EBF Response to the Basel Committee’s consultation on a Pillar 3 disclosure framework for climate-related financial risk

Key messages

- Support for the proposal to the extent it ensures comparability and maintains prudential risk-based approach.
- International harmonisation and coordination are key in aiding comparability and avoiding duplications.
- The final framework should not envisage any jurisdictional discretions, although certain flexibility is needed in the templates for efficiency and faithful implementation.
- Guidance in areas such as criteria for use of proxies, criteria on methodologies for financed emission calculation, or value chain considerations is needed to increase comparability and mitigate the risk of greenwashing accusations.
- Trading book exposures, facilitated emissions, concentration and liquidity risk should not be subject to public disclosures at this stage.
- Concentration risk disclosures should, if anything, be subject to supervisory reporting at this stage.
- Requirements to disclose forecasts should be clarified. Disclosing forecasts of future conditions should not be part of a P3 disclosure framework.
- The scope of application of the disclosure requirements should be at the highest consolidated level.

I. General comments

We welcome the opportunity to provide input into the Basel Committee's consultation on a Pillar 3 disclosure framework for climate-related financial risk. Disclosure frameworks are important tools to promote transparency in the banking sector, providing investors and stakeholders with comparable information around risks, and vulnerabilities as well as strategies to mitigate those risks which in turn leads to market discipline in the financial sector. Both quantitative and qualitative information may be relevant in this respect. This is the case for more traditional as well as climate-related drivers of the financial risk.

Alignment with the objectives of P3

Any final requirements for the disclosure of climate-related financial risks should be **narrowly tailored to reflect the Pillar 3 objective of providing market participants with the key information necessary to understand a bank's risk exposures and the adequacy of its regulatory capital**. In this sense, we welcome the BCBS proposal to the extent that it ensures comparability and maintains prudential risk-based approach, i.e., it helps promote comparability of banks' risk profiles and enables market participants to access key information relating to a bank's financial risk exposures in relation to climate. **We believe the consultation includes a number of proposed requirements that extend beyond the objectives of Pillar 3 and would not be useful for market participants to meaningfully understand a bank's climate-related financial risk exposure.**

Moreover, while we understand the need to provide market participants with key information regarding climate-related risk drivers, climate risk is not and should not be considered a separate risk category. In fact, climate-related financial risks are "cross-cutting" in nature because they drive more traditional risks, including credit, market, insurance, operational, and legal risks. Therefore, we believe that it is important to approach climate risk as a **driver of existing risk categories** rather than a risk category of their own, an aspect which is not always clear in the illustrative templates.

International harmonisation, comparability and level playing field

International harmonisation, coordination and establishment of a level playing field are key in financial market regulation, where cross-border integration has come far. In order to achieve a truly level playing field and comparability across jurisdictions, we believe that the elements of the final framework should **not be subject to discretionary treatment within jurisdictions implementing the BCBS standard,** insofar as they are material.

To increase comparability and consistent and harmonized application, as well as to overcome operational challenges more guidance will be necessary in certain areas (e.g. on use of proxies, criteria on methodologies for financed emission calculation, or value chain considerations, and materiality approach).

Nevertheless, we acknowledge the need to adapt certain requirements to national circumstances for the sake of the framework's effectiveness. Therefore, we believe that a certain degree of flexibility should be allowed in the templates themselves, with the objective of increasing the likelihood of faithful implementation and meaningful disclosures, reducing duplication with other disclosures, and minimising implementation costs.

Interoperability with existing standards

We understand the Basel framework as an international baseline for financial risk disclosures related to climate and therefore would urge interoperability in particular with ISSB standards that are considered as baseline for climate-related corporate disclosures. BCBS should avoid duplicating corporate disclosure requirements in the Pillar 3 context. In case of unavoidable overlaps, cross-referencing should be possible and specifically highlighted in the standard.

Also, the EU has already adopted a rather granular Pillar 3 disclosure standard on ESG related risks. We urge the BCBS and EBA to work closely together in finalising the BCBS standard to ensure that European banks' disclosures are consistent with the international baseline.

Scope and level of application

We recommend that the BCBS includes clarification that the standard is aimed at significant institutions. Also, information should be disclosed at the most aggregated level possible to provide a meaningful and reliable picture of risk in the wider group and avoid confidentiality issues.

Data availability

Data availability and quality are still a major issue that must be reflected in the proposed BCBS disclosure framework. While the quality and availability of data will improve over time, the BCBS should envisage use of estimates and proxies where no actual data can be used, or where the bilateral collection of data would represent an unreasonable effort and burden for the banks or their clients. Therefore, we would ask the BCBS to also provide guidance with clear criteria on the use of proxies that would increase comparability and mitigate the risk of greenwashing accusations.

II. Response to the consultation's questions

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?

A Pillar 3 framework for climate related financial risks would help promote the transparency and comparability of the information to be provided to market participants across different jurisdictions. This would foster market discipline and reduce the asymmetry between banks' information.

More importantly, the economy, and as such the financial system, has reached a stage where calculating and managing risks has become increasingly difficult and banks as well as their clients are faced with increasing uncertainties, such as geopolitical conflicts, the climate, or political balance. In such a context, steering businesses based on balance, flexibility and resilience is fundamental rather than steering based on financial outcomes only. Insights into exposures to uncertainties will enhance banks and supervisors' ability to assess banks' soundness, flexibility and resilience, and assess their ability to withstand shocks. The climate being an obvious uncertainty for both individual banks and economies implies that comparability of those vulnerabilities is crucial for financial stability.

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

We believe there are significant risks, such as lack of comparability and absence of interoperability, if the proposed framework is not implemented homogeneously across all jurisdictions and in consideration of existing disclosure requirements.

These risks would lead to misleading information for market participants if they were to receive different information depending on the country where the bank is located. Moreover, institutions with an international presence, would have to prepare information using different templates, instructions and criteria depending on the jurisdiction where their subsidiaries are located. This would represent a considerable administrative and financial burden with limited added value.

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?

A well-designed Pillar 3 framework for climate-related financial risks would help market participants to understand banks' climate-related financial risk exposures and how they are managing these risks as well as to compare banks in different jurisdictions, if the proposed framework is implemented homogeneously across all jurisdictions.

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?

We believe the Pillar 3 framework can be designed in a way that will be sufficiently interoperable with the requirements of other major standard-setting bodies.

To achieve interoperability, Pillar 3 disclosures must be implemented homogeneously across all jurisdictions.

The proposed climate P3 framework is already partially interoperable with the ISSB standards, the EU CSRD ESRS – which are essential in providing certain data from clients that banks need to fulfil their own reporting obligations – and the EBA ITS Pillar 3 disclosure on ESG risk.

The BCBS should avoid duplicating or overlapping corporate disclosure requirements in the Pillar 3 context. When unavoidable, cross-referencing should be possible and specifically highlighted in the standard. Mapping tables between ISSB standard and BCBS P3 would be useful in this context.

Also, the EU has already adopted a rather granular Pillar 3 disclosure standard on ESG-related risks. We urge BCBS and EBA to work closely together in finalising the BCBS standard to ensure that the European banks' disclosures are consistent with the international baseline.

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

Possible unintended consequences could arise if the framework fails to strike the right balance between granularity, usefulness for market participants and the effort required from institutions to fulfil the requirements. The higher the level of granularity, the more difficult it is to find consistent and homogeneous information across geographies and sectors. Also see our response to Q2.

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

It would not be appropriate to extend Pillar 3 framework to the trading book for climate purposes considering trading positions do not depend so much on contractual maturity. In addition, trading book transactions are extremely numerous, including in secondary and private markets, and sometimes banks hold the instruments for a few minutes only. Multiple counting of the same emissions would be rife. Moreover, banks are intermediaries, taking and hedging positions for clients, and so not taking significant risks.

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

In the BCBS proposal GICS codes are used for exposures per sector, while certain jurisdictions use other codes such as NACE, SICS or NAICS. We understand the BCBS's objective is to ensure comparability with ISSB. We recommend the BCBS however to base the reporting on the International Standard Industrial Classification of All Economic Activities (ISIC), which is a UN industry classification system, and provide mapping to other classification systems to the extent feasible instead of using the proprietary GICS coding. (see response to Q28).

Regarding materiality, while materiality assessment should be determined by banks, (including the 18 TCFD sectors), guidance on materiality would be welcome.

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

The use of the term 'mandatory' could be confusing given that Basel Committee is not a legislator, and the framework would need to be transposed in national legislation.

In order to achieve a level playing field and comparability across jurisdictions, we believe no element of the final baseline framework should be subject to national discretion. Nevertheless, we believe the templates should allow for certain flexibility for efficiency and to allow faithful implementation.

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 are concerned about legal and reputational risk stemming from forecast information (see Q37). Considering the current lack of information and the evolving nature of methodologies, current forecasts based on best available data at this point in time may not prove to be accurate in the future and institutions could be held legally accountable for inaccurate forecasts.

Overall, the lack of availability, consistency, and comparability of data, and more specifically data on GHG emissions and emission factors could also result in potential legal risks, including accusations of greenwashing.

Q10. Would the qualitative and quantitative requirements under consideration need to be assured in order to be meaningful? If so, what challenges are foreseen?

The controls in place by institutions seems to be adequate, as for the rest of the Pillar 3 requirements. We do not see the need for additional assurance controls/reviews. Also, according to the ECB report[1] there are only a few cases of the disclosure report resubmissions with minor changes.

QUALITATIVE DISCLOSURE REQUIREMENTS:

Q11. What are the benefits of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements?

In general, the qualitative information would help promote the transparency and comparability of the information to be provided to market participants across different jurisdictions and help promote market discipline. Moreover, we agree that disclosure of qualitative information – such as that on governance and risk management – could help ensure that bank disclosures are sufficiently comprehensive and meaningful, by reducing the risk of potential unintended consequences of proposed quantitative disclosures being considered in isolation. However, we have comments on some qualitative aspects where we do not believe this to be the case (see Q16).

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

We believe no elements of the final baseline framework **should be subject to jurisdictional discretion** to ensure a level playing field and comparability across banks. However, as previously

[1] https://www.bankingsupervision.europa.eu/banking/statistics/html/index.en.html

mentioned, a level of flexibility should be allowed within the templates to allow for jurisdictional differences. Cross-references should also be permitted.

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?

Challenges that both users and preparers could face would arise if the proposed framework is not applied homogeneously. The framework should allow for comparison of these risks across jurisdictions.

Q14. What additional qualitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?

We do not believe substantial qualitative information is missing on the contrary (see Q16). The proposal is rather comprehensive and aligned with the quantitative information.

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?

n/a

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?

Some of the detailed disclosure templates and proposals go beyond the policy intent of the Pillar 3 requirements and would be more appropriate in the context of a supervisory reporting framework, than under Pillar 3.

This concerns in particular **concentration risks**, which, at this stage, are not relevant for public disclosure purposes. There is no common definition of ESG-related concentration risk, and disclosure would present significant challenges. Risk concentration should not be a separate topic for climate risks, it is an overarching category along all the types of risks and risk drivers. It should be deleted in BCBS P3 for climate disclosures.

Further, regarding the inclusion of **transition plans** in table CRFRA, it is becoming clearer that there may be two possible focuses for transition plans: on strategy and climate-related targets (ISSB/ESRS - impact management) or on assessment and embedding of financial risk considerations related to the transition (EU CRD, as per EBA's consultation on its draft guidelines on ESG risk management). The second focus may be relevant for BCBS-purposes but is in early stages even in Europe and will probably start out under P2. It may be premature to include such planning in BCBS P3 templates.

Moreover,

- information related to **forecasts** is not relevant for disclosing purposes (see Q 37) and therefore should be deleted and
- information on **whether and how the bank prioritises** climate-related financial risks relative to other types of risks should also be deleted.

QUANTITATIVE DISCLOSURE REQUIREMENTS:

3.1 GENERAL:

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

The main benefit of Pillar 3 framework is establishing the transparency and comparability of the information to be provided to market participants while maintaining the right balance between its usefulness for market participants and the effort required from institutions, without undermining their business model.

Q18. Should the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?

All elements and templates of the final framework should **not be subject to jurisdictional discretions** to ensure the framework's transposition and implementation is carried out in an internationally consistent manner, ensuring comparability and a level playing field. Nevertheless, we believe that allowing flexibility in the templates themselves could be envisaged to allow for faithful implementation and meaningful disclosures, reduce duplication with other disclosures, and minimize implementation costs.

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?

The key challenge is related to the fact that banks will be required to disclose client-based information before their clients are obliged to report it – and in some cases, counterparties may never be obliged to do so. The lack of availability, consistency, and comparability of data, and more specifically GHG emission data, emission factors and energy efficiency of collaterals represent a key challenge.

Certain data are currently not available in certain geographies, such as energy efficiency data. Until corporate disclosures are enforced in all jurisdictions (e.g., under ISSB, or CSRD in the EU), data will have to be sourced through data providers and estimates may need to be applied. The BCBS should acknowledge such limitations and resulting reliability.

Regarding maturity of the exposures, in the EU the residual maturity information is currently not broken down by sector according to GICS or TCFD standards (please see our comments on mapping between the different classification systems). This level of granularity would therefore require significant efforts to define the specific sector. Ad hoc liquidity reports would need to be developed based on the new sector classification.

Q20. What additional quantitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?

We believe no additional quantitative information is needed.

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?

It is expected that data gaps will have to be addressed by using estimates and proxies. We urge the BCBS to provide guidance on the use of proxies (such as qualitative criteria, sourcing, transparency on proxies used etc.) to mitigate the risk of greenwashing accusations.

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?

We believe some of the requirements go beyond the policy intent of the Pillar 3 requirements and would be more appropriate in the context of a supervisory reporting framework rather than under Pillar 3 (see Q30 and 42).

Concerning templates CRFR3 and CRFR4, we believe in their relevance in the P3 context. However, we acknowledge that there will be likely challenges to disclose the information requested in certain jurisdictions and thus their gradual implementation could be envisaged.

Moreover, we note that CRFR4 shows many similarities with the EU Pillar 3 requirements (Template 3). However, both templates differ in their purpose. While the CRFR4 focus on the GHG emissions intensity for sectors with forecast (page 34), the EU EBA Pillar 3 Template 3 seeks that institutions disclose information on their alignment efforts with the objectives of the Paris Agreement for a selected number of sectors. In the EU Pillar 3 Template 3 there is no clear indication that banks must report forecasts, opening the possibility to banks to report based on linear reductions utilising the International Energy Agency (IEA) scenarios. Reporting forecasts can introduce legal risks for the reporting entities if these forecasts finally prove to be non-accurate in time. We, therefore, suggest that template CRFR4 is amended and aligned with the EBA template.

Please see also our response to Q 37 on forecasts.

In addition, we also believe the Template CRFR5 (Transition risk – facilitated emissions related to capital markets and financial advisory activities by sector) should be removed, as methodologies for the calculation of facilitated emissions are not yet mature at this stage (see Q51).

Q23. What are your views on the calculations required to disclose the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?

3.2 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?

Although the correlation between a borrower's financed emissions and its ability to repay debts varies greatly over different time horizons, we do not question the relevance of disclosing financed emissions in the P3 context as the analysis of financed emissions per sector could lead to identification of exposures that require more intense risk management. However, the use of static financed emission disclosures should be complemented with more dynamic disclosures about transition trajectories being financed by banks over time. Otherwise, banks could be disincentivized from providing transition finance to the high-emitting sectors that need it the most: for example, as transitioning takes time, a bank's financed emissions may increase in the short term while it finances companies in transition.

While we do not believe a methodology for calculating financed emissions should be prescribed, guidance is needed from regulators on the criteria for the methodologies used for calculating financed emissions as well as on the value chain to mitigate issues such as multiple counting of financed emissions through counterparties and scopes.

Institutions should disclose their methodology for calculating financed emissions. Finally, it is important that regulators acknowledge methodological and data shortcomings (see Q25) and that disclosures are done on a best effort basis.

Q25. What are your views on the availability and quality of data required for these metrics, including by sector, activity, region or obligor?

As explained under Q19 above there are issues concerning the quality of information.

- There is big contrast between sectors, information providers, and the methodologies.
- There are also issues with the information obtained from customers, which may deviate from sectoral averages, resulting in differences in terms of impacts, e.g., inconsistencies between emissions provided by the counterparty (available for single activities) and proxies (referring only to the primary activity) built through emissions factors for sectors and geographical areas.
- Estimates used to compensate for the lack of date are less granular at sector/client/geography/etc level. As a result, banks are facing high levels of uncertainty when disclosing certain metrics. The eventual updating of the proxies (emission factors) used in methodologies like PCAF can lead to a lack of comparability of an institution's financed emissions track record or of different institutions' emissions.
- It is thus difficult to distinguish well between "leaders" and "laggards" in the sectors. It is extremely difficult to model with non-homogeneous data.

While we understand that we cannot wait for perfect data and data will improve with mandatory reporting, the current limitations should be reflected and cooperation between financial actors and public bodies within regions to improve data availability and quality should be encouraged.

Q26. What key challenges would exist for preparers to disclose these metrics, including by sector, activity, region, or obligor? How could these be overcome?

As indicated in the response to Q25, the main challenges relate to:

- the availability of raw data – this leads to a low data quality and comparability and a time lag between availability of the information and its use;
- the lack of homogeneous data;
- the level of disaggregation, which require information at entity level, whereas companies publish at company group level. We are therefore concerned about a more granular breakdown given the unavailability or insufficient quality of granular information (granularity of NACEs/GICs when requested beyond NACE Level 2);
- the lack of mapping tools - banks are expected to disclose GHG intensity metrics for sectors within the 18 sub-industries identified by TCFD according to the GICS classification, while in the EBA Pillar 3 the mandatory minimum set of sectors is identified through NACE codes (see Q7 and Q28);
- calculation of financed emissions (scopes 1, 2 and especially scope 3) (see Q24).

Q27. What additional transition risk disclosure requirements should the Committee consider?

We believe no additional disclosure requirements are needed.

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?

European institutions must already disclose exposures and financed emissions according to EBA's Implementing Technical Standards (ITS) on prudential disclosures of environmental, social and governance (ESG) risks. Based on these requirements European banks must report their data based on NACE codes, while in the UK many companies only use SIC codes. Therefore, reporting data in GICS/by TCFD subsector would represent additional time and costs. To avoid this burden, the BCBS should base the reporting on the International Standard Industrial Classification of All Economic Activities (ISIC), a UN industry classification system, and provide mapping to other classification systems to the extent feasible. It is of utmost importance to take into consideration institutions with an international presence and consistency with other public reports.

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, it should be mandatory for banks to disclose the methodology they used for calculating financed emissions (see Q 24).

3.3 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?

The BCBS is proposing that banks should disclose their **exposures by geographical region or location subject to climate change physical risk**[2]. While we believe this information could be a useful metric for assessing banks' exposure to physical risk, it is to be noted that common and **standardised data on physical risk in different locations do not exist at this stage**. The BCBS should seek interoperability with the EBA ITS Pillar 3 disclosure on ESG risks. Moreover, there is a need for defined climate scenarios in order for physical risk exposure reporting to be useful.

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?

We believe that each national supervisor could determine these criteria for its own country, and other jurisdictions should use those criteria (e.g., Italy determines climate change physical risks

[2] Where banks serve clients that operate in more than one sector and/or jurisdiction, any quantitative requirements that necessitate categorisation by sector and/or geography should articulate clearly how an exposure should be categorized by sector and/or geography.

for Italian regions/locations; French companies with Italian-based products etc would then use Italy's criteria). That would ensure harmonisation of interpretations.

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?

It would be appreciated if institutions could be provided with climate change physical risk datasets to ensure comparability amongst banks (in the context of supervisory reporting).

Q33. What additional physical risk disclosure requirements should the Committee consider?

N/a.

3.4 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?

It would add value if the accounting disclosing perimeter already used in certain jurisdictions (EU IPR-P3) for disclosing these metrics is maintained.

Q35. What challenges would exist for preparers or users of these disclosures? How could these be overcome?

If the accounting disclosing perimeter already used in certain jurisdictions (EU IRP-P3) for disclosing these metrics were not the same, it would lead to an additional burden for entities, with no added value. It could also be misleading for disclosures users, which would see different numbers for similar indicators across different disclosure frameworks. This would result in a risk of greenwashing accusations.

Q36. What additional bank-specific disclosure requirements in respect of banks' exposure to climate-related financial risks should the Committee consider?

No additional disclosure requirements are needed. We consider the proposal to be sufficient.

3.5 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?

The Committee is proposing that banks should, voluntarily and to the extent that it exists, disclose **forward-looking information** such as forecasts. The objective is to improve the understanding and assessment of banks' exposures to the transitioning activities of their counterparties in certain sectors and the bank's long-term approach to addressing climate-related financial risks in a forward-looking manner.

The use of the term "forecast" by BCBS needs to be clarified as to whether the BCBS uses the term as a synonym of "targets" (as in "achieving emissions forecasts"). However, **the disclosure of "forecasts of future conditions" would seem inappropriate**. Banks may have forecasts for internal purposes but their intrinsic uncertainty – especially in a situation where metrics and information are not yet robust - renders them unsuitable for publication, with risk of legal liability. In addition, other exercises such as climate stress tests are more relevant for projections.

Insofar as “forecasts” means “targets”, we believe requiring the disclosure of forward-looking forecasts only for those banks that have established such “forecasts” is not suitable, as it could discourage banks from adopting climate-related targets. Moreover, the terms “targets” and “level of progress” (also used in the EU Pillar 3 requirements) are preferable. Furthermore, disclosure requirements should not oblige institutions to disclose proprietary or commercially sensitive information that could give away a competitive advantage, which could be the case with certain forward-looking information and projections.

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

We consider disclosing targets could be useful for assessing banks’ exposure to climate-related financial risks, however we do not believe other requirements or templates are needed in addition to those already requested in the EU.

Banks are already providing this information on targets in EU and certain other jurisdictions. Fitting the banks' commitments into a quantitative template does not help to share information better, as the qualitative part would be lost.

If the aim of the proposal is however to disclose forecast information we disagree on its usefulness (see Q 37).

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

Banks are already disclosing quantitative and qualitative information in those jurisdictions that have a climate related Pillar 3 framework in place. No additional information would be needed.

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

In relation to disclosure of targets, in order to overcome the problem of consistency and comparability of methodology and scenarios employed, as a Net Zero Emissions 2050 Scenario (NZE2050) we suggest referring to the Net Zero by 2050 Scenario annually designed and published by the International Energy Agency (IEA).

Current disclosure requirements on targets are limited to those sectors for which an entity has made commitments. It would be challenging to cover sectors beyond those defined by the banks themselves.

It would also be challenging for institutions to fit information on targets into a predefined quantitative template: the qualitative information is key to better understand this kind of information.

If more information is requested for disclosing targets, additional challenges would arise on:

- Data availability
- Geographical heterogeneity

- Segmentation should be consistent with data availability and aligned with committed/defined targets. Data is usually available at Group level, not at legal entity level.

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?

Again, when talking about targets, in their voluntary disclosure (reported in the annual sustainability report and/or in the bank's Finance/TCFD report) banks already analyse the materiality of portfolios considering information on transitional and physical risks over different time horizons.

3.6 CONCENTRATION RISKS

Q42. What are your views on the usefulness banks' disclosure of quantitative information on their risk concentration, i.e. 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?

Environment-related concentration risk metrics could be developed progressively as part of supervisory reporting. We believe it is premature to include disclosure of these risks at this stage.

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?

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?

There is no common definition of ESG-related concentration risk, and this would present significant challenges as the classification would need to be risk-based, while a specific sector/counterparty might cover a mixture of activities with different level of contribution to the environmental objective.

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, e.g., heat stress, floods, droughts, storms, wildfires etc?

We recommend the division into 6 or 7 broadly defined hazards would assist comparability.

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

No disclosure elements should be considered at this stage and no additional reporting elements are needed.

3.7 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?

There is need for clarification concerning the status of the "illustrative" tables and templates. Despite them being called "illustrative", for example, in CRFR1-34 columns are said to be "fixed": there is a need for clarification concerning the flexibility of columns (stated in "format").

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?

As already stated previously, it is of the utmost importance that the final Basel standards outcome are sufficiently interoperable with the requirements of other standard setting bodies, such as the ISSB and European legislative standard-setters. We would welcome a mapping table and cross-referencing options within the templates.

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?

We do not support jurisdictional discretions. We however acknowledge that a certain flexibility will be needed in the templates to allow climate-related exposures to be reported according to national circumstances.

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?

We believe that the Basel Committee should strive to propose a common international bank-specific baseline for P3 climate related financial risk disclosure that would ensure a truly level playing field and comparability across jurisdictions. No elements of the final framework should therefore be subject to jurisdictional l discretion. Jurisdictional specificities could be managed by allowing flexibility in the templates to report the information in line with jurisdictional circumstances.

Disclosure requirements subject to jurisdictional discretion would not only lead to international banking groups facing different P3 disclosure requirements for ESG purposes depending on where its subsidiaries are located or the level of the consolidation of the information but also lack of comparability between entities and the possibility of misleading information being disclosed to market participants.

Q51. What are your views on the feasibility, meaningfulness, and practicality of banks' disclosure of facilitated emissions?

Facilitated emissions have little relevance to financial risk exposures and thus we do not believe they should be considered within the Pillar 3 framework. Facilitated emissions do not carry any direct financial risk to banks.

Moreover, given the novelty of the methodology to calculate facilitated emissions (PCAF methodology was only issued in December 2023), and the lack of practical experience and market consensus on the use of the methodology, it would also be premature to include facilitated emissions in the scope of the proposal.

EFFECTIVE DATE

Q52. What are your views on the feasibility of the potential effective date of the Pillar 3 climate-related disclosure requirements?

The BCBS intends to finalise its standard inH2 2024 and implement it on 1 January 2026. The EBA is to consult on updates to its ITS on Pillar 3 ESG disclosures in Q4 2024 or early 2025. We encourage the BCBS to coordinate with EBA on timing to ensure that European banks will not have to implement several different iterations of Pillar 3 climate risk-related disclosures.

Q53. Would any transitional arrangements be required? If so, for which elements and why?

No. What the Basel Committee may want to avoid is complex calculations, transitional measures and confusing implementation dates. For an orderly and supported implementation across the globe, a simple and limited set of requirements is called for, with simple, comparable metrics, a clear application scope and a single implementation date.

LIQUIDITY RISK

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

We believe further analysis is required before considering liquidity risk-related aspects.

About EBF

The European Banking Federation is the voice of the European banking sector, bringing together national banking associations from across Europe. The federation is committed to a thriving European economy that is underpinned by a stable, secure, and inclusive financial ecosystem, and to a flourishing society where financing is available to fund the dreams of citizens, businesses and innovators everywhere.

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