WWF answer to BCBS consultation on the disclosure of climate related financial risks

https://www.bis.org/bcbs/publ/d560.pdf

The Worldwide Fund for Nature (WWF) is an independent conservation organization active in nearly 100 countries working to sustain the natural world for the benefit of people and wildlife.

WWF collaborates with a wide range of financial institutions to advocate for a sustainable finance sector, providing the necessary tools and methodologies to support the transition to a resilient, healthy, sustainable economic and financial system.

WWF´s Greening Financial Regulation Initiative (GFRI) systematically engages with policymakers, central banks and financial supervisors on the imminent need to fully integrate climate change, nature loss and social risks into mandates, financial supervision and monetary policies.

WWF thanks the Basel Committee on Banking Supervision (BCBS) for opening this public consultation and appreciate the opportunity to provide comments on the "disclosure of climate related financial risks".

We welcome the work done by the BCBS to promote improvement of risk management and supervisory practices related to climate-related financial risks so far. But the proposed disclosure framework should also include how banks operations impact climate change. In addition, the Basel Committee should now consider to broaden all its work on climate to Nature loss and follow as soon as possible an integrated approach dealing with all environmental risks. Nature loss and climate change are deeply interlinked and cannot be tackled separately. They both need to be factored when assessing and managing environmental-related financial risks. This is why we think all Basel principles and standards should now take into account Nature loss and integrate the recently published NGFS conceptual framework on nature related risks[1].

Second, the BCBS is in a unique position to foster a global prudential framework that will ensure the robustness of our financial system in front of environmental risks and answer the transition imperatives. To that end, the BCBS must ensure to build minimum standards which will avoid fragmented environmental related risks management practices and ensure convergence, coherence to facilitate the assessment and the comparability of banks' practices.

Third, we agree that accuracy, consistency and quality of environmental related data is evolving and therefore that flexibility and regular review of the Pilar III framework is needed.

Finally we welcome the inclusion of draft disclosure tables and templates in this consultation as disclosure requirement must be supplemented by a minimum level of

[1] https://www.ngfs.net/sites/default/files/medias/documents/ngfs_conceptual-framework-on-nature-related-risks.pdf

standardization to ensure comparability of the data provided. It is WWF view that this standardization should be imposed to all internationally active banks and that for the only domestically active banks more leeway could be left to the National supervisors.

1. **General remarks:**

Questions 1 to 10

Please also refer to our WWF GFRi guidance on Science based climate risk disclosure[2]:

Pillar 3 disclosure framework will enable the comparability of banks risk profile but also the understanding of their management of environmental related risks and will provide both backward-looking and important forward-looking information. It will ease necessary understanding of exposures of banks to environmental risks exposures.

Transparency in financial markets is a key tool to improve resilience. It is also a way for banks to ensure that public concerns regarding the activities they plan to finance are raised and resolved before they become problematic and threaten their robustness.

The main risk of the proposed framework is its non-interoperability with the requirement of other standard-setting bodies and the main challenge is its regular update. This is why this framework should also take into account the ISSB developments and be updated regularly to include additional necessary information overtime. This is why this document should already be completed with a **clear review clause**, stating that this framework will be reviewed at least after one year of implementation and in light of observed practices.

In our view this framework should **apply both to the banking and trading book**.

The proposed methodology to allocate exposures to sectors and geographical locations is good as it will enable us to understand and locate the main financial risks stemming from climate change.

It is our view that **no national discretion should be allowed for all internationally active banks**. All disclosure elements should be applicable to GSIBs, DSIBS, and all internationally actives banks. National discretion could be considered for less significant banks having only domestic activities. It is also important that such **disclosure applies at 2 levels for all internationally active banks: consolidated level and subsidiary/country level**.

The Pillar 3 disclosure framework will not in itself bring more legal risks for the disclosing entity as transparency will allow for more understanding of practices and should avoid greenwashing. Obviously, this comes with the necessity to assure those publications as it will ensure the reliability of data.

[2] https://wwfint.awsassets.panda.org/downloads/wwf_gfri_climate_risk_transparency_guidance_2022.pdf

2. **Qualitative disclosure requirements (CRFRA, CRFRB):**

Question 11 to 16

The main sections of the qualitative Pillar 3 climate related financial risk disclosure requirements (governance, Strategy, Risk Management and concentration risk) make sense and are necessary to assess the robustness of the banks.

But those disclosures will not fully play their role if they are not **mandatory and standardized** for all internationally active banks. The interconnectedness of those banks and the contagion risks the whole system is facing necessitate the completeness of minimum information on climate related risks and also the comparability of data.

In addition, some important parts are missing.

First in **Strategy and Governance**, we welcome the different information requested, particularly the one on the link performance metrics related to management of climate change risks and targets. But this should be completed with the information on **how senior management and relevant staff variable remuneration and appraisal has been adapted** according to the results of climate risks management and target achievements. Another important disclosure that was missing is climate-related training conducted by the banks, complemented with the details of the specific training topics, the number of staff trained, and the seniority levels and departments involved.

Second, **transition plans should be included.** Indeed, they are a critical element for market disciplines, they will bring the necessary information to gather forward looking information and measure transition risks and are being discussed in many different jurisdictions at the moment. Therefore, ensuring comparability and standardization will also be key and for that **transition plans disclosure requirements should be better specified and be mandatory**. They should include the **main element of Paris Alignment scenario and transition pathways, the metrics and targets used, and the action taken by the banks (such client engagement, etc).** They should also include **long-term and intermediate targets as well as the progress** made according to the plan. We are of the view that time horizon different buckets (short, medium and long term) should not be defined by the banking institutions but by the disclosure requirements to ease the comparability of data. Please do refer to WWF's criteria for credible climate and nature transition plans for financial institutions[3].

Under the qualitative information on transition risks, the disclosure requirement only requires disclosure on the extent how the banks' financing is supporting their

[3] https://wwfint.awsassets.panda.org/downloads/wwf_credible_transition_final.pdf

counterparts in climate change mitigation and adaptation. There must also be qualitative disclosure of all the material transition risks that they face (e.g, qualitative scenario narratives on the potential range of climate change implications to their business, the qualitative information on the anticipated financial effects on their business, the banks' strategic response plan to the climate scenario analysis / stress test result, etc).

Regarding risk management, we welcome the inclusion of concentration risk in the framework, but we do think other financial related risks should also be included in the disclosure: **credit risk, market risks, liquidity risks and operational and reputational risks**.

Another point under risk management, particularly on the carbon credit disclosure, we strongly recommend BCBS to provide a strong disclaimer that carbon offsetting does not reduce emissions at the source and purchasing offsets should be a last resort, after other measures to reduce or avoid emissions have been explored. This is why banks should disclose how they are prioritizing reduction of emissions.

Banks should also disclose all the climate risks scenarios they are using to assess climate related financial risks, and the minimum disclosure requirements should better specified the type of scenarios that should be covered and disclosed, being all plausible climate change scenarios, including severe ones considering the latest science and tipping points and other non-linearities.

Regarding the proposal to limit the disclosure to **material risks**, we are of the view that this **materiality condition should be removed** as the addition of different climate risks, even being non-material at the level of the bank, could translate into systemic risks at the level of a country, region. The supervisors will need to aggregate all climate related risks coming from different banking institutions to understand systemic implications. Also, the concept of materiality is always difficult to define, and different definitions will add complexity and lead to non-comparable disclosures.

Finally, banks should also disclose **how capital and liquidity adequacy assessment and planning are incorporating climate related risks**. This entails as well the implementation and disclosure of sector specific policies from environmentally harmful industries and their regular review in line with good practices and scientific developments.

3. Quantitative disclosure requirements:

Question 17 to 36

WWF welcomes all the proposals on quantitative disclosure requirements for physical and transition risks.

a. Transition Risk

The exposure to non-financial corporates, broken down by sectors of activities, is important to better understand the exposure to transition risks and therefore should be **mandatory for all banking institutions to allow for comparability**.

The classification of sectors according to the GICS makes sense as it is already supported by other international initiatives such as TCFD.

The financed emissions should be disclosed at the **consolidated and subsidiary level and for both current and projected financed emissions**. Inclusion of **scope 3 emissions is crucial,** and the disclosure framework should follow ISSB as a minimum baseline. The disclosure could also be broken down by countries as transition risks will materialize differently depending on the country.

More **transparency on the methodology used to calculate the financed emissions** is required to enhance transparency and comparability of data across banking institutions.

In addition to mandating banks to disclose their financed emissions, it is equally crucial to request them to disclose the outstanding amounts and financial transactions of green loans to finance sustainable projects. This should include details such as the outstanding amount, maturity, interest rate, etc.

In the case where banks have undertaken climate stress test exercises, it is crucial to request disclosure on the projected changes in the financial metrics based on the exercise e.g, probability of default and expected loss of the bank's portfolio under the selected climate scenarios. This specific information would allow a more standardized and comparable disclosure between banks and the climate financial risks they face.

b. Physical risks

The proposal to disclose information on **exposures by geographical locations** will enable to understand better where the banking institutions are facing the highest climate physical risks, and then could be aggregated by the supervisors at a level of a country or region to understand better the systemic implications. Those information should therefore be **mandatory to disclose and the different areas should be defined by the Basel Committee**. Disclosure per country could be an option also considering the existence of the Climate Risk Country Profile data of the World Bank and per Region where relevant such as the EU area considering the existence of ECB analytical indicators on physical risks.

The inclusion of information about **credit quality and maturity** is also important to assess the risks in different timeframes and assess the alignment of the banks' portfolio with the Paris agreement. WWF supports this proposal.

Finally, WWF welcomes the proposal to include disclosure on the **impacts of climate related risks on deposits/funding and liabilities**. As certain extreme events may require withdrawal of deposits/funds in a short period of time, it is necessary to understand what the impacts on the banks' robustness could be and how those climate change related liquidity risks could be mitigated.

4. **Forecasts:**

Forward-looking information is of upmost importance to assessing the resilience of banks in the long term. Forward-looking forecasts and banks targets are complementary and **should not be subject to national discretion for all internationally active banks**. **They should also be mandatory** even if the data and model are evolving.

Banks disclosures should cover **all type of plausible climate scenarios** (including severe) considering the latest science on **tipping points and other non-linearities**.

5. **Quantitative disclosure requirements subject to jurisdictional discretion:**

WWF agrees on the additional metrics but is of the view that those metrics **should be mandatory to disclose if relevant in the jurisdictions** and not being at the discretion of the national jurisdiction.

6. **Effective Date**

The implementation date **should be effective as soon as possible** and should not be delayed after the ISSB implementation date.

To that end, WWF would suggest the Basel Committee to first ask for the disclosure of qualitative data (particularly transition plans) no later than 1st January 2025 and then the disclosure of quantitative data no later than 1st January 2026.