each banks risk appetite and business strategy. However, we stress that additional time is needed for implementation. Please see additional comments in our cover letter. **Additional considerations:** • **Paragraph #29 –** *"Banks should consider actively engaging clients and counterparties and collecting additional data in order to develop a better understanding of their transition strategies and risk profiles. Where reliable or comparable climate-related data are not available, banks may consider using reasonable proxies and assumptions as alternatives in their internal reporting as an intermediate step."* In consideration of the continued evolution of available data and recognizing that clients of different sizes may experience challenges in quantifying some of this data, we recommend removing "as an intermediate step". • Supervisors should provide guidance on what relevant climate data elements are expected and how they interact with data for existing risk categories (e.g., credit and market risks) and also consider external data available when providing final guidance, so banks can source the data appropriately and ensure consistency.
Comprehensive management of credit risk (p. 9 – 10)

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Principle 8: Banks should understand the impact of climate-related risk drivers on their credit risk profiles and ensure credit risk management systems and processes consider material climate-related financial risks. [Reference principles: BCP 17, BCP 19, SRP 20, Principles for the management of credit risk]
We agree with this principle. We do not believe a standalone climate risk framework is needed. We believe climate-related financial risks are transverse risks and we can rely on existing risk management frameworks. However, it will take time to identify and assess the impact of climate-related financial risks across physical and transitional climate risk drivers for the various risk types (e.g., credit, market, etc.). Current risk management policies and frameworks do not fully address climate-related financial risks and banks are at different maturity levels globally. Banks should be given enough time to build the capabilities to understand the impact of climate-related risk drivers on their credit risk profiles. We support a phased-in approach given the evolving nature of climate risk management. **Additional considerations:** • **Paragraph #33** – *"Banks should also identify, measure, evaluate, monitor, report and manage the concentrations within and between risk types associated with climate-related financial risks. For example, banks could use metrics or heatmaps to assess and monitor concentration of exposure to geographies and sectors with higher climate-related risk."* We suggest clarifying the meaning of ''the concentrations…between risk types". Does it mean for example the interaction between credit risk and insurance risk, or does it mean borrower's exposure to physical risk vs. transition risk, or something else? • **Paragraph #34 -** *"Banks should consider a range of risk mitigation options to control or minimise material climate-related credit risks. These options may include adjusting credit underwriting criteria, deploying targeted client engagement, or imposing loan limitations or restrictions such as shorter-tenor lending, lower loan-to-value limits or discounted asset valuations."* Instead of implying the responsibility resides with credit underwriters, we suggest changing the wording from "adjusting credit underwriting criteria" to "additional due diligence of borrowers".
Comprehensive management of market, liquidity, operational and other risks (p. 10 - 11)
Principle 9: Banks should understand the impact of climate-related risk drivers on their market risk positions and ensure that market risk management systems and processes consider material climate-related financial risks. [Reference principles: BCP 22]
We support this principle. We do not believe a standalone climate risk framework is needed. We believe climate-related financial risks are transverse risks and we can rely on existing risk management frameworks. However, it will take time to identify and assess the impact of climate-related financial risks across physical and transitional climate risk drivers for the various risk types (e.g., market, etc.). Current risk management policies and frameworks do not fully address climate-related financial risks and banks are at different

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maturity levels globally. Banks should be given enough time to build the capabilities to understand the impact of climate-related risks drivers on their market risk positions. We support a phased-in approach given the evolving nature of climate risk management. **Additional considerations:** • We note that market prices are reflective of all existing perceived risks including climate-related risks to supply and demand. As such, isolating climate-related risk drivers for market risk will be operationally challenging. More directly, market sentiment and impacts are naturally included as volatility and idiosyncratic pricing behaviour find their way into VaR and stress modeling. Supervisors should provide guidance on narratives to use in assessing market risk for climate-related risk drivers to ensure consistency across the industry. We also caution that proprietary considerations should be taken into account in any guidance to ensure banks trading desks strategies are not revealed thereby placing them at a disadvantage.
Principle 10: Banks should understand the impact of climate-related risk drivers on their liquidity risk profiles and ensure that liquidity risk management systems and processes consider material climate-related financial risks. [Reference principles: BCP 24, Principles for sound liquidity risk management and supervision]
We support the objective of the principle that risk identification incorporate the growing potential for climate change to be a driver of financial risks and crises, potentially leading to liquidity issues for banks. When climate is simply considered as a newly emerging significant risk catalyst, we do not believe a standalone climate risk framework is needed that is distinct from existing guidance. We would also highlight that Liquidity risk managers will need potentially more time than other risk areas to understand the impact of climate-related risks drivers and ranges of severities on their bank's clients, products, and markets, as liquidity risk is somewhat dependent on other risk areas within the bank to stay consistent and scale the impact of events (e.g., economic fear and disruption and projected capital losses are the most likely drivers of liquidity events). In addition, more time is needed to subsequently acquire the data elements to drive any appropriate sensitivities into scenarios with embedded climate change narratives and catalysts. **Additional considerations:** • The proposed language that banks '*should understand' '* and 'ensure' might be too definitive in relation to banks' ability to provide conclusive identification of these risk drivers in risk systems and processes. We believe this could be adjusted to say *'banks should reflect the potential of climate related risk drivers to invoke or enhance the potential for liquidity challenges in the parametrization and monitoring efforts, and where deemed material, implement controls",* particularly for regional banks or mono-line lenders in contrast to diversified systemically important banks that may be more adversely impacted by individual climate change driven events or transitions. • Regulators should be clear on the narratives and scenarios they want banks to use in order to have climate-related risk drivers reflected in liquidity risk management frameworks.

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Principle 11: Banks should understand the impact of climate-related risk drivers on their operational risk[5] and ensure that risk management systems and processes consider material climate-related risks. Banks should also understand the impact of climate-related risk drivers on other risks[6] and put in place adequate measures to account for these risks where material. This includes climate-related risk drivers that might lead to increasing strategic, reputational, and regulatory compliance risk, as well as liability costs associated with climate-sensitive investments and businesses. [Reference principles: BCP 25, Principles for the sound management of operational risk, Principles for operational resilience, SRP 20, SRP 30]
We agree with this principle. We do not believe a standalone climate risk framework is needed. We believe climate-related financial risks are transverse risks and we can rely on existing risk management frameworks. However, it will take time to identify and assess the impact of climate-related financial risks across physical and transitional climate risk drivers for the various risk types (e.g., operational risk). Current risk management policies and frameworks do not fully address climate-related financial risks and banks are at different maturity levels globally. Banks should be given enough time to build the capabilities to understand the impact of climate-related risks drivers on their operational risk. We support a phased-in approach given the evolving nature of climate risk management. **Additional considerations:** • The challenge is parsing out what portion is specifically related only to climate-related financial risks. We think Basel guidance on effective risk management principles for operational risk are more than sufficient to capture any operational risk concerns on climate-related risks and more detailed guidance is not needed. We suggest that flexibility be provided to banks on how to capture climate-related risks under their existing operational risk frameworks.
Scenario Analysis (p. 11)
Principle 12: Where appropriate, banks should make use of scenario analysis, including stress testing, to assess the resilience of their business models and strategies to a range of plausible climate-related pathways and determine the impact of climate-related risk drivers on their overall risk profile. These analyses should consider physical and transition risks as drivers of credit, market, operational and liquidity risks over a range of relevant time horizons. [Reference principles: BCP 15, Stress testing principles]
We agree with this principle but we recommend the wording be updated to only refer to scenario analysis. Please see comments in our cover letter. **Additional considerations:** • **Paragraph #44** notes that Scenario Analysis should employ a range of time horizons, from short- to long-term. We propose that examples be provided for these timeframes.

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• Under various other principles, there is recognition of the continued evolution of the maturity of data and methodologies and that this will be an iterative process. Given the impacts of those uncertainties for scenario analysis, we propose reinforcing that message here as well to set expectations for banks and supervisors. • We believe that more guidance on acceptable scenarios should be provided by supervisors specific to the particular climate issues in their countries. We would also like to draw attention to the shorter time horizon and requirement of validated models for regulatory stress tests and we suggest that the BCBS consider implications in terms of climate-related financial risks and climate scenario analysis. • A phased approach is noted as practices evolve and "where appropriate". • Request clarification/examples of "resilience of business models".
III. Principles for the supervision of climate-related financial risks (p. 12 - 14)
Prudential regulatory and supervisory requirements for banks (p. 12 - 13)
Principle 13: Supervisors should determine that banks' incorporation of material climate-related financial risks into their business strategies, corporate governance and internal control frameworks is sound and comprehensive. [Reference principles: BCP 9, BCP 14, BCP 26, SRP 20]
We agree with this principle. This should be part of supervisory reviews. **Additional considerations:** • Supervisors should share best practices and insights they gain from other supervisors and from across the industry. • Supervisors should temper expectations with on-going industry discussions and appreciation for the challenges that banks are facing. • Supervisors should distinguish between what is ideal vs. what the industry is capable of doing currently, in the short term, and further in long term capabilities. Guidelines/requirements and associated implementation plans should consider this and ensure that reasonable timelines exist with an appreciation of banks' existing capabilities. • We request guidance on what is meant to be sound and comprehensive.
Principle 14: Supervisors should determine that banks can adequately identify, monitor and manage all material climate-related financial risks as part of their assessments of banks' risk appetite and risk management frameworks. [Reference principles: BCP 15, SRP 20, SRP 30]

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We agree with this principle. This should be part of supervisory reviews. **Additional considerations:** • See comments on Principle #13. • Supervisors should share expectations (although not overly prescriptive) on risk appetite and risk management frameworks. Best practices amongst banks should be shared by supervisors to ensure consistency across the industry.
Principle 15: Supervisors should determine that banks comprehensively identify and assess the impact of climate-related risk drivers on their risk profile and ensure that material climate-related financial risks are adequately considered in their management of credit, market, liquidity, operational, and other types of risk. Supervisors should determine that, where appropriate, banks apply climate scenario analysis. [Reference principles: BCP 17–25, Principles for sound liquidity risk management and supervision, Principles for the sound management of operational risk, Principles for operational resilience]
We agree with this principle. This should be part of supervisory reviews. **Additional considerations:** • See comments on Principle #13.
Responsibilities, powers and functions of supervisors (p. 13 - 14)
Principle 16: In conducting supervisory assessments of supervised banks' management of climate-related financial risks, supervisors should utilise an appropriate range of techniques and tools and adopt adequate follow-up measures in case of material misalignment with supervisory expectations. [Reference principles: BCP 8, BCP 9, SRP 10, SRP 20]
We agree with this principle. This should be part of supervisory reviews. **Additional considerations:** • We suggest the BCBS clarify what "appropriate" is understood/would be expected to mean, including among other things, what the "range of techniques and tools" would be within the purview of the supervisors' authority. We are concerned that the use of "appropriate" could be used as a means to express concerns/objections about timing/scope which would leave banks unable to gauge supervisory expectations.

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Principle 17: Supervisors should ensure that they have adequate resources and capacity to effectively assess supervised banks’ management of climate-related financial risks. [Reference principles: BCP 9]
We agree with this principle. This should be part of supervisory reviews. **Additional considerations:** • **Paragraph 59 -** For common data gaps identified, we suggest that supervisors consider collecting additional information from regulated banks in a standardized reporting format to help provide direction and improve comparability. • We suggest that supervisors seek feedback from their regulated banks to help identify gaps in resources, talent, and capabilities they may not be aware of.
Principle 18: Supervisors should consider using climate-related risk scenario analysis, including stress testing, to identify relevant risk factors, size portfolio exposures, identify data gaps and inform the adequacy of risk management approaches. Where appropriate, supervisors should consider disclosing the findings of these exercises. [Reference principles: Stress testing principles]
We agree with this principle but we recommend the wording be updated to only refer to scenario analysis. This should be part of supervisory reviews. Please refer to additional comments under Principle #12 above. **Additional considerations:** • Should regulators decide there is a public need to be transparent and disclose the findings of scenario analysis, we recommend that the disclosures be done in agreement with participating banks and in line with existing confidentiality obligations and established disclosure practices. • Regulators should ensure results are aggregated at the industry level and anonymized for disclosures.
IV. Questions on the proposed principles (p. 14)
Q1. Has the Committee appropriately captured the necessary requirements for the effective management of climate-related financial risks and the related supervision? Are there any aspects that the Committee could consider further or that would benefit from additional guidance from the Committee?
We believe the principles are sufficiently comprehensive to ensure the effective management of climate-related financial risks and supervision.

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Q2. Do you have any comments on the individual principles and supporting commentary?
See cover letter and comments above under each principle.
Q3. How could the transmission of environmental risks to banks' risk profiles be taken into account when considering the potential application of these principles to broader environmental risks in the future? Which key aspects should be considered?
While climate change is at the forefront of concerns, broader environmental risk is also being increasingly recognized as a key risk globally. We believe these principles can be applied to identify, assess, monitor and manage broader environmental risks in the future. Environmental risks are also transverse risks that banks account for in traditional risk categories. This is also an area in development. Banks need time to build capabilities and deal with a number of challenges related to environmental risks (e.g., lack of reliable data, developing industry standards, taxonomies, etc.) before further input can be provided. Also, regulators should consider the different size and business models of various banks and how the proposed principles could be adopted accordingly.