Basel Committee on Banking Supervision | BIS

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Chair

Via email: commentletters@ifrs.org

Mr Emmanuel Faber
International Sustainability Standards Board

31 August 2023

International Sustainability Standards Board (ISSB) Consultation on Agenda priorities

Dear Mr Faber

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to comment on the ISSB's request for information on the *Consultation on Agenda Priorities*. The Committee sees the formal agenda consultation as an important step in transparently setting priorities for the ISSB's further work.

The Committee welcomes the ISSB's publication of its inaugural standards IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* ("Standards") on 26 June 2023. While the Committee's work is currently focused on climate-related financial risks and does not include wider sustainability risks, the Committee supports the development and implementation of global standards to improve the consistency, comparability and reliability of sustainability-related financial reporting. Disclosure requirements are a fundamental component of a sound banking system.

The Standards will promote the availability of useful, consistent and comparable disclosures from banks' customers and counterparties. Such disclosures can in turn contribute to the development of a common set of risk metrics that promote the provision of meaningful information by banks to market participants and supervisors, thereby enhancing the transparency and comparability of banks' risk profiles.

The Committee is working in parallel on the development of a Pillar 3 framework for disclosure requirements on climate-related financial risks across internationally active banks. The Committee appreciates the ongoing engagement and collaboration with the ISSB as our respective work progresses.

On a general note to the consultation, the Committee strongly supports the ISSB in prioritising in its work programme the core activities and foundational work to establish the initial Standards as the global framework.

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Strategic direction and balance of activities

Core activities to strengthen connectivity and interoperability of the ISSB Standards

The Committee supports the ISSB's core elements of its work programme, with a view to focusing efforts on establishing the Standards as the global framework for climate-related disclosures and to ensure the comparability, connectivity and interoperability with IFRS Accounting standards as well as different jurisdictional GAAPs. Strong links between the ISSB Standards, the financial reporting and the risk management practices of banks, and their close alignment, would enhance the integrity of financial reporting and disclosures, thus increasing the relevance of the information for prudential supervisors and market participants.

The Committee supports enhancing the connectivity between climate-related disclosures and financial statements as a key ISSB priority. As climate-related risks are further embedded into governance, risk management and reporting processes, the need for guidance on connectivity grows. The ISSB is encouraged to work with the IASB to identify potential areas where the effects of climate-related risks flow through to financial statements and where additional guidance would be useful, eg concerning the valuation of financial instruments and relevant estimates, giving due consideration to data availability and the reliability of resulting estimates. Since accounting rules for measurement and provisioning under existing financial reporting requirements are foundational for the Basel capital framework, connectivity is of crucial importance given the framework's role in ensuring the safety and soundness of internationally active banks.

Of equal importance is the ISSB's continuing engagement with other standard setters and framework providers to ensure that the ISSB Standards can be effectively implemented and applied by entities in a way that is interoperable with other reporting standards. Interoperability maximises clarity and comparability of information for users while avoiding any unnecessary reporting burden. The Committee recognises the significant outreach to stakeholders undertaken by the ISSB as it developed IFRS S1 and S2, and encourages the ISSB to continue this engagement, including with the legislative and regulatory authorities responsible for endorsing and adopting standards, to encourage the widespread adoption and use of ISSB Standards.

With regard to the ISSB's strategic direction and balance of activities, the Committee supports the ISSB in giving priority to these core activities and continuing a close collaboration with the IASB.

Foundational work on implementation of the ISSB standards and inclusion of industry-specific standards

With regard to the ISSB's foundational work, the Committee would emphasise the importance of a sound implementation of the Standards as well as of future work to enhance industry-specific reporting requirements. The Committee encourages giving the highest priority to these two areas within its foundational work, as further elaborated below.

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Supporting the implementation of the Standards and their integration into existing reporting requirements would foster global acceptance and endorsement in line with different regional and national circumstances and regulations. The ISSB's work on implementing the Standards should help to promote the comparability and quality of disclosures. Both are crucial for a wide acceptance of the Standards and recognition of their relevance by different users, such as market participants and supervisors, as well as preparers, such as banks, who are directly dependent on the availability of reliable and sufficiently granular information provided by corporates and other counterparties. The Committee welcomes the ISSB's activities to support jurisdictions and companies for adoption of the Standards, including by establishing a transition implementation group (for supporting companies that apply the Standards and launching capacity-building initiatives to support effective implementation).

Regarding the inclusion of industry-specific standards, the Committee understands that the ISSB may require the mandatory disclosure of industry-specific requirements in the future that are currently included only as illustrative examples. Given the important role of Sustainability Accounting Standards Board (SASB) Standards in both IFRS S1 and S2, enhancing SASB standards should also be of high priority. As the addition of industry-specific standards to IFRS S2 would provide certainty to the industry in terms of binding disclosure requirements, it would benefit internationally active banks from the preparers' as well as the users' perspective. Last but not least, clarity on industry-specific disclosure standards may help ensure interoperability between IFRS S2 and other disclosure frameworks.

New research and standard-setting projects

Prioritising the ISSB's core activities and foundational work may limit capacities for new research and standard-setting projects during the work programme's two-year horizon. Thus, the Committee recommends that the ISSB should focus on not more than one of the potential new projects.

The Committee is continuing to pursue a holistic approach to address climate-related financial risks to the global banking system. Increased availability and reliability of climate-related information, accompanied by strong linkages between financial reporting and disclosures on climate-related financial risks, provide an important foundation for these risks to be adequately managed and reflected in banks' financial statements and disclosures. The Committee will monitor any of the ISSB's new research and standard-setting projects that may provide information on climate-related financial and emerging risks which are relevant from a prudential perspective.

Finally, regarding the ISSB's set of criteria for assessing the priority of new research and standard-setting projects that could be added to the ISSB's workplan, the ISSB may wish to consider two additional criteria. First, the urgency of the project, ie whether a delay in addressing the issue would lead to an inadequate or incomplete disclosure. Second, the project's relevance for different stakeholders, including prudential supervisors, in the sense that the benefits should outweigh the costs of disclosures and that certain data might not be readily available yet.

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We hope you find our comments constructive and helpful. This letter has been prepared by the Committee's Task Force on Climate-related Financial Risks, chaired by Kevin Stiroh, Senior Advisor at the Federal Reserve Board and Frank Elderson, Vice-Chair of the Supervisory Board at the European Central Bank. If you have any questions regarding these comments, please contact Carsten Folkertsma at the Basel Committee Secretariat (carsten.folkertsma@bis.org, +41 61 280 8924).

Yours sincerely

Pablo Hernández de Cos