March 14, 2024

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

Re: Comments on the Disclosure of Climate-Related Financial Risks

I. Introduction

We appreciate the opportunity to comment on the Basel Committee on Banking Supervision's (Committee or BCBS) consultation paper on disclosure of climate-related financial risks (consultation paper or proposal).[1] The Committee has previously issued principles for the effective management and supervision of climate-related financial risks (Principles)[2] and frequently asked questions on how climate-related financial risks may be captured in the existing Pillar 1 standards.[3] The consultation paper offers a critical next step toward updating the Committee's standards to address climate-related financial risks in line with its role as the primary global standard setter for bank regulation. Updating Pillar 3 requirements to account for climate-related financial risks will help ensure effective implementation of the Principles and the Committee's capital standards while also providing critical information to market participants. It should also ensure more consistent and comprehensive treatment of banks' climate-related financial risks across jurisdictions, as countries consider and adopt various disclosure frameworks. Finalization of these standards should be followed by revisions of Pillars 1 and 2, to ensure that micro- and macroprudential climate-related financial risks are addressed holistically.

While we support the consultation paper's goals and many of the proposed measures, the draft standards should be improved before finalization. Included below are the following:

- General comments on the consultation paper, and
- Specific comments on the draft templates and tables.

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[1] BCBS, "Disclosure of climate-related financial risks" (Nov. 29, 2023), https://www.bis.org/bcbs/publ/d560.pdf (hereinafter Consultation Paper).
[2] BCBS, "Principles for the effective management and supervision of climate-related financial risks" (June 2022), https://www.bis.org/bcbs/publ/d532.pdf (hereinafter Principles).
[3] BCBS, "Frequently asked questions on climate-related financial risks" (Dec. 8, 2022), https://www.bis.org/bcbs/publ/d543.pdf (hereinafter BCBS Climate FAQs).

II. General comments

A. Updating Pillar 3 to Account for Climate-Related Financial Risks Is Necessary and Would Benefit Market Participants.

As the Committee acknowledged, “[t]he existing Pillar 3 framework does not provide distinct or comparable information as to how climate risk drivers could impact a bank or the banking sector.”[4] Adoption of strong climate-related financial risk disclosure standards is necessary to promote comparability and market discipline and support policy development and supervisory efforts and would be consistent with the guiding principles of the Pillar 3 framework (i.e, clarity, comprehensiveness, meaningfulness/usefulness, consistency over time, and comparability).[5] Disclosure of climate-related financial risks, including with respect to Scope 1-3 emissions,[6] are necessary to fulfill the purpose of Pillar 3 requirements to “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.”[7] Given the forward-looking nature and the scale of micro- and macroprudential climate-related financial risks, Pillar 3 must be updated to to include forward-looking climate-related information. Indeed, some investors have specifically called for updates to disclosures to account for climate-related financial risks.[8]

Without disclosures, market participants will lack the information they need to assess bank risks and capital. This may cause inadequate understanding of risks, mispricing of assets,

[4] Consultation Paper at 3. Banks generally are not providing climate-related financial risk information in their current Pillar 3 disclosures. *See* Sam Woods, Prudential Regulation Authority, “Thematic feedback on the PRA’s supervision of climate-related financial risk and the Bank of England’s Climate Biennial Exploratory Scenario exercise,” at 11 (Oct. 21, 2022), https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2022/october/managing-climate-related-financial-risks.pdf.

[5] Bank for International Settlements, “Pillar 3 framework – Executive Summary” (June 27, 2019), https://www.bis.org/fsi/fsisummaries/pillar3_framework.htm#:~:text=Guiding%20principles%20for%20Pillar%203%20disclosures&text=Meaningfulness%2Fusefulness%3A%20Disclosure%20must%20highlight,reconciliations%20must%20also%20be%20disclosed.

[6] Financed and facilitated emissions are important, as discussed below. Indeed, one report found financial institution’s financed emissions to be 700 times greater than their operational emissions. CDP, “The Time to Green Finance,” at 3 (2020), https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/741/original/CDP-Financial-Services-Disclosure-Report-2020.pdf?1619537981. However, banks and bank holding companies may generate significant emissions that are not currently accounted for in their financed emissions. For example, the U.S. Federal Energy Regulatory Commission determined that JP Morgan is affiliated with the private equity entity Infrastructure Investment Fund and, as a result, also affiliated with power plants, petroleum and gas storage facilities, utilities, deepwater oil/gas platforms, and oil/gas pipelines. Public Citizen, “FERC Ruling Places JPMorgan Chase at Center of Fossil Fuel Empire” (Sept. 22, 2023), https://www.citizen.org/news/ferc-ruling-places-jp-morgan-chase-at-center-of-fossil-fuel-empire/.

[7] DIS10.1. The Committee’s focus when updating the Pillar 3 framework for climate-related financial risks should be on that goal. Reducing or avoiding legal risks to banks should not be a Committee priority in this effort. Indeed, the climate-related financial risk disclosures may provide useful information to market participants about the possibility of legal risks.

[8] *See, e.g.*, Natasha Landell-Mills, Sarasin & Partners LLP, et al., “Role of investors in promoting capital adequacy in the face of climate change” (Jan. 29, 2024), https://sarasinandpartners.com/wp-content/uploads/2024/02/Letter-to-the-PRA-on-climate-risks-29_01_24.pdf (calling f.

misallocation of capital, and market volatility. Because the reliability of this critical information and the content of disclosures will depend in part on choices and assumptions the banks make, reasonable assurance should be required.[9] Disclosures without assurance are less reliable and may lead to an understatement of climate-related financial risks. The Committee acknowledged that "the development of a meaningful and robust Pillar 3 framework for climate-related financial risks is likely to be an iterative process."[10] It should not lower disclosure standards at the outset, but instead work with all stakeholders as necessary to develop capacities.

Moreover, a strong climate-related financial risk management disclosure framework will encourage development of climate-related financial risk management practices and mitigate greenwashing concerns. This in turn will promote safety and soundness and financial stability. Without mandatory disclosures, banks may devote fewer resources to identifying and managing climate-related financial risks and any disclosures would lack consistency and comparability.

B. Financed Emissions Should Be Disclosed.

We strongly support the inclusion of financed emissions disclosures by sector and the Committee's recognition that financed emissions provide useful information on a bank's transition risks.

The proposed financed emissions disclosures accurately reflect that disclosure of the greenhouse gas emissions associated with a bank's loans and investments help market participants understand a bank's exposure to climate-related transition risks. The proposed sector-level disclosures also accurately reflect the fact that simple aggregate financed emissions do not provide the same level of transition risk information to market participants, supervisors, and the public. For example, fossil fuel company borrowers are facing significant changes in policy, technology and consumer demand as the shift to renewable energy rapidly progresses. As demand for fossil fuels decreases and public policy shifts toward renewable energy, the risks of fossil fuel exposures (e.g., probability of default and reduced value of collateral securing exposures) will significantly increase.[11] Complementing financed emissions information with asset quality and maturity information, as the proposal would require, would further contextualize the financed emissions information for market participants.[12]

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[9] A recent report concluded that existing assurance models could be applied to climate-related financial risks. Ceres, "Closing the Gap: Investor Insights into Decision-Useful Climate Data Assurance" (Jan. 24, 2024), https://www.ceres.org/resources/reports/closing-gap-investor-insights-decision-useful-climate-data-assurance.

[10] Consultation Paper at 1.

[11] *See* Gregg Gelzinis, "Addressing Climate-Related Financial Risk Through Bank Capital Requirements," at 10 (May 2021), https://www.americanprogress.org/wp-content/uploads/sites/2/2021/05/Addressing-Climate-Financial-Risk.pdf.

[12] The Committee's proposal to include asset quality and maturity information in CRFR2 is similarly appropriate. This information would be useful in assessing the duration of banks' exposures over periods of potentially increasing physical risks and the ability of banks to transfer the exposures without incurring losses.

A growing body of research underscores the significant risk related to loans and investments in fossil assets. One study indicates, for example, that under plausible changes in expectations about the effects of climate policy, global stranded assets for the upstream oil and gas sector alone translate to major losses of more than US$1 trillion for investors in advanced economies.[13] Other research indicates that, to allow for a 50 percent probability of limiting warning to 1.5 °C, nearly 60 percent of oil and fossil methane gas, and 90 percent of coal, must remain unextracted.[14] Oil and gas production must decline globally by 3 percent each year until 2050.

Market participants need information about banks' financed emissions. Without it, they cannot fully assess risks faced by banks' counterparties, and, in turn, banks themselves.

Many banks argue that their financed emissions are not useful proxies for their transition risks because their loans are relatively short term and they can pivot away from these risks, i.e., they can transition their own business away from these exposures before the transition risks materialize and cause losses for the bank.

The reality, however, is that this strategy relies on critical and questionable assumptions. These include, for example, assumptions about how quickly the transition is occurring—and, in turn, when the bank needs to dispose of these assets—as well as assumptions about the availability of purchasers for these assets when the bank decides to make this pivot. They also assume that the bank will not face downstream impacts in the future from its financing of greenhouse gas (GHG) emissions today. The uncertainty related to such assumptions, and the potential impacts, are too significant. A precautionary approach mandates against such reliance.

If a bank is confident its risk mitigation measures will significantly minimize or negate its exposure to transition risks, i.e., if a bank believes its capacity to absorb losses or dispose of fossil assets will inevitably succeed in minimizing or mitigating this exposure, the bank should be willing to allow market participants to know both its financed emissions and its plans to address risks related to these emissions.

Financed emissions information can also help market participants evaluate the extent to which banks are meeting regulator expectations. In the US, for example, this information will help market participants evaluate the extent to which banks are ensuring that their internal strategies are consistent with their public commitments, as reflected in the recently adopted Principles for Climate-Related Financial Risk Management from the U.S. federal banking agencies,[15] as well as the Committee's Principles.[16] Indeed, disclosure of financed emissions may cause banks to better align their strategies and public statements. The information will

[13] Gregor Semieniuk, et al., "Stranded fossil-fuel assets translate to major losses for investors in advanced economies," 12 Nature Climate Change 532 (2022), https://www.nature.com/articles/s41558-022-01356-y.
[14] Dan Welsby, et al., "Unextractable fossil fuels in a 1.5 °C world," 597 Nature 230 (2021), https://www.nature.com/articles/s41586-021-03821-8.
[15] "Principles for Climate-Related Financial Risk Management for Large Financial Institutions," 88 Fed. Reg. 74,183, 74,187 (Oct. 30, 2023), https://www.govinfo.gov/content/pkg/FR-2023-10-30/pdf/2023-23844.pdf.
[16] Principles at 3.

also otherwise enhance the accountability of banks for the effective implementation of these principles.

While the proposed requirement to disclose financed emissions is critically important, it should be strengthened to ensure that all relevant financed emissions are disclosed. As discussed further below, the proposal should ensure that all bank financing occurring through financial intermediaries is included in calculations of a bank's financed emissions.

C. Transition Plans Should Be Mandatory and Their Disclosure Should Be Required.

The consultation paper notes that the Committee is "exploring whether banks should disclose . . . transition plans."[17] The consultation paper defines transition plans as "an aspect of a bank's overall strategy that lays out the bank's forecasts and actions for its transition towards a lower carbon economy, including actions such as reducing its greenhouse gas emissions."[18] As drafted, CRFRA would require disclosure of information on "any climate-related transition plans a bank has, including information about key assumptions used in developing its transition plan and dependencies on which the transition plan relies."[19]

Requiring disclosure of any transition plans without making credible plans mandatory incentivizes banks not to develop a transition plan. More fundamentally, a bank without a credible transition plan is not only increasing transition risks to its own safety and soundness—given the scope and scale of the shift to renewables—but also increasing physical risks for other financial institutions and financial stability through its increased emissions. As the recent US Financial Stability Oversight Council (FSOC) Annual Report underscores, such physical risk-driven threats to financial stability are already apparent as the insurance protection gap grows, and homeowners, mortgage lenders, and interconnected entities face heightened exposure.[20] A physical risk-driven financial crisis could threaten downstream impacts to banks of all sizes.

To address these risks, the Committee should require disclosure of transition plans that outline the steps necessary for the bank to operate in alignment with a maximum of 1.5 degrees Celsius of warming. It could consider and build on existing frameworks to accomplish this goal. Transition plans should account for the safety and soundness of the individual bank as well as the risks that banks, and particularly large banks, create for other institutions that are forced to assume those risks but may not be able to mitigate them. Distress at these institutions can cause instability that ultimately affects the safety and soundness of the banks financing the emissions. The Committee should set clear minimum standards for transition plan content to ensure the plans are sufficiently robust and that their disclosure provides useful and consistent information. Prescriptive standards for transition plans and qualitative disclosure more generally would support these goals. For example, Table CRFRA currently proposes to have banks define "short term", "medium term", and

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[17] Consultation Paper at 3-4.
[18] Consultation Paper at 16. This definition of "transition plans" appears in the instructions to CRFRA. For clarity, it should be moved to the definitions section.
[19] Consultation Paper at 15.
[20] FSOC, "Annual Report 2023," at 45-50 (Dec. 2023), "https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf.

"long term" and to link these definitions to the planning horizons they use for strategic decision-making. These terms should have one definition, provided by the BCBS, to ensure comparable and consistent information for market participant assessments of banks. Because carbon credits do not mitigate the transition risks of a given exposure, nor allow for mitigation of climate-change related risks at the systemic level, they should be included in transition plans only when GHG emission reductions are not otherwise possible.

Transition plans are not merely a business strategy that could be exempt from disclosures. They are a critically important risk management tool and a key source of information for supervisory efforts and market discipline in the context of a shift to a vastly changed economic and natural environment. They provide a comprehensive understanding of how banks are addressing these vast changes (e.g., updates to strategies, risk management, governance, engagement with clients, etc.).

Transition plan disclosure requirements should reflect these realities and facilitate an assessment of a bank's transition readiness. For example, they should include targets for Scope 3 emissions (the largest source of emissions for financial institutions) and information that would enable an assessment of the credibility of the bank's plan to reach those targets. Each transition plan disclosure should also discuss the bank's performance against its previously disclosed plan and updates, with explanations. Transition plan disclosures should also cover risk mitigation strategies related to client engagement, internal escalation/disengagement policies, and products aimed at supporting the bank and its clients through the transition. These disclosures should also explain how banks' mitigation strategies are consistent with fair lending laws and similar obligations.

D. Forecasts Should Be Mandatory and Disclosure Should Be Required.

The consultation paper notes that forecasts are one way to disclose forward-looking information.[21] Similar to transition plans, the proposal would require forecast disclosures only when the bank has established them.[22] Requiring forecasts only if the bank already has them creates perverse incentives for banks. In order to avoid disclosure requirements, they may not develop the data and capabilities necessary to identify and manage climate-related financial risks.

Because evaluation of climate-related financial risks requires forward-looking risk assessments, forecasts should be mandatory. The consultation itself recognizes that "climate-related financial risks need to be assessed and considered in a forward-looking manner."[23] Moreover, "[t]he Principles recommend that supervisors develop an understanding of, and assess the bank's long-term approach to, addressing climate-related financial risks in a <u>forward-looking manner</u>, and that supervisors assess the resilience of banks' business models to any material climate-related financial risks over various time horizons"[24] Forecasts would provide that forward-looking information.

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[21] Consultation Paper at 6.
[22] Consultation Paper at 7.
[23] Consultation Paper at 2.
[24] Consultation Paper at 6 (citing Principles 6 and 13) (emphasis in original).

Forecast information would be most helpful if it provides not only the results of forecasts but also sufficient detail on the methodologies, assumptions, and data used to construct the forecasts. In addition, yearly forecast disclosures and progress reports will allow supervisors and market participants to better assess the credibility of a bank's forecasts over time. The Committee should consider more prescriptive standards and guidance, such as forecast methodologies and establishment of common reference years to promote consistency and comparability across banks and jurisdictions. It is also critical that forecasts provide useful information on whether the bank is expecting and trending toward alignment with 1.5 degrees Celsius. For that reason, absolute emissions forecasts that apply to the entire bank and include all GHG emissions are necessary. These forecasts should, at a minimum, be Paris-aligned, but should also incorporate any other jurisdictional commitments or legal requirements.

E. Qualitative Descriptions of Bank Exposures to Climate-Related Risks, Including Qualitative Descriptions of a Bank's Concentration Risk, Are Important for Market Participants and Regulators.

The draft standards usefully recognize that qualitative descriptions of climate-related financial risk are important complements to quantitative measures of such risk, given the limits of quantitative measures. These qualitative disclosures should align with the Committee's Principles. Disclosures on governance, risk management, strategies, and climate-related financial risks are necessary for market participants to evaluate banks' risks and capital.

One important provision includes the expectation that banks will "provide qualitative information that reflects the extent to which their financing is supporting their counterparts in climate change mitigation and adaptation. Detailed information should be provided on the types of instruments used, nature and type of projects financed as well as any other relevant information that will help users understand the bank's climate risk management framework."[25] This picture of bank support for a counterparty's shift to a low-carbon economy can be viewed relative to a bank's financed emissions to enable market participants to assess the credibility of a bank's commitment to the net-zero transition. Other useful information, in this regard, includes measures of the extent to which a bank is meeting policies it has adopted to reduce financing for coal, oil and gas, and related fossil assets.

Information limited to financed emissions could provide a skewed understanding of the credibility of a bank's commitment to net-zero emissions. For example, while US banks with concentrated financing in fossil assets reduced this financing in 2023, they did so largely because counterparties receiving such financing had cash resources allowing them to borrow less from banks.[26] A more complete picture of bank activity, including an increase or decrease in financing for climate change adaptation and mitigation, as well as the adoption and implementation of strong policies to avoid lending for fossil assets, are critically important in this context.

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[25] Consultation Paper at 19.

[26] Kusnetz, N., "Banks Say They're Acting on Climate, But Continue to Finance Fossil Fuel Expansion" Inside Climate News (April 2023), https://insideclimatenews.org/news/13042023/banks-say-theyre-acting-on-climate-but-continue-to-finance-fossil-fuel-expansion/

F. Climate-Related Financial Risk Disclosures Should Be Mandatory Rather Than Left to National Supervisor Discretion.

Portions of the draft Pillar 3 standards - specifically CRFR3, CRFR4, and CRFR5 - would be subject to national supervisor discretion. The Committee explains that these disclosures may be inapplicable or infeasible in certain jurisdictions.[27] In addition, some commenters are likely to request that final standards make *all* climate-related financial risk disclosures subject to national supervisor discretion.

Making all or a substantial part of the standards subject to national supervisor discretion, as the proposal would allow, is inconsistent with the Committee's role as the "primary global standard setter for the prudential regulation of banks" and its mandate to "strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability."[28] It also would reduce comparability across jurisdictions and permit supervisors to opt out of the standards even when data or other capacity constraints were not an issue. Moreover, making climate-related financial risk disclosures mandatory would encourage the development of data sources and capacities required to provide the information. When a disclosure standard is inapplicable to or infeasible for a jurisdiction, the Committee's Regulatory Consistency Assessment Program (RCAP) could classify the particular disclosure standard as inapplicable to that jurisdiction.[29] RCAP exists to ensure that each jurisdiction is adopting the Framework in a manner consistent with the Framework's letter and spirit, and can, therefore, provide a jurisdiction the flexibility it needs in regard to disclosure standards.

One example of important information that would be disclosed only if the jurisdiction decides to make the information public is information related to facilitated emissions. The consultation paper explains that the Committee is seeking input on the disclosure of facilitated emissions and would leave the ultimate decision to national supervisor discretion.[30] The Committee observes that "facilitation services may generate material revenue for some banks,"[31] but appears to suggest that possible difficulties quantifying these emissions mean their disclosure should be left to national discretion.

Understanding risks related to capital markets and advisory services revenue streams is crucial to market participants' assessment of banks' risk and capital adequacy, particularly when facilitation services are a significant source of bank revenue. Furthermore, establishment of a global standard will aid in the development of methodologies, data, and services needed for banks to provide facilitated emissions information.

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[27] Consultation Paper at 7-8.
[28] Bank for International Settlements, "Basel Committee Charter" (June 5, 2018), https://www.bis.org/bcbs/charter.htm (hereinafter Committee Charter).
[29] This is the current practice with disclosures that may not be applicable in every jurisdiction. One example is the TLAC disclosure standard, which is not applicable to countries without G-SIBs. Bank for International Settlements, "RCAP on timeliness: Basel III implementation dashboard," https://www.bis.org/bcbs/implementation/rcap_reports.htm.
[30] Consultation Paper at 8.
[31] Consultation Paper at 8.

The industry may oppose disclosure of facilitated emissions because capital market activities are volatile and episodic. However, risks related to nondisclosure of estimates of these emissions outweigh risks related to the uncertainties of the estimates. The relevant questions are (1) whether banks' capital markets and advisory activities are subject to transition risks and, if so, (2) whether the facilitated emissions associated with those activities provide useful information about those transitions risks. On the former, banks' capital markets and advisory activities can be a major contributor to the financing of GHG emissions, making them both a cause of and subject to climate-related financial risks. The transition to a low-carbon economy may cause capital markets and advisory services revenue streams to become more volatile and episodic or to dry up entirely. This will cause transition risks to vary by sector/industry, requiring disaggregated disclosures, as proposed for CRFR5. On the latter question, it is clear that emissions facilitated through capital markets and advisory services can be significant. The usefulness of facilitated emissions information could be improved with additional information on the types of activities the reporting bank is facilitating.

In addition, the energy efficiency and emissions intensity per physical output disclosures that would be required by CRFR3 and CRFR4, respectively, would provide helpful information on transition risks. The former would allow for identification of transition risks in the mortgage portfolio, as explained in the consultation paper.[32] The latter would provide important details on counterparties' reliance on fossil fuels for their own outputs, which indicates how susceptible they may be to negative effects from the transition away from fossil fuels.

G. The Committee Should Require Detailed Scenario Analysis Disclosures.

Scenario analysis can play an important role in assessing a bank's resilience to climate-related financial risks. However, many models used in scenario analysis produce economic results that are impossible to square with scientific predictions of the negative impacts of climate change on the natural world. As an Institute and Faculty of Actuaries and University of Exeter report noted, "There is a disconnect between climate science and the economic models that underpin financial services climate-scenario modelling" and "the results emerging from the models are far too benign, even implausible in some cases."[33] The Network for Greening the Financial System (NGFS) has noted that scenarios are not "off-the-shelf package[s]" and that "IAMs and physical risk assessment frameworks" are unable "to capture 'known unknowns' such as the impacts of tipping point events and extreme tail risks, non-linearities arising from second-round effects and [capture] only a limited – albeit expanding – subset of acute climate impacts being modelled."[34]

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[32] Consultation Paper at 7.

[33] Sandy Trust, et al., Institute and Faculty of Actuaries, University of Exeter, "The Emperor's New Climate Scenarios," at 5-6 (July 2023), https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios.pdf.

[34] NGFS, "NGFS scenarios: Purpose, use cases and guidance on where institutional adaptations are required: An explanatory note," at 5, 10 (Jan. 2024), https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guidance_note_on_the_scenarios.pdf. The NGFS has also indicated that it "is currently considering a new damage function, capturing more effect from climate change, that would increase substantially" the Phase IV *Current Policies* scenario GDP impact. *Id.* at 5 n.18.

For these reasons, strong disclosure requirements related to scenario analysis are needed. To ensure that disclosures are meaningful and comparable, the Committee should require the use of credible scenarios that are consistent with climate science and that capture tail risks given the uncertainty of climate change. To that end, the Committee should require that banks disclose modifications to standard scenarios, explain whether and how they considered input from climate scientists, specify the data sets and inputs used along with their statistical validity, and whether and how banks engaged with counterparties to obtain climate risk data. In addition, the Committee should require the disclosure of assumptions regarding technological advancements in scenarios, including potentially unrealistic expectations of the adoption of carbon capture utilization and storage technologies, that may lead to underestimation of climate risk.

The Committee should also clarify requirements on the use of scenario analysis, which will necessarily flow through to the disclosures. For example, CRFRA states that a bank's risk management disclosures must include "whether and how the bank uses climate-related scenario analysis to inform its identification of climate-related financial risks."[35] However, the instructions to CRFRA's strategy disclosures suggest that use of scenario analysis would be mandatory. Those instructions state, "The bank shall use climate-related scenario analysis to assess its climate resilience using an approach that is commensurate with the entity's circumstances."[36] The consultation paper offers no explanation for why scenario analysis would be optional for risk management. Scenario analysis can inform long-term strategy and risk management as banks design and implement net-zero transition plans. It should be used wherever relevant, with the caveat that the scenarios must align with climate science.

While scenario analysis is an important tool, it is just one piece of a bank's assessment of climate-related risks and opportunities. The Committee must ensure that a bank's use and subsequent disclosures of poorly designed or implemented scenario analysis do not lead to a false sense of security among banks, market participants, supervisors, and the public.

H. The Committee Should Provide Methodological Guidance to Ensure Credibility, Comparability, Transparency

For the disclosures to be helpful to market participants, the methodologies banks use for purposes of calculating financed emissions and other metrics must be credible, comparable, and transparent. The Committee should also provide guidance on appropriate methodologies to ensure that disclosures based on those methodologies are credible and well-founded. Clear guidance on methodologies would also assist with comparability over time for individual banks and across institutions. To ensure transparency, the Committee should require full transparency of methodologies including the underlying assumptions. This would allow market participants to better evaluate a bank's risks and encourage banks to refine their methodologies and assumptions.

[35] Consultation Paper at 16.
[36] Consultation Paper at 18.

I. Quantitative Climate-Related Financial Risks Disclosures Should Be Provided for a Wider Range of Risks.

While the consultation paper is an important start, the final standards should require quantitative disclosures of a wider range of risks, including for financial sector exposures, derivatives, the trading book, liquidity risks, and operational risks. Some of these exclusions are inconsistent with the Committee's own work on climate-related financial risks.[37] Without disclosures on all climate-related financial risks, market participants will be unable to assess banks' risks and capital adequacy.

1. Financial Institutions

The proposal should clearly indicate that banks' exposures to other banks, securities firms, and other financial institutions are subject to transition and physical risks, and associated quantitative disclosures should be required. Like all entities, financial institutions are susceptible to losses resulting from increasing severity and frequency of adverse weather events, chronic physical risks, and other indirect physical risks. Similarly, financial institution exposures face transition risks due to policy changes and falling creditworthiness of their fossil fuel counterparties, for example. The Committee should ensure that quantitative disclosures include those risks.

The Committee should ensure that the disclosures capture lending and investments for fossil assets that occur through financial intermediaries. CFRF1 would require banks to report "counterparties' Scope 1, 2 and 3 financed emissions associated with banks' lending and investment activities."[38] The final standards should continue to require those emissions, but the Committee should also prevent banks from reducing their reported financed emissions by shifting financing from direct lending or investment to indirect financing through other financial institutions.[39] Specifically, a bank's financed emissions disclosures should not stop at a financial intermediary layer, but look through to the underlying real economic activity. This would place substance over form and provide full transparency to market participants.

A bank may not fully understand the extent of its own risks from exposures to financial intermediaries. For example, a recent article discussed how financial institutions did not realize that, despite not having any direct exposures to Lehman Brothers, they were still at risk because their own counterparties were exposed to Lehman.[40] Banks may not appreciate the extent of these risks in the context of climate-related financial risks, and market

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[37] *See, e.g.*, Principles at 6-7; BCBS, "Climate-related risk drivers and their transmission channels," at 7 (April 2021), https://www.bis.org/bcbs/publ/d517.pdf (hereinafter Risk Drivers and Transmission Channels).

[38] Consultation Paper at 22.

[39] Recent research shows that multilateral development banks are engaged in this practice. Recourse et al., "Still Bankrolling Climate Change: How MDBs Support Fossil Gas through Financial Intermediary Investments" (Dec. 2023), https://re-course.org/wp-content/uploads/2023/12/Still-Bankrolling-Climate-Change-1-1.pdf. Any financial institution could do the same.

[40] James Vaccaro, "Closing the financial disclosure loophole to prevent 'emissions laundering'" Green Central Banking (Mar. 2024), https://greencentralbanking.com/2024/03/14/financial-disclosure-loophole-emissions-laundering-james-vaccaro/.

participants cannot assess these risks without an approach to financed emissions that is fully transparent and looks through each layer of financing.

2. Equity Investments in Funds, Securitizations, and Similar Exposures

It is not clear if the Committee intended to exclude equity investments in funds and securitization exposures. However, given the quantitative disclosures' focus on exposures classified under CRE20, the proposal appears to exclude them because they are covered by CRE60 and CRE40-CRE45, respectively. Equity investments in funds should be included to avoid different treatment of the same underlying exposures. For example, without including equity investments in funds, a bank would be required to disclose financed emissions for direct equity exposures to individual companies but would not be required to disclose financed emissions for exposures to those same companies through an equity investment in a fund. This appears to be an oversight and should be corrected in the final standards.[41] Similarly, securitization exposures are not clearly included because they are covered by CRE40 rather than CRE20. However, an exposure to an oil and gas asset-backed securitization[42] poses climate-related financial risks, just as an oil and gas loan does. The Committee should ensure these and any similar exposures are included in the disclosure framework so that market participants are not deprived of necessary information due to the form of the exposure rather than the substance.

3. Derivatives

Derivatives should be included in a bank's financed emissions, along with lending and investments. Banks' counterparties enter into derivatives transactions to reduce their risks. Without the risk mitigation that derivatives provide, certain financings would not occur. Moreover, some derivatives directly generate new financing. Like loans, derivatives transactions involve banks acting as principals and taking on credit risk.[43] Despite these similarities and the clear connection between a bank's derivatives activities and the GHG emissions of its counterparties, the proposal would not include derivatives disclosures. The final standards should include derivatives as a component of financed emissions.

4. Market Risk, Operational Risk, and Liquidity Risk

The Committee has recognized, in the proposal and elsewhere, that climate-related risk drivers impact market, operational, and liquidity risk.[44] However, the proposal expressly limits certain disclosures to the banking book and includes no operational risk or liquidity risk

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[41] The incongruity of the proposal is highlighted by the look-through approach at CRE60.2, which requires banks to risk weight the underlying exposures of the fund as if the bank held them directly, when certain conditions are met.
[42] G. Michael O'Leary, et al., "Oil & Gas Asset-Backed Securitizations" (2023), https://www.huntonak.com/images/content/8/9/v2/89927/oil-and-gas-asset-backed-securitizations.pdf.
[43] For a detailed discussion of this issue, see Blair Bateson & Jim Scott, Ceres, Ceres Accelerator for Sustainable Capital Markets "Derivatives & Bank Climate Risk: Financing a Net Zero Economy" (Sept. 2022), https://www.ceres.org/sites/default/files/reports/2022-09/Ceres%20Derivatives%20and%20Bank%20Climate%20Risk%20Report%202022_0.pdf.
[44] Consultation Paper at 2; Principles at 6-7; BCBS Climate FAQs at 15-19.

disclosures. Excluding the trading book would result in material aspects of many banks' business being exempt from climate-related financial risk disclosures, despite those exposures' susceptibility to climate-related financial risks. The Committee should require trading book exposures to the same extent (by sector, etc.) as banking book exposures.

Relying only on existing operational risk disclosures, which focus on historic losses, will not provide forward-looking information on banks' risks. The Committee should consider, for example, requiring forward-looking physical risk disclosures for banks themselves, rather than just the bank's counterparties.

The consultation paper indicates that "the Committee is exploring whether the disclosure of sectoral distribution of deposits/funding and liabilities would help market participants to understand potential liquidity risks posed to banks during times when providers of such deposits/fundings (counterparties) are impacted by climate-related financial risks and may require drawdown of their deposits/funding to assist their recovery."[45] The Committee should include such disclosures in final standards, consistent with its recognition that climate-related financial risks may materialize through liquidity risks. Climate-related impacts on liquidity are likely to vary by sector, as different sectors face different transition risks. Deposit/funding concentrations can contribute to liquidity stress and bank failures.[46] In addition, disclosures should account for physical risks, which the Committee has noted may result in increased deposit withdrawals and erosion of liquidity buffers.[47] This will require disaggregated geographic disclosures in addition to sectoral disclosures.

J. The Committee Should Consider Macroprudential Risks When Setting Climate-Related Financial Risk Disclosure Standards.

We are concerned that the Committee and the industry are taking a myopic view of climate-related financial risks and, as a result, wrongly assuming that climate-related financial risk disclosures should focus solely on the microprudential risks facing the reporting bank. Climate change poses existential risks with threats to the financial system.[48] As Lael Brainerd noted in a speech on climate change and financial stability, "consistent disclosures are important not only to enable individual financial firms to measure and manage their exposure to climate-related financial risks, but also to support financial stability more broadly

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[45] Consultation Paper at 13.
[46] Board of Governors of the Federal Reserve System, "Material Loss Review of Silicon Valley Bank," 2023-SR-B-013, at 2 (Sept. 25, 2023), https://oig.federalreserve.gov/reports/board-material-loss-review-silicon-valley-bank-sep2023.pdf.
[47] Risk Drivers and Transmission Channels at 18. The Committee has also referenced research that found an increase in deposits following natural disasters. *Id.* However, that research is over 40 years old, analyzed natural disasters from the 1970s, and was based on a sample size of just 15 depository institutions. Frank G. Steindl & Maurice D. Weinrobe, "Natural Hazards and Deposit Behavior at Financial Institutions" 7 Journal of Banking and Finance 111 (1983), https://www.academia.edu/29026773/Natural_hazards_and_deposit_behavior_at_financial_institutions.
[48] Juliana B. Bolzani, "Incorporating climate and environmental considerations in prudential regulation and supervision of financial risks: an open and iterative approach," ECB Legal Conference 2023, at 72-73 (Dec. 2023), https://www.ecb.europa.eu/pub/pdf/other/ecb.ecblegalconferenceproceedings2023~c72d6d7c84.en.pdf; https://home.treasury.gov/news/press-releases/jy1595.

by helping the market to accurately price that risk."[49] With respect to climate-related financial risk disclosures, the Pillar 3 framework cannot be limited to information on the contemporaneous safety and soundness of the reporting bank. Such an approach will not provide market participants the information they need to fully assess risks, particularly in the long-term.

Two characteristics of climate-related financial risks illustrate the shortcomings. First, banks are affected by climate-related financial risks, but they also contribute to climate-related financial risks for themselves, other banks, and the rest of the financial system. A disclosure framework that ignores the latter dynamic will necessarily be incomplete and mislead market participants. Second actions banks take today will affect the climate and, therefore, climate-related financial risks in the future. Even though destabilizing impacts of banks' activities may not manifest immediately, disclosures of banks' current climate-related financial risk information, such as financed emissions, would be useful in assessing risks that banks and the broader financial system will face going forward.

We urge the Committee to consider macroprudential risks when setting climate-related financial risk disclosure standards. We understand that the Committee and banks may see such considerations as beyond Pillar 3. However, macroprudential risks have microprudential consequences, including firm failures. While the statement may be obvious, its implications are significant. In the context of Pillar 3 and disclosure of climate-related financial risks, a narrow focus on microprudential risks would not "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."[50]

Consistent with its charter, the Committee should use climate-related financial risk disclosures to monitor banks' contributions to risks in the financial system and take appropriate action in response. The Committee's "mandate is to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability."[51] The Committee has described this effort to update Pillar 3 disclosure requirements as aimed at advancing that purpose.[52] In addition, the Committee "seeks to achieve its mandate" by, among other things, "addressing regulatory and supervisory gaps that pose risks to financial stability."[53] Ignoring macroprudential risks in any aspect of the Committee's framework is plainly inconsistent with the Committee's mandate. The Committee should instead aim to identify, and subsequently address, all risks to financial stability broadly, not just risks to individual institutions. This includes going beyond measures aimed at identifying potential material distress at a large individual institution, because financial stability threats can emanate not only from such material distress but also from

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[49] Lael Brainard, "Financial Stability Implications of Climate Change" (Mar. 23, 2021), https://www.federalreserve.gov/newsevents/speech/brainard20210323a.htm.
[50] DIS10.1.
[51] Committee Charter I.1.
[52] Consultation Paper at 1 ("[T]he Committee is analysing how a Pillar 3 disclosure framework for climate-related financial risks would further its mandate to strengthen the regulation, supervision and practices of banks worldwide with the purpose of enhancing financial stability, and the potential design of such a framework.").
[53] Committee Charter I.2.d.

threats to consumers, other financial actors, and micro and macroeconomies—as detailed in FSOC's 2023 Annual Report[54] and in European Central Bank reports.[55]

K. The Committee Should Reject Arguments Claiming Burden from Multiple Disclosure Obligations

Banks may be subject to other disclosure obligations, but the Committee should reject any arguments that the proposed disclosures should be limited, modified, or discarded based on burden considerations. Under its charter, the Committee achieves its mandate by, among other things, "establishing and promoting global standards for the regulation and supervision of banks."[56] If final climate-related financial risk disclosure standards are duplicative of any existing jurisdiction-level requirements, banks should be able to use the same systems and processes to comply with both requirements. If the Committee determines that different disclosures are necessary to meet its objectives, the existence of different standards is irrelevant. Put simply, the existence of other disclosure requirements is no reason for the Committee to avoid establishing the standards for climate-related financial risk disclosures it believes are necessary for banks.

L. The Committee's Should Ensure Interoperability with the International Sustainability Standards Board

Comparability and consistency of disclosures is critical to market participants' and supervisors' ability to assess and identify risks across jurisdictions. The consultation paper's proposed standards are designed to complement the International Sustainability Standards Board's (ISSB)'s disclosures.[57] It is appropriate for the Committee to ensure interoperability with the ISSB framework, which is being implemented in many jurisdictions. Doing so would make final Pillar 3 climate-related financial risk disclosure requirements more accessible and understandable to market participants.

M. The Effective Date Should Be Moved Up to January 1, 2025.

The Committee is considering a January 1, 2026 effective date, one year after the ISSB's proposed effective date and after the full phase-in of the ISSB's transitional provision.[58] This date is too late given the urgency of the climate crisis and attendant financial impacts.

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[54] Financial Stability Oversight Council, Annual Reprt 2023 (Dec. 2023), at 46-50, https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf.
[55] Beret et al., "Climate risks, the macroprudential view, ECB Blog, (Dec. 2023), https://www.ecb.europa.eu/press/blog/date/2023/html/ecb.blog231212~368bdddd2b.en.html.
[56] Committee Charter I.2.c.
[57] Consultation Paper at 1.
[58] Consultation Paper at 9.

Climate-related financial risks are increasing,[59] and market participants and supervisors need disclosures as soon as possible to assess risks and capital adequacy.

The Committee should instead adopt a January 1, 2025 effective date, at least for the qualitative disclosures. Banks should be able to provide the qualitative information contemplated by proposed CRFRA and CRFRB immediately. If additional time is needed for banks to provide quantitative disclosures, the Committee should allow banks until January 1, 2026, but no longer. These disclosures are needed as soon as possible. This will be an iterative process as banks improve their reporting systems, and the Committee refines its Pillar 3 framework.[60] It does not have to be perfect on the first attempt, and perfection should not be the enemy of the good. Instead, the Committee should "accelerate the availability of [climate-related financial risk] information and facilitate forward-looking risk assessments by banks."[61]

III. Specific Comments on the Templates and Tables

In addition to our general comments above, we have several specific recommendations on the draft tables and templates in the consultation paper. The comments below should be read as incorporating all of our general comments above, even if not explicitly repeated. Because many of the above comments are relevant to CRFRA, these more specific comments focus on the other templates and tables.

A. CRFRB

1. Clarifying Requirements vs. Expectations

CRFRB states that "Banks must describe" transition, physical, and concentration risks. However, each of those three sections begin with "Banks are expected to" disclose or provide certain information. For clarity within the final Pillar 3 text and especially for purposes of interpretation in jurisdictions where supervisory expectations are not legally binding, the "Banks are expected to" disclose or provide language should be dropped or modified to clarify that banks must provide this information.

2. Counterparty Emissions

Requiring "banks [that] are not yet estimating their counterparties' emissions associated with their financing activities [to] disclose information on their plans to implement methodologies to estimate and disclose this information"[62] is insufficient. Without this information, banks

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[59] Financial Stability Oversight Council, "Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability" (Oct. 21, 2021), https://home.treasury.gov/news/press-releases/jy0426. New research indicates that warming is accelerating, is not temporary, is having bigger impacts, and is unlikely to remain at or below 1.5 degrees Celsius, potentially triggering irreversible tipping points. *See generally* Sandy Trust, et al., Institute and Faculty of Actuaries, University of Exeter, "Climate Scorpion – the sting is in the tail" (March 2024), https://www.actuarialpost.co.uk/downloads/cat_1/IFoA%20Climate%20Report%201403241.pdf.

[60] *See* Consultation Paper at 1.

[61] Consultation Paper at 1.

[62] Consultation Paper at 19.

cannot complete the quantitative disclosures included in the consultation paper. As a result, market participants would be unable to make fully informed assessments of risks and capital.

To address these concerns, the Committee must do more than require disclosure of plans to implement methodologies. Instead, the Committee must mandate disclosure of methodologies by a firm deadline. Supervisors should treat the failure to provide this information as noncompliance. Anything short of that would not provide incentives to banks to develop the methodologies needed to estimate counterparty emissions.

B. CRFR1

1. The Committee Should Include a Wider Range of Exposures.

As proposed, CRFR1 may exclude certain exposures for which financed emissions are a relevant factor in assessing transition risks. As a result, it could create a misleading impression of a bank's exposure to transition risks related to financed emissions. To ensure full disclosure of financed emissions and associated transition risks, the Committee should clearly incorporate additional exposures associated with financed emissions.

In addition to the exposure types discussed above, CRFR1 should include real estate exposures. The Committee itself notes that "real estate properties represent a significant proportion of GHG emissions (close to 20% of global GHG emissions and up to 36% of these emissions in Europe)."[63] The consultation paper does recognize that real estate exposures involve transition risks but would attempt to capture those risks through CRFR3, which deals only with energy efficiency. The Committee should, however, also require disclosure of financed emissions for real estate exposures as well. As noted by the Global Real Estate Sustainability Benchmark (GRESB), the Institute for Real Estate Economics, and the Partnership for Carbon Accounting Financials, "[a]ccounting for financed emissions, including those from their real estate portfolio, enables financial institutions to methodically measure, aggregate, and disclose these important emissions . . . . These disclosures are crucial to understand the climate impact of loans and investments – i.e., the contribution to global GHG emissions – as well as to engage in science-based target setting, **climate-related transition risk management** and the steering of their portfolios towards net-zero financed emissions."[64]

Moreover, CRE20.41, which covers corporate exposures generally, excludes exposures that qualify for another exposure class. Therefore, CRE20.69 would remove a loan to a corporation secured by commercial real estate from CRE20.41. This would result in CRFR1, as drafted, excluding financed emissions of otherwise non-financial corporate exposures, if the exposure happens to be secured by real estate.

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[63] Consultation Paper at 7.

[64] GRESB, et al., "Accounting and Reporting of GHG Emissions from Real Estate Operations," at 14 (March 2023), https://carbonaccountingfinancials.com/files/downloads/ghg_emissions_real_estate_guidance_1.0.pdf .

2. The Committee Should Require Forecasts and Add Additional Information

Banks should have and disclose forecasts for all material sectors and the 18 TCFD sectors. As discussed above, forecasts contain key information on the bank's own assessment of its forward-looking risk exposures that market participants need to evaluate whether the bank is reasonably capturing its risks and maintaining adequate capital. Making forecasts optional would deprive market participants of that information and possibly incentivize banks to avoid forecasting. Inconsistent disclosure of forecasts would also reduce comparability and consistency.

In addition, the use of a single GHG forecast reference year as proposed would create consistency and comparability challenges. CRFR1, as drafted, appears to permit banks to choose any reference year, reducing comparability and consistency. Disclosure of a single reference year, perhaps decades in the future and different from other banks, would make comparisons difficult or impossible. Therefore, the Committee should specify the length of the forecast period and require that yearly forecasts be included. These changes would enhance consistency, enable users to evaluate the reasonableness of current year forecasts and compare current financed emissions to previous forecasts, and aid in assessments of risk exposures and capital adequacy.

3. Materiality Assessment Disclosures Should Include Quantitative Information, and Disclosure of Material Sector-Level Information Should Be Mandatory.

Banks' narratives accompanying CRFR1 would include "qualitative information on the materiality assessment of the sector exposures."[65] While qualitative information is necessary, it is not sufficient. Without quantitative information, users of the disclosures will be unable to assess a bank's selection of material sectors, risk exposures, and capital.[66]

The proposed CRFR1 instructions state that "[b]anks are expected to disclose material sectors" and "[t]he 18 TCFD sectors . . . should be disclosed regardless of materiality."[67] To ensure consistent implementation of the standards, including in jurisdictions in which supervisory expectations are not legally binding or enforceable, the Committee should use more prescriptive language that would clearly require a bank to disclose this information. Relatedly, banks should not merely be "encouraged to disclose further disaggregated information [i.e., below the sector level] if needed (following the respective materiality assessment),"[68] but required to. Removing institution-level discretion would improve consistency and comparability.

[65] Consultation Paper at 20.

[66] As noted in Staff Accounting Bulletin 99 from the U.S. Securities and Exchange Commission, "financial management and the auditor must consider both 'quantitative' and 'qualitative' factors in assessing an item's materiality." "Staff Accounting Bulletin No. 99," 64 Fed. Reg. 45, 150, 45,151 (Aug. 19, 1999), https://www.govinfo.gov/content/pkg/FR-1999-08-19/pdf/99-21484.pdf (footnote omitted).

[67] Consultation Paper at 21.

[68] Consultation Paper at 20.

4. The Committee Should Require Additional Disclosures for Off-Balance Sheet Items.

CRFR1 would require only amounts for off-balance sheet items. CRFR1 also should include maturity buckets for off-balance sheet items. This information would provide market participants with decision-useful information on the duration of the bank's off-balance sheet exposures by sector. The Committee also should consider whether disclosure of credit conversion factors would be helpful to market participants, as this could provide additional information on the nature of the bank's exposures (e.g., the extent to which the off-balance sheet items "are unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness" (CRE20.100)).

C. CRFR2

1. CRFR2 Should Include All Exposures Potentially Subject to Physical Risk and Insured Status of Collateral.

Physical risk information should be provided for all exposures that may be affected by physical risks. Financial institutions, for example, face physical risks, but the proposal appears to exclude exposures to financial institutions from CRFR2.

A significant shortcoming of proposed CRFR2 is that, while the template appears to include all loans collateralized with residential or commercial immovable property, the instructions clarify that only regulatory real estate exposures would be included.[69] Whether a real estate exposure is a regulatory real estate exposure, as defined by CRE20.71, does not determine whether it is subject to physical risks. For example, a real estate exposure is not a regulatory real estate exposure if it does not meet criteria related to the borrower's ability to repay and prudent valuation of the property.[70] A real estate exposure that does not satisfy these criteria would still be subject to physical risks. Specifically, under CRE20.69, the other two types of real estate exposures are "other real estate exposures" and "land ADC" exposures, as defined by CRE20.88 and CRE20.90, respectively. Both other real estate exposures and land ADC exposures face physical risks, just like regulatory real estate exposures. Therefore, they should be included in CRFR2, as should all exposures subject to physical risks.

With insurance becoming increasingly unaffordable and unavailable in certain jurisdictions, banks' collateral may not be insured against physical risks. CRFR2 should, therefore, include information on the insured status of any collateral a bank is using to mitigate its risks.

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[69] Specifically, the instructions clarify that CRFR2 covers loans collateralized by residential or commercial immovable property, as those terms are as defined by CRE20.77 and CRE20.78 (i.e., regulatory residential real estate exposures and regulatory commercial real estate exposures). Consultation Paper at 24.

[70] *See* CRE20.71(4)-(5).

2. **The Committee Should Clarify and Expand the Circumstances in Which an Exposure Would Be Considered Subject to Physical Risks.**

How a bank would determine whether an exposure is subject to physical risks is unclear. The introduction to the Draft Pillar 3 text states that "[g]eographical regions or locations subject to climate change physical risks are as determined by national supervisors at a jurisdictional level" and "[g]eographical split should be based on the principal activity of the counterparty. When a counterparty is a holding company, banks shall consider the geographical area of the specific obligor under the holding company (if different than the holding company itself) which receives the funding."[71] The explanation of row 1 of CRFR2 also notes that whether a [g]eographical region or location is subject to climate change physical risk is "as determined by national supervisors at a jurisdictional level." These provisions appear to provide clear instructions on how a bank should identify (1) regions or locations subject to physical risk (i.e., follow the national supervisor's determination) and (2) whether an exposure should be assigned to that region or location (i.e., principal activity of the counterparty).

CRFR2 includes a row labeled "Total geographical regions or locations where the bank is unable to judge whether or not they are subject to climate change physical risks." That label may be read as covering regions or locations that may or may not be subject to physical risks. The instructions to CRFR2 state that this row would capture exposures "where the bank is unable to judge whether or not these exposures are subject to climate change physical risks,"[72] which leaves ambiguous whether this uncertainty refers to whether the geographical region or location is subject to physical risks or where the exposure is located. Given the clear instructions to rely on national supervisors' determinations of whether a geographical region or location is subject to physical risks, it appears that this row, despite referencing "geographical regions or locations" of uncertain physical risks, is intended to refer to instances where a bank cannot determine an exposure's location.[73] The Committee should confirm that is the case in final standards.

One shortcoming with the principal activity approach to determining geographical splits is that the obligor's principal activity and the location of the collateral may be different. Physical risk disclosures should also account for risks to banks' collateral, particularly when it is immovable.[74] Therefore, banks should also identify an exposure as subject to physical risk if the collateral is subject to physical risk.

In addition, the Committee should modify the approach to identifying geographical regions or locations subject to physical risk to include any regions or locations that the national supervisor or the bank itself has identified as subject to physical risk. Banks should not

[71] Consultation Paper at 14.
[72] Consultation Paper at 24.
[73] Alternatively, if this row is intended to capture geographic regions or locations that may or may not be subject to physical risks, the Committee should clarify how such instances could arise given the proposal's instruction to defer to national supervisor determinations.
[74] Note that the description of row Z of CRFR2 refers to "loans collateralised by residential or commercial immovable property where the bank is unable to judge whether or not these exposures are subject to climate change physical risks."

report exposures as free from physical risks if their own internal assessments conclude otherwise. Doing so may mislead market participants and would be in tension with expectations to ensure public statements align with internal strategies.[75]

3. Additional Disclosures Are Needed for Exposures that Are Not Clearly Subject to Physical Risks.

If a bank is unable to determine whether an exposure is subject to physical risk, it should be required to report disaggregated information in the same manner it would for regions or locations that are subject to physical risk. Permitting aggregate disclosure when physical risks are unclear, would create a perverse incentive: banks could reduce reporting burdens by not developing the systems, processes, and expertise necessary to identify the extent of their physical risks. Requiring disaggregated disclosures in cases of uncertainty would also err on the side of caution and provide additional information to market participants, better enabling them to make their own judgment on the bank's risk exposures and capital adequacy.

For similar reasons, banks should be required to disclose additional information on exposures in geographical regions or locations not subject to physical risks. At a minimum, banks should disclose the list of regions or locations where its exposures are. Full disaggregated disclosures would be ideal. Market participants may disagree with the assessment of geographical regions or locations subject to physical risk, whether made by the national supervisor or the bank. This approach also would eliminate any incentive to overlook physical risks to reduce burdens.

D. CRFR3

1. Disclosures by Location Would Be Helpful.

The Committee explained that it is considering CRFR3, in part, because "mortgage-backed borrowers may be obliged to invest in their real estate assets to make them less carbon-intensive or more energy efficient, depending on jurisdictional requirements."[76] As noted by the Committee, one source of transition risk is "through changes in public sector policies."[77] Jurisdictional requirements and public sector policies may vary at the subnational level. Therefore, geographical region or location breakdowns would help market participants fully assess energy efficiency-associated transition risks. With country-level data only, the level of transition risk may be ambiguous.

2. All Real Estate Exposures Should Be Included.

As with CRFR2, CRFR3 only would require disclosures for regulatory real estate exposures and exclude other real estate exposures and land ADC. Specifically, the instructions for rows 1 and 2 refer to CRE20.77 and CRE20.78, which define regulatory residential and

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[75] As the Committee has concluded, a bank's "board and senior management should ensure that their internal strategies and risk appetite statements are consistent with any publicly communicated climate-related strategies and commitments." Principles at 3.
[76] Consultation Paper at 7.
[77] Consultation Paper at 2.

commercial real estate exposures, respectively. A real estate exposure would not be free of energy efficiency-related transition risks merely because it does not meet the regulatory real estate criteria in CRE20.71. Even real estate exposures to land ADC may be subject to transition risks if the costs of future construction may increase to ensure minimum levels of energy efficiency. Because this information is necessary to evaluate banks' risks and capital all real estate exposures should be included.

The Committee should also address a similar issue with collateral. Row 3 of CRFR3 refers to collateral obtained by taking possession of residential and commercial immovable property collateral. The instructions for rows 1 and 2 suggest that row 3 is similarly limited to collateral obtained by taking possession of regulatory residential and commercial real estate exposures. As with real estate credit exposures, there is no reason for this exclusion of collateral obtained by taking possession, which would withhold key information from market participants.

3. Clarity on Energy Efficiency Buckets

CRFR3 would require reporting of energy efficiency buckets for each exposure. While this is important information for market participants, the Committee needs to provide more prescriptive text to ensure consistency and comparability. The consultation paper specifies neither the energy nor area measures to use, instead defining rows (b) to (g) of CRFR3 as "Level of energy efficiency (eg in kWh/property area (eg m^2) of collateral)."[78] It is not clear how various energy and property measures would be reported in a meaningful way using the buckets the Committee has proposed. The final requirements should standardize and clarify these measures as much as possible, and at least require standardization at the jurisdiction level.

E. CRFR4

CRFR4 raises many of the issues discussed above. It should require all exposures for which GHG intensity per physical output is relevant, quantitative information on materiality assessments, mandatory development and disclosure of forecasts, and mandatory disclosure of the 18 TCFD sectors and all other material sectors. We reiterate all those points here.

Specific to CRFR4, though raising similar issues to the CRFR1 forecasts, are the forward looking GHG intensity metric per physical output forecasts for reference years A and B and the point in time (PiT) distance to reference years A and B. Additional clarity is needed on these items to ensure consistency and comparability.

This is particularly true with respect to reference years A and B, which are merely the year in which the bank has committed to achieving its chosen emissions intensity. In both cases, the instructions describe the reference year "as reference year (ie 2030, 2050 or other)."[79] It is unclear why CRFR4 would include two different emissions intensity forecasts or what the intended difference is between reference years A and B. This ambiguity is compounded by

[78] Consultation Paper at 27.
[79] Consultation Paper at 29.

the fact that the PiT distance column would be, according to the instructions, the distance between the reported intensity to the forecast intensity of either reference year A or B.[80] It is not clear why CRFR4 would allow banks to select any two reference years of its choosing and then select one of those two years to report the PiT distance.[81]

As with CRFR1, the discretion CRFR4 would afford to banks would reduce comparability and consistency. Also like CRFR1, CRFR4's use of just two reference years, perhaps decades in the future, would make assessing a bank's forecasts difficult or impossible. We therefore similarly recommend that the Committee prescribe the forecast period and require disclosure of yearly forecasts. As with CRFR1, these changes would allow market participants to assess the bank's historical accuracy and whether current year forecasts are reasonable. Together, these changes would support market participant risk and capital adequacy assessments.

F. CRFR5

With respect to CRFR5, we reiterate our comments on the other tables and templates, to the extent applicable.

Additionally, CRFR5 should require facilitated emissions disclosures, but, as drafted, it would not do so. The instructions to CRFR 5 state "Where banks are not yet estimating their counterparties' emissions associated with their facilitating activities, they shall disclose information on their plans to implement methodologies to estimate and disclose this information."[82] This language would not actually require banks to develop facilitated emissions methodologies. It should be revised to make disclosure of facilitated emissions mandatory. At a minimum, it should set a clear deadline for compliance and require banks to develop facilitated emissions methodologies, not just disclose information about any plans to implement methodologies.

Conclusion

We urge the Committee to swiftly adopt climate-related financial risk disclosure standards and incorporate climate-related financial risks throughout its framework. Finalizing climate-related financial risk disclosure requirements is a critical, but only first, step. The Committee must also revise Pillars 1 and 2 to ensure that micro- and macroprudential climate-related financial risks are addressed holistically. To ensure timely updating of its standards, the Committee must complete its reviews of Pillars 1 and 2 by the end of the year, as contemplated by its current two-year work program.[83]

[80] *See* Consultation Paper at 29.
[81] Market participants could calculate both PiT distance for the other reference year, but it is not clear why the Committee would not require reporting of both PiT distances.
[82] Consultation Paper at 32.
[83] BCBS, "Basel Committee work programme and strategic priorities for 2023/24," at 2, https://www.bis.org/bcbs/bcbs_work.pdf.

We thank the Committee for the opportunity to provide comments on this critical consultation paper. If you have any questions please do not hesitate to contact Dan Sufranski, daniel.sufranski@sunriseproject.org, or Anne Perrault, aperrault@citizen.org.

Sincerely,

The Sunrise Project
Public Citizen