Basel Committee on Banking Supervision, Consultation Disclosure of climate related financial risks

Consultation response

The below is the Institutional Investors Group on Climate Change's (IIGCC) submission to the Basel Committee's consultation on disclosure of climate related financial risks. Our responses to the survey questions are in **blue**.

5.1 General

Q1. What would be the benefits of a Pillar 3 disclosure framework for climate-related financial risks in terms of promoting comparability of banks' risk profiles within and across jurisdictions and promoting market discipline? What other benefits have been identified?

Climate change presents financial risks to banks and their investors, particularly where investors may be exposed to multiple banks. Deeper integration of climate-related financial risk into Pillar 3 would therefore support better cross-jurisdictional evaluation of bank risk profiles by their investors, and as a result, overall market stability. Standardised disclosures would also enable investors to compare relative risk exposures across the sector.

We are pleased to see that the Committee is coordinating with wider standard-setters like ISSB to promote interoperability between the proposed Pillar 3 climate framework and the ISSB's climate standards. The Committee should look to adopt a 'building blocks' approach to the disclosure requirements, building on the baseline established by ISSB with more detailed reporting requirements to meet the information needs of investors. Additionally, the proposed framework needs to uphold connectivity between disclosures on climate-related financial risks made in the narrative reports and those made in the financial statements, in line with the approach taken by the ISSB.

The benefits of a Pillar 3 disclosure framework lie not only in the information made accessible to market participants, but also to the local banking supervisors and the Basel Committee on Banking Supervision to assess the climate-related systemic risks in the global and regional financial systems. This will help inform supervisors as they consider more forward-looking capital requirements that take climate risks into account.

Another potential benefit is that enhanced Pillar 3 disclosures on climate-related financial risks may help to catalyse improved disclosures in banks' financial statements, which investors rely upon in their investment decision-making. In general, investors lack comfort that material climate risks are being properly considered in banks' critical forward-looking accounting assumptions, such as Expected Credit Losses (ECL). This lack of disclosure in financial statement has been flagged as a concern by the UK's PRA and ESMA[1] [2]. Global investors have also articulated their expectations for climate-related disclosures in financial statements[3]. Capital requirements are also predicated on sound valuation of assets and in absence of consistent climate-related disclosures there's a risk of overstating these.

Q2. What are the risks of a Pillar 3 disclosure framework for climate-related financial risks not being introduced?

A key risk is that investors would lack access to more granular sector-specific data that is needed to inform investment decisions and risk management processes. To an extent, market participants will be able to rely on the ISSB's climate standards as uptake increases across jurisdictions. However, the ISSB standards are relatively high-level and sector-neutral in nature, so their applicability to the specifics of the banking sector, and their compatibility with Pillar 3 framework is less clear. Additionally, the degree to which they support standardised disclosures will depend on the extent to which they are adopted by national standard-setters in full and on a mandatory basis. Given the systemic risks that banks place on the global economy there is a need for enhanced (and standardised) disclosure requirements for the banking sector.

Furthermore, and as pointed out in Answer 1, what is as important is the value of the Pillar 3 disclosure framework to banking regulators and supervisors in assessing the need to introduce any additional capital adequacy requirements to monitor, mitigate and address the systemic risks posed by climate change, and enhance the resilience of the banking sector to these risks.

Q3. Would the Pillar 3 framework for climate-related financial risks help market participants understand the climate-related financial risk exposures of banks and how banks are managing these risks?

Yes. We are supportive of disclosures from banks on their exposure and emissions associated with high-impact sectors. Banks typically have a broad range of business activities providing different services. Investors seek clarity on the emissions a bank is financing and facilitating across these activities in order to understand a) the extent of the bank's transition risk, and b) the bank's role in enabling greenhouse gas emissions, leading to further physical risk due to climate change. Further, emissions disclosures ensure a firm footing for measurement of progress against a bank's targets.

The proposed disclosures on Exposure by Sector (Template CRFR1) should promote these disclosures in each different banking division (corporate banking, investment banking, asset

---

[1] We note multiple concerns, including inadequate data and controls, that bank auditors raised with the PRA as part of its thematic review on climate accounting in 2022 (https://www.bankofengland.co.uk/prudential-regulation/letter/2022/october/thematic-feedback-2021-2022-written-auditor-reporting).

[2] https://www.esma.europa.eu/sites/default/files/library/esma32-63-1320_esma_statement_on_european_common_enforcement_priorities_for_2022_annual_reports.pdf

[3] Investors have made clear their expectations for companies to provide climate-related financial disclosures in general (https://www.iigcc.org/resources/investor-expectations-for-paris-aligned-accounts), and specifically at banks in the investor-led Net Zero Standard for Banks (https://www.iigcc.org/banks-engagement).

management etc) to give a more holistic view on a bank's exposure to a climate related risk in a particular sector.

For facilitated emissions, we recommend that banks should also disclose their exposure to high emitting sectors and sector specific emissions intensity (using a physical denominator), where methodologies allow these to be calculated.

Finally, on physical risk, we acknowledge the long-term nature of physical climate impacts are uncertain when downscaled to specific coordinates, the overarching geographical location exposure can be a useful first step for exposure to physical climate risk.

Q4. Would the Pillar 3 framework for climate-related financial risks be sufficiently interoperable with the requirements of other standard-setting bodies? If not, how could this best be achieved?
It will be important to ensure consistency between Pillar 3 disclosures and banks' financial statements. The consultation document notes that it is aiming to complement the ISSB framework, which is welcome, but no mention is made on how it is considering consistency with the main accounting standards used globally.

The prudential regulatory regime takes banks' financial statements as its starting point. If the latter is leaving out material climate risks, it weakens the overall structure. Based on a review of the 26 largest global banks by the Transition Pathway Initiative (TPI), it is clear that few banks financial statements are disclosing how climate risks are being considered[4].

Global investors have been calling for climate-aware accounting for some time. With regards to banks, investor expectations for climate to be considered in financial statements were made explicit in the investor led IIGCC Net Zero Standard for Banks, launched in 2023[5].

European and UK prudential and accounting regulators have started calling for banks to ensure their financial statements are climate-aware over the past two years. ESMA, for instance, has underlined the importance of climate change being incorporated into bank ECL assumptions[6]. The UK's PRA sent similar guidance to Bank CEOs and CFOs in October 2022[7]

We would therefore encourage the Basel Committee to work with global accounting standard setters, audit standard setters and accounting and audit regulators to ensure all reporting to the market is reflecting material climate risks, thereby reinforcing the proposed Pillar 3 disclosures.

---

[4] TPI, https://www.transitionpathwayinitiative.org/banks
[5] https://www.iigcc.org/banks-engagement
[6] https://www.esma.europa.eu/sites/default/files/library/esma32-63-1320_esma_statement_on_european_common_enforcement_priorities_for_2022_annual_reports.pdf
[7] https://www.bankofengland.co.uk/prudential-regulation/letter/2022/october/managing-climate-related-financial-risks; https://www.bankofengland.co.uk/prudential-regulation/letter/2022/october/thematic-feedback-2021-2022-written-auditor-reporting

Q5. Would there be any unintended consequences of a Pillar 3 framework for climate-related financial risks? If so, how could these be overcome?

The main risks of unintended consequences are related to capital flight and/or the debanking of sectors that require finance to transition. While disclosure is extremely important to understand risk and monitor progress, banks are in many cases a large part of the solution (through financing the energy transition) in ameliorating climate risks building up in the system. These unintended consequences may be overcome within the framework by reporting on the percentage of loans that are being provided for transition or green finance, along with the number of counterparties or percentage of loans that have credible climate targets and transition plans.

A contemporary example of this is in real estate, where the need to decarbonise is, in some large cities, occurring at the same time as large secular shifts in office working, along with high interest rates, compounding credit risk. Whilst secular shifts can often dictate bank risk appetite, climate transition risk should in most cases (perhaps excluding new fossil fuel exploration and extraction) not encourage exclusion of industries with a credible path to transition.

There is also a social risk element. Depending on the strategy the Bank undertakes to mitigate its exposure to climate transition or physical risk, there could be potential negative social impacts. For example, decarbonising mortgage lending portfolios could lead to higher interest rates and re-mortgaging challenges for customers if not managed thoughtfully.

With regards to template CRFR3, while disclosures by energy efficiency class or label can be helpful in providing information on how a bank's portfolio is decarbonizing over time, as well as risk concentrations, there may be unintended consequences. For instance, individual banks may be encouraged to reduce their exposure to less energy efficient properties in commercial real estate portfolios, as at the same time these same buildings are becoming less desirable due to secular trends towards higher grade properties. This would not contribute to real world decarbonization and may hasten the stranding of assets and dissuade the overall upgrade of these buildings which generally would be less carbon intensive than demolition and reconstruction.

However, it's important to mention that there are financing opportunities associated with retrofitting inefficient buildings. Banks should be encouraged to finance real estate decarbonization, for example through retrofitting to improve energy efficiency. To achieve this, policy intervention is often necessary. The banking system should use its influence to encourage enabling mechanisms, like Green Banks or other government support (for instance the PACE model) to help ease the capital burden on banks to allow more finance for retrofit, encouraging decarbonization as a climate solutions opportunity to increase value.

More specifically to the template, while energy efficiency class (or EPCs) may be a relevant indicator of climate risk at the aggregate level, in their policy engagement the banking system should also encourage the standardization of energy efficiency labels and energy intensity definitions across markets, and work to address issues with the underlying data (for example that they currently do not take into account building use).

In addition to disclosing EPC ratings, it is equally important that banks disclose information on their plans for transitioning their real estate assets. An important part of this will be engaging with borrowers. Banks should disclose what proportion of these borrowers have their own transition plans and their strategy for engaging borrowers on the substance and implementation of these plans. Borrowers with robust plans will be better placed to protect the value of their assets and the bank's collateral than borrowers without such plans.

Of course, these issues are not particular to real estate and should be considered across all industries that are required to transition and have credible pathways which require financing.

A final point to note, is that while we have highlighted a possible unintended consequence associated with these disclosures, it is important to note that robust disclosure of risks, which is sufficiently forward-looking, will help to promote an orderly transition out of higher risk sectors and / or promote an increase in transition finance to support these sectors. The risk of capital flight is likely to be higher if these disclosures are not made, made too weakly or too late.

Q6. What are your views on potentially extending a Pillar 3 framework for climate-related financial risks to the trading book?

We would encourage the Committee to extend the Pillar 3 framework to credit exposures to high impact sectors in the trading book (e.g., relating to futures contracts for commodities). This would help provide an all-encompassing approach to tackle climate-related systemic risks in the financial system. These exposures could be material for investors and impact overall financial stability, at the same time potentially provide an early indication of credit risk for these sectors.

Q7. What are your views on the proposed methodology of allocating exposures to sectors and geographical locations subject to climate-related financial risks?

Granularity is needed at sector and geographical level to inform risk concentrations. Such disaggregation of exposures is necessary to inform identification and prioritization of mitigant actions taken by banks in response to identified risks.

While there may be data challenges associated with determining this exposure, there is also a trend toward increased data availability and quality. Mandating disclosures in Pillar 3 framework could help to accelerate this trend.

There is also a Just Transition justification for these disclosures, as for example, concentrated lending exposure to coal in a specific region may demand the Bank has a risk mitigation approach and transition financing that is targeted to the region's needs to ensure a just transition.

Q8. What are your views on which elements should be made subject to national discretion and which should be mandatory? Why?

A mandatory and global approach is favoured overall, in order to ensure consistency in disclosure, underpinning comparability. A concern with differentiated national standards would be divergent levels of risk management, with risks building up in jurisdictions with weaker disclosure standards. This could in turn raise the dangers of contagion to other countries/regions.

Having said that, we also appreciate that disclosure standards may need to be phased in at different speeds in different markets. We would, however, advocate for a level playing field in terms of the end position, or at the very least a minimum baseline set of disclosures on which national regulators could build.

Q9. What are your views on whether potential legal risks for banks could emanate from, or be mitigated by, their disclosures as proposed in this consultation, and why?
We would suggest that climate risks, whether physical or transition, are treated like any other risk to capital under existing statutory requirements. In short, if climate risks are material and not disclosed, there could be potential legal risks associated with misrepresentation.

A clear set of disclosure requirements under Pillar 3 of the Basel framework, should both create a level playing field and could help to insulate banks from potential legal challenge associated with misrepresentation.

Q10. Would the qualitative and quantitative requirements under consideration need to be assured in order to be meaningful? If so, what challenges are foreseen?
In principle, regardless of whether they are qualitative or quantitative requirements, mandatory disclosures should be assured. In addition, any voluntary disclosures involving claims that may otherwise lead to greenwashing should also be assured. Assurance is particularly critical for quantitative disclosures with emissions as an underlying calculation input. A combination of factors currently leads these calculations to be at reasonable risk of misstatement, including but not limited to the nascency of bank disclosure of emissions calculations, the complexity of the calculation process particularly with respect to scope 3, and the aspects of optionality in financed emissions calculations. Therefore, if these quantitative metrics are expected to underpin evaluations of bank climate risk exposure, assurance is needed to help to give market participants confidence in the conclusions drawn by these assessments. Preferably, this data is independently audited.

There are arguments for the financial statement auditor also being made responsible for assuring climate-related disclosures to ensure consistency and also clear and full accountability for assurance. This would also reinforce market discipline, since shareholders typically have the right to appoint auditors at banks' Annual General Meetings.

5.2 Qualitative disclosure requirements

Q11. What are the benefits of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements?
Governance, strategy, and risk management disclosures are key components of a bank's transition plan and will inform investors on how well prepared a bank is to manage climate-related financial risks. Each of the proposed qualitative disclosure requirements brings distinct value to the overall evaluation of a bank's exposure to climate transition risk.

Disclosures on board oversight of climate indicate to market participants whether climate-related objectives and/or plans established by the bank are subject to the same level of scrutiny and consideration as broader strategic and financial planning.

Disclosures on management responsibility established by the bank in relation to climate can indicate the effectiveness of climate risk management and mitigation carried out by lending teams. Such disclosures can help to identify whether responsibility has been effectively cascaded through reporting lines and therefore whether lending teams are equipped with the appropriate mandate to deliver on any climate objectives that have been established by Management.

Disclosures on strategy, particularly forward-looking aspects including forecasts and transition plans, enable market participants to understand the extent to which (a) the bank has assessed its exposure to climate risk over time; (b) the extent to which it has integrated potential climate risks into its strategic and financial planning and (c) the extent to which it is supporting its counterparties to transition where relevant.

Finally, an additional advantage of these disclosures is that they build on the structure of the Task Force for Climate-related Financial Disclosures (TCFD), which have already been adopted by many banks.

Q12. Should the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?
Yes.

Q13. What key challenges would exist for preparers or users of the proposed qualitative Pillar 3 climate- related financial risk disclosure requirements? How could these be overcome?

Q14. What additional qualitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?
The committee could consider the following disclosure items:
Governance:

- The role of the audit committee should be made clear in ensuring full and prudent disclosures to investors / the market on climate-related financial risks, including how they have ensured consistency between Pillar 3 disclosures and banks' financial statements.
- Confirmation that the auditor has been tasked with checking that material climate risks have been properly reported both under Pillar 3 disclosures and in the financial statements, and they have set out to investors in their annual Audit Report how this has been done and any concerns they have.
- How Management ensures that lobbying undertaken by the bank (directly and indirectly) is consistent with the banks efforts to manage its own physical and transition risk, as well as systemic financial stability risks and an orderly transition.

Strategy:

- A bank should disclose the policies it has implemented for high emissions sectors to address climate-related financial risks, how these are executed across different business lines, including information about how they are enforced in project finance, entity-level corporate finance, and underwriting.

- A bank should disclose its strategy for engaging with clients on climate risks, for instance how it engages to request credible transition plans and reviews credit relationships on this basis.
- Systemic risks and bank endogeneity - a disclosure requirement around how the bank considers the systemic nature of climate risks and how its own financing decisions today could impact (and potentially exacerbate) the climate risks tomorrow. This may be captured under its consideration of long-term risks, but we would like to see the banks consider their role in creating that future set of risks in short-term decision-making.
- Financial statement impacts – under 2.d, reference is made to how climate-related financial risks could impact a banks' financial position. It would be useful to make clear here that this should be factored into both the banks' financial planning as well as its financial reporting. The latter is not currently referenced.
- With regards to sustainable finance, Banks should be encouraged to disclose any taxonomy used and the type of finance that falls into it, including disclosure of off-balance sheet transactions and services provided that also fall into that taxonomy. This will support the avoidance of greenwashing risk.
- We would encourage a bank to disclose whether and how it has identified, assessed and taken into account the impacts and dependencies of the transition plan (climate risk mitigation strategy) on its stakeholders (e.g. its workforce, value chain counterparts, customers), society (e.g. local communities), the economy, and the natural environment, that may give rise to sustainability-related risks and opportunities.
- The Committee could consider suggesting qualitative disclosures to constitute a Climate Transition Plan, potentially aligned to frameworks such as the TPT Banks sector guidance TPT-Banks-Sector-Guidance.pdf (transitiontaskforce.net).

Risk management:

- We suggest explicitly requesting a disclosure on whether and how a bank is integrating climate-related risk into its risk management framework, and into its financial planning processes and financing decisions, including, for instance, whether it is incorporating climate-related factors within pricing models (such as discount rate or credit ratings); differentiated risk tolerance; staff incentives and performance management.
- We suggest an explicit disclosure on whether and how the Bank has considered severe but plausible climate scenarios in light of the NGFS's recent guidance on the importance of banks not just using their scenarios 'off-the-shelf' but adapting them to reflect the realities of the risks they face[8].
- We are supportive of the disclosure requirements for banks to explain how their scenario analysis has informed their strategy, financial planning and risk management, however there are significant limitations with existing scenario models[9]. Therefore, we would suggest

[8] NGFS, "NGFS scenarios: purpose, use cases and guidance on where institutional adaptations are required", January 2024. https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guidance_note_on_the_scenarios.pdf

[9] https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios.pdf

requesting that banks provide an evaluation of the limitations of these scenario analyses and what the entity is doing to address these limitations in future.

Q15. How could the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements be enhanced or modified to provide more meaningful and comparable information?

Q16. What are your views on the relevance of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements to understand climate-related financial risks to which banks are exposed?
As previously underlined, these qualitative disclosures offer important information on how a bank is managing its climate risks.

5.3 Quantitative disclosure requirements

General
Q17. What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?

Q18. Should the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?
Mandatory disclosure requirements would ensure comparability and could help prevent the build-up of hidden risks in banks that are not required to disclose exposures.

Q19. What key challenges would exist for preparers or users of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements? How could these be overcome?
There may be challenges in capturing the necessary data at the level of mid-market corporate clients and small to medium enterprises (SMEs). In order for banks to adequately assess climate risk they could incorporate requirements (using covenants, undertakings or pricing KPIs) for clients to publish material Scope 1, 2, 3 emissions data, (in addition to transition plans and qualitative information on how clients will be engaged on this). Where emissions calculations are not possible, banks could use primary input data such as electricity use or make estimations based on financial and account transaction information in the absence of client disclosure.

For their mortgage book, banks may have difficulty obtaining accurate energy efficiency label data. Energy efficiency label data may not be available for existing loans and may be difficult to collect, which means that banks may have to rely on estimated data.

Q20. What additional quantitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?
Expected Credit Loss (ECL) assumptions:
We would suggest that the proposed disclosures are excluding important forward-looking impacts for capital, such as how Expected Credit Loss (ECL) assumptions would change, which would provide a key link back to the banks' financial statements.

Currently, Investors have very little visibility on the potential impact for banks' financial position that may eventually occur due to climate-related increases in defaults. For instance, the rising probability of defaults in the mortgage portfolio related to acute physical risks such as flooding, or chronic risks such as drought and coastal erosion. Investors would like to understand how the information on climate risks proposed in this consultation will inform ECL assumptions. While certain banks argue that climate risks are unlikely to materialise over the life of their loan book, investors lack clarity on the assumptions underpinning this determination.

Stress testing:
To capture longer term risk, banks should disclose key conclusions from climate stress testing, where they have been undertaken for prudential supervisors. This guidance should suggest disclosure of both transition and physical climate risk exposure implications for capital adequacy in 1.5C warming and higher warming scenarios, (as well as qualitative disclosures around how climate risks are being incorporated into the Internal Capital Adequacy Assessment Process (ICAAP)). Investors do not currently have visibility of regulatory assessments of bank-level exposures but expect any material climate risks to be properly reflected in banks' financial statements in line with existing laws and accounting standards.

Emissions reporting:
Where scope 3 emissions are requested – either standalone or as part of an input to the calculation process of another metric – it is essential that this is supported by a disclosure on the extent to which it has looked at which categories are included in counterparty scope 3 disclosures. The ISSB's approach to scope 3 category materiality provides a current good practice approach to this.

Offsetting:
Investors seek to understand the full contribution of offsetting measures to a banks' emissions disclosures (including offsets purchased by the bank and by its clients). Any offsetting purchased by the bank should be disclosed separately from financed/facilitated emissions (and should also not be counted towards a banks emissions target).

Other suggestions:
For facilitated emissions, we recommend that banks should also disclose their exposure to high emitting sectors and sector specific emissions intensity (using a physical denominator), where methodologies allow these to be calculated.

The Committee could consider including in template CRFR1 an additional column for the Bank's revenue contribution. This would provide additional relevant information for market participants on the bank's exposure to climate risk by sector.

See also answer to Q3.

Q21. How could the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements be enhanced or modified to provide more meaningful and comparable information?

Q22. What are your views on the relevance of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements to understand climate-related financial risks to which banks are exposed?
Q23. What are your views on the calculations required to disclose the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?

Transition risk: exposures and financed emissions by sector
Q24. Would exposures and financed emissions by sector be a useful metric for assessing banks' exposure to transition risk?
Yes.

Q25. What are your views on the availability and quality of data required for these metrics, including by sector, activity, region or obligor?
Q26. What key challenges would exist for preparers to disclose these metrics, including by sector, activity, region, or obligor? How could these be overcome?

Q27. What additional transition risk disclosure requirements should the Committee consider?
The Basel Committee could also consider requiring disclosures around what proportion of revenue comes from clients with transition plans, and what fraction of these are independently verified to be 1.5C-aligned, and any targets to increase this share of revenue. This would give an indication of what proportion of a bank's portfolio has plans to navigate the energy transition and climate risk.

Q28. What are your views on the appropriateness of classifying sectors according to the Global Industry Classification Standard (GICS) with a six- or eight-digit industry-level code?

Q29. Would it be useful to require disclosure of the specific methodology (such as Partnership for Carbon Accounting Financials (PCAF)) used in calculating financed emissions?
Yes, PCAF is a widely used and understood standard created, in part, with the support of the banking industry and based on the widely adopted GHG protocol. Its use would provide consistency and comparability.

Physical risk: exposures subject to climate change physical risks
Q30. Would exposures subject to climate change physical risks be a useful metric for assessing banks' exposure to physical risk?
Yes, exposure is a key first step, however vulnerability is also key to understanding the impact of these risks and what actions can be taken to ameliorate them. A broader question is what level of assessment has been completed. Industry developed methodologies like PCRAM (Physical Climate Risk Assessment Methodology) help show that a thorough investigation has taken place with materiality and resilience options identified. Having a metric for % of loan book subject to a physical climate risk assessment would indicate that the bank has intelligence not only on exposure and vulnerability but also that they have some understanding of how to manage it.

Q31. Would there be any limitations in terms of comparability of information if national supervisors at a jurisdictional level determined the geographical region or location subject to climate change physical risk? How could those be overcome?

There will always be limitations of comparability of location and asset specific data when cross-sectioned with multi-scalar hazards. These can be overcome by ensuring the process and methodology to which these input data are used to determine an understanding of risk are comparable or standardized. BIS could mandate a base level process and/or methodology is used to undertake physical climate risk assessments, such as PCRAM.

As mentioned above a building blocks approach would help address this. A minimum baseline of consistent, comparable information of key disclosure indicators reported universally, which national jurisdictions could then build on further with any sector/geography-specific and relevant data.

Q32. What alternative classification approaches could the Committee introduce for the classification of geographical region or location subject to climate change physical risk to reduce variability and enhance comparability amongst banks?
Further to the above, the number of loans in a portfolio which have had a standardized physical climate risk assessment undertaken.

Q33. What additional physical risk disclosure requirements should the Committee consider?
Further qualitative information on how the banks has incorporated physical risk into its risk management processes, such as:

- the process by which physical climate risk assessments and disclosures are being undertaken (by and of their counterparties and how this relates to their own risk appetite and risk management processes)
- how banks understand the quality of physical climate risk assessments and how this informs the resilience options in financing the assets (outside of exclusion)
- processes for augmented due diligence in lending relating to these physical climate risks i.e. how is physical climate risk built into traditional processes
- how physical climate risk is factored into PD and LGD calculations and thus, pricing and capital reserves

Bank-specific metrics for quantitative climate disclosures
Q34. What are your views on the prudential value and meaningfulness of the disclosure of the proposed bank-specific metrics on (i) asset quality (non-performing exposures and total allowances); and (ii) maturity analysis?
We believe bank-specific metrics linking sector and geographic exposure to asset quality and loan maturity as proposed in Tables CRFR1 and CRFR2 is important to enable investors' understanding of the potential materiality of climate risks for credit quality. This provides a basis for also assessing risk mitigation by banks.

Q35. What challenges would exist for preparers or users of these disclosures? How could these be overcome?
Q36. What additional bank-specific disclosure requirements in respect of banks' exposure to climate- related financial risks should the Committee consider?

Forecasts

Q37. What are your views on the proposed inclusion of forecast information in the Pillar 3 climate-related financial risk disclosure requirements in instances where banks have established such forecasts?

Such disclosure will provide forward-looking information and help market participants to assess the projected course of changes a bank will face in terms of climate-related financial risk exposure, which will be adjusted overtime considering different moving parts and variables.
In addition, as highlighted above, we would encourage the Committee to require forward-looking climate stress testing results to be disclosed. A key feature of climate change is its uncertainty, and the potential for severe outcomes due to tipping points and non-linearities[10]. Providing the market with only the central forecast from banks (as proposed), may fuel a false sense of complacency and weaken the pressure investors might otherwise exert to encourage rigorous and early risk management.

Q38. Would the proposed forecast information be a useful metric for assessing banks' exposure to climate-related financial risks?

It will be more useful if the assumptions behind the forecast information are also required to be disclosed.

Q39. What type of forecasts would be most useful for assessing banks' exposure to climate-related financial risks?

For Pillar 3 to offer an effective form of market discipline, the market needs to be properly informed of the potential risks to capital. As emphasised in Q37, two of the most useful forecasts would be:

- Impacts of the identified transition and physical risks for capital adequacy and ECLs.
- Results from forward-looking stress testing to give investors a better understanding of the potential spread of outcomes for capital adequacy.

Both the above would provide investors with a sense of the materiality of these risks. We would like to see disclosures in banks' financial statements to provide comfort that ECL assumptions are consistent with their climate risk assessments.

Q40. What challenges would exist for preparers or users of Pillar 3 disclosures in relation to potential forecast information? How could these be overcome?

Forecasts are by their nature judgmental, which inevitably introduces modelling challenges. It would therefore be important to ensure sufficient transparency on the methodologies and critical assumptions that underpin the forecasting.

For example, indicating which climate and economic models have been used and how these are calibrated for tipping points and non-linearities, alongside likely socio-economic responses to climate change and transition should be encouraged. Current mainstream modelling has been widely criticised for leaving out the most severe but plausible impacts from climate change, resulting in under-estimation of the risks. Disclosures on how banks have sought to avoid this problem would be important.

[10] See for further info: https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios.pdf

The limitations of current econometric modelling is a strong reason for why we would encourage requirements for climate stress testing results to be disclosed to the market. This would ensure a fuller understanding of risks to capital in more severe climate scenarios.

Q41. Where forecast information is not available, what alternative information might be useful to assess banks' exposure to climate-related financial risks on a forward-looking basis?

Concentration risk

Q42. What are your views on the usefulness banks' disclosure of quantitative information on their risk concentration, ie of the bank's material exposures to sectors or industries subject to transition risk or to sectors/geolocations subject to physical risk relative to its total exposure?

Supportive, as physical risks are unevenly distributed geographically. On transition risk, concentrations also help identify refinance risk and the ability of the system to absorb these impacts.

This information would also be useful for supervisors and policy makers as well, in order to understand where real economy risks transition risk are accumulating and how they might feed through to financial stability risk.

Q43. What are your views on complementing quantitative disclosure of risk concentrations with qualitative disclosure of contextual and forward-looking information on the bank's strategies and risk management framework, including risk mitigation, to manage climate-related concentration risk?

Supportive, as for instance banks may need to explain why their risk concentrations (and short-term emissions) might rise with the purchase of high emitting assets with the purpose of decarbonizing them. Qualitative explanation would be necessary here.

Q44. What challenges would exist for preparers or users of disclosures in relation to quantitative and qualitative information on climate-related risk concentrations? How could these be overcome?

We cannot foresee material challenges to these disclosures. We would expect the information already exists internally to inform bank risk management. If it is lacking, requirements for disclosures would offer an important catalyst for banks to start compiling climate risk information. In line with the goals of Pillar 3 of the Basel framework, it is vital that investors also have visibility on climate risks to enable market discipline.

Q45. In relation to the disclosure of exposures subject to physical risk, would it be meaningful for assessing banks' climate-related concentration risk if these exposures were divided into six or seven broadly defined hazards, eg heat stress, floods, droughts, storms, wildfires etc?

Q46. What additional bank-specific disclosure elements on climate-related concentration risk should the Committee consider?

As underlined above, investors would benefit from disclosures of how concentration risk translates into risks to capital. We would also welcome disclosure of the results of regulatory stress testing exercises to provide investors with a fuller understanding of potential risks to capital in more severe climate scenarios.

In addition, we would welcome attention by the Committee to ensuring consistency between Pillar 3 disclosures and banks' financial statement disclosures, which are currently lacking detail on how climate risks are considered in forward-looking assumptions.

Templates
Q47. What are your views on the structure and design of the proposed templates in relation to helping market participants understand the climate-related financial risks to which banks are exposed? Please see previous responses
Q48. Would the potential structure and design of the templates pose any challenges for preparers or users of Pillar 3 climate-related financial risk disclosure requirements? How could those be overcome? Please see Answer 19.

5.4 Quantitative disclosure requirements subject to jurisdictional discretion

Q49. What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion?
Q50. What key challenges would exist for preparers or users of the proposed quantitative Pillar 3 climate- related financial risk disclosure requirements subject to jurisdictional discretion? How could these be overcome?

Q51. What are your views on the feasibility, meaningfulness and practicality of banks' disclosure of facilitated emissions?
Investors expect banks to disclose their facilitated emissions, which are an important source of transition risks and driver of climate impacts. This disclosure should be made easier by the recent publication of PCAF's Reporting Standard Part B: Facilitated Emissions for the Financial Industry.

5.5 Effective date

Q52. What are your views on the feasibility of the potential effective date of the Pillar 3 climate-related disclosure requirements?
The proposed date of January 2026, one year after the effective date proposed by the ISSB and after the expiration of the ISSB's proposed transitional arrangements, is reasonable for any mandatory disclosure requirements under Pillar 3 to be set in line with ISSB.

Q53. Would any transitional arrangements be required? If so, for which elements and why?
For any Pillar 3 mandatory requirements as a result of this consultation but beyond ISSB's standards, the Basel Committee could consider a phase-in or transitional arrangement where necessary, however excessive delays in reporting should be avoided.

5.6 Liquidity risk

The Basel Committee's analytical reports note that transition and physical climate-related financial risks materialise through the traditional risk categories of credit, market, liquidity and operational risks for banks but have distinct risk drivers.
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.
The Committee invites views from the public and market participants regarding the necessity, applicability and relevance of extending the Committee's proposal to consider disclosure of climate- related financial risks on deposits/funding and liabilities.

Q54. What are your views on the Committee exploring disclosure requirements for the impacts of climate-related financial risks on deposits/funding and liabilities?