March 14, 2024

Mr. Neil Esho
Secretary General
Basel Committee on Banking Supervision
Centralbahnplatz 2
4051 Basel, Switzerland

Submitted via online portal and via electronic mail

Re: IIF/ISDA Public Comment on the Basel Committee's Consultation on Disclosure of Climate-related Financial Risks

Dear Mr. Esho:

The Institute of International Finance (IIF) appreciates the opportunity to provide public comments to the Basel Committee ("BCBS" or the "Committee") on its request for comment on the consultative document '*Disclosure of climate-related financial risks*' issued in November 2023 (hereafter "the consultation"). The IIF is the global association of the financial industry, with around 400 members from over 60 countries, including commercial and investment banks, asset managers, insurance companies, ratings agencies, market infrastructure providers, and professional services firms. For the purposes of developing positions in this comment letter, the IIF has engaged with our banking institution members as preparers of Pillar 3 disclosures. The IIF has consulted with the International Swaps and Derivatives Association (ISDA) on this consultation given their expertise on the BCBS market and counterparty risk frameworks. ISDA engaged with members of their ESG Risk and Capital Working Group and have confirmed their support for the messages in this response letter, which they have co-signed.

The IIF and our global membership appreciate the Basel Committee's program of work to date to consider the implications of climate-related risks for individual banks, the wider banking system, and the prudential framework. This includes the Committee's analytical reports and ongoing analysis of the extent to which climate-related risks can be addressed within the Basel Framework, spanning the regulatory, supervisory, and disclosure dimensions. We would emphasize that the discussion relevant to the current consultation is not about the merits of climate disclosure more broadly, but rather the objectives of Pillar 3 and the integrity of the Basel framework. Before imposing significant new Pillar 3 disclosure requirements, we believe that additional work is needed by the Committee to substantiate how the proposed disclosure is necessary to achieve the objectives of Pillar 3. **We encourage the BCBS to re-evaluate whether the proposed disclosure standards align with the primary objectives of Pillar 3 disclosure, which the Committee has stated as its intention, and to publish a detailed summary of this assessment in tandem with a future consultation on revised proposals.**[1]

[1] From the consultation: *"Pillar 3 disclosures aim to promote market discipline and enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital. The existing Pillar 3 framework does not provide distinct or comparable information as to how climate risk drivers could impact a bank or the banking sector. Consequently, the Committee is seeking views on whether the introduction of a Pillar 3*

Our detailed feedback on the consultation is organized into four sections as follows: (1) Foundational comments; (2) Overarching feedback on the consultation proposals; (3) Specific feedback on the consultation questions, organized by topic; and (4) Specific feedback on the proposed tables and templates.

Section 1: Foundational Comments

A. *Revisiting the objectives of the Third Pillar of the Basel Framework*

In order to frame the IIF's comments on the consultation proposals, we have referred back to the core tenets of Pillar 3 disclosure standards, which were introduced in the Basel II framework to provide a market discipline complement to minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). As stated in Basel II: *"**The Committee aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposures, risk assessment processes, and hence the capital adequacy of the institution.**"*[2] When introducing the concept of Pillar 3 standards, the BCBS noted the following tenets and parameters (among others):

- **Pillar 3 is integral to the Basel Framework and should reflect, for a market participant audience, how banks assess risk.** *"In principle, **banks' disclosures should be consistent with how senior management and the board of directors assess and manage the risks** of the bank."* (Paragraph 810.[3])
- **Pillar 3 disclosure differs from confidential regulatory reporting:** *"Under safety and soundness grounds, supervisors could require banks to disclose information. Alternatively, supervisors have the authority to require banks to provide information in regulatory reports."* (Paragraph 811.[4])
- **Pillar 3 is narrower than corporate disclosure and should not conflict with it**: *"The Committee recognises the need for a Pillar 3 disclosure framework that does not conflict with requirements under accounting standards, which are broader in scope. The Committee has made a considerable effort to see that the narrower focus of Pillar 3, which is aimed at disclosure of bank capital adequacy, does not conflict with the broader accounting requirements."* (Paragraph 813.[5])
- **Focus on material information**: *"A bank should decide which disclosures are relevant for it based on the materiality concept. Information would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions."* (Paragraph 817.[6])

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framework would help to promote comparability of banks' risk profiles and enable market participants to access key information relating to a bank's risk exposures in relation to climate-related financial risks." (Page 3.)

[2] BCBS 2006, "International Convergence of Capital Measurement and Capital Standards" (hereafter, "BCBS 2006"): Part 4, General Considerations, B, paragraph 809

[3] BCBS 2006.

[4] Ibid.

[5] Ibid.

[6] Ibid.

Today's BCBS standards include the following guiding principles for Pillar 3, which are important to review when considering the introduction of new standards such as those being proposed in the consultation:[7] **Clarity, Comprehensiveness, Meaningfulness, Consistency over time, and Comparability across banks**.

The comments in this letter reflect this understanding of Pillar 3 disclosure standards since the consultation does not state an intention to change the objectives or principles of Pillar 3 disclosures. While we recognize that there may be a broadening of supervisory interests in information on banks' strategies with respect to climate change and the net-zero transition (including associated risks), we reiterate the importance of the Basel Committee focusing on the prudential rationale for Pillar 3 disclosures.

IIF members have concerns that the current proposals are not consistent with the stated objectives of Pillar 3 disclosures, and that the proposals would require significant modifications, tailoring and further specification to deliver the potential benefits associated with such disclosures, namely, enhancing transparency and market discipline about the impact of climate-related financial risks on bank capital adequacy and risk exposures. We strive in our comments to provide constructive and specific suggestions on the current proposals, with appropriate regard for: the complexity of the topics covered in the consultation; the BCBS's apparent desire to develop global Pillar 3 standards at a rate that pushes the limits of data and methodological capabilities; and the potential for regulatory fragmentation in Pillar 3 requirements across the world. However, it is important to highlight that there are no easy fixes for some of the current issues in the consultation, which could generate significant unintended consequences including the publication of poor-quality and confusing information for market participants and inhibiting the flow of transition finance. **We strongly believe that further reflection, analysis, evidence, including use cases, and engagement with banks as preparers of Pillar 3 disclosures will be required in order to develop a robust global Pillar 3 standard. Further consultation on revised proposals, and potentially piloting of certain tables and templates, is required.**

Further, we emphasize that this comment letter focuses on the potential benefits and costs of certain additional disclosures in a Pillar 3 context only, and is not meant to discuss the merits of climate disclosure more broadly. IIF bank members recognize the significant interest at this time from a broad range of market participants, NGOs and civil society in information about individual banks' responses to climate-related risks and opportunities, as well as their direct and indirect impact on climate outcomes. This appetite for broad "climate-related information" has existed in many jurisdictions for several years and is only growing over time. In response, many financial institutions have been making non-regulatory disclosures on a range of topics in recent years. For example, some banks have used the TCFD framework to disclose information about how the bank manages risks and opportunities associated with climate change[8], some banks use the GRI standards to disclose information about economic, environmental and social impact of the bank's operations[9], and, more recently, some banks have been using frameworks such as those developed by the Net Zero Banking Alliance (NZBA) to develop and disclose a transition plan which describes the steps they are taking to deliver on net-zero targets and commitments.[10] Corporate disclosure requirements have also been evolving in response. Many jurisdictions have

[7] As set out in DIS10, 10.13-10.20.

[8] For example, see discussion of the banking sector in the TCFD 2023 Status Report.

[9] https://www.globalreporting.org/standards/

[10] For example, see the NZBA 2023 Progress Update.

moved to make TCFD-based requirements mandatory, and the recently established International Sustainability Standards Board (ISSB) has developed global sustainability-related disclosure standards, which are expected to be implemented in major jurisdictions across the world in the coming years.[11] The European Union (EU) has also implemented its own disclosure standards, taking into account TCFD and ISSB.

This is important context for introducing additional bank disclosure requirements but, importantly, Pillar 3 disclosures have a specific objective and focus. We emphasize the importance of not scoping information into a Pillar 3 discussion that is beyond the objectives of Pillar 3. Recognizing that there are many important questions about potential broader mandatory disclosure requirements that would affect financial institutions including banks, IIF members would be pleased to discuss that topic in an appropriate context and forum— for example, as part of the future work program of the ISSB, another global standard setter such as IOSCO, or within the remit of the G20 Sustainable Finance Roadmap.

B. The analytical assumptions underlying the hypothesized links between climate change and capital adequacy, which motivate the consultation proposals, are not accurate.

It is necessary upfront to examine the chain of high-level analytical assumptions which appear to underlie the hypothesized links between climate change and capital adequacy and therefore motivate the consultation proposals, as either stated or implied in the consultation.

At a high level, IIF members interpret the Basel Committee's assessment of this assumed "causal chain" as shown in the left-hand column of **Table 1**. IIF reactions to the assumptions at each step are presented in the right-hand column of the table.

Table 1:

IIF interpretation of steps in BCBS's underlying assumed causal chain connecting climate change to financial risks	IIF member views
1. Climate change will cause physical and transition risks.	**Agree.** Climate change can produce physical and transition risk drivers affecting governments, firms across the economy and households/individuals.
2. Physical and transition risks will necessarily lead to financial risks to banks: "*To the extent that banks*	While physical and transition risks can drive the financial risks (credit, market, operational, etc.) that banks manage in relation to their client exposures, the extent to which a certain climate-related risk driver will affect the financial risk characteristics of a given exposure or counterparty depends

[11] As listed on the ISSB website as of March 14, the jurisdictions have already consulted, or are consulting, on local ISSB implementation: Australia, Hong Kong, India, EU, Nigeria, Malaysia, Pakistan, Philippines, Singapore, UK. International Organization of Securities Commissions (IOSCO) members have also endorsed the ISSB standards and called for their 130 member jurisdictions to implement them.

transact with counterparties exposed to transition and physical climate-related financial risks, part of these risks will pass on to the bank."[12]	on several factors (including a range of counterparty characteristics and the broader economic circumstances of the counterparty, maturity of the exposure on the bank's balance sheet, risk mitigants such as collateral or insurance protection). Banks are developing approaches to assess how climate-related risk drivers may affect the risk profile (incl. probability of default (PD) and loss-given-default (LGD)) of a given counterparty. Banks actively manage and mitigate financial risks at the level of specific exposures, as well as at a portfolio level. **Therefore, while transition and physical risk drivers may be relevant inputs into a bank's existing risk management framework, they do not necessarily equate to risk of financial loss to a bank (through credit risk, for example).**
3. All transition and physical risks are relevant to financial risk and therefore bank solvency.	See response to point (2) – while transition and physical risk drivers may be relevant inputs into a bank's existing risk management framework, they **do not necessarily equate to risk of financial loss to a bank**. This has been demonstrated by several supervisory climate scenario analysis exercises in past years, which have shown that – **even under extreme scenarios – the financial losses to many individual banks and to the financial system as a whole can be moderate and manageable.**[13]
4. Certain quantitative indicators are a robust measure of exposure to transition risks (e.g. GHG emissions) or physical risks (e.g., energy efficiency of properties) affecting real economy firms or households and are therefore relevant for financial institutions.	**Internally, banks use several qualitative inputs and quantitative metrics to assess financial risk parameters, including from climate-related risk drivers.** Taking the example of absolute GHG emissions, these are not a meaningful indicator of a given corporate's transition risk-related credit risk exposure because they are a backwards-looking metric which largely reflects the size of a firm's business and the sector in which it operates, and does not indicate how a firm's profitability is likely to be affected by an increase in the cost of emissions.[14] **Conceptually and empirically, there is not a clear or demonstrated relationship between GHG emissions, transition risk and financial risk metrics such as PD.** Several factors influence a borrower's credit risk. To give one simple example relating to climate-related characteristics alone, in some industries, a borrower with a higher starting level of GHG emissions and a credible transition plan may be less exposed to transition risk over the medium-to-long term than a borrower with lower starting GHG emissions and no transition plan.

[12] Consultation, page 2.
[13] As discussed at greater length in IIF 2021, "Navigating Climate Headwinds: Reference Approaches for Scenario-based Climate Risk Measurement by Banks and Supervisors" and IIF 2022, "Climate and Capital: Views from the Institute of International Finance".
[14] Discussed in detail in IIF/WTW 2023, "Emissions Impossible: Quantifying financial risks associated with the net zero transition", hereafter "IIF/WTW 2023".

5. At the aggregate level, the same indicators mentioned in point (4) can be used as proxies for financial risk to banks.	**Aggregating metrics – such as GHG emissions – at the sector level further dilutes the information content of the metric as it simply presents a backwards-looking snapshot of the characteristics of different sectors**, within which there can be significant and important variation between individual firms, which banks seek to parse and account for as part of their internal risk management approaches (e.g., see Box 2 in IIF/WTW 2023 on the Metals and Mining sector).

As shown in the non-exhaustive examples in Table 1, before imposing any new Pillar 3 disclosure requirements, it is critically important to consider in specific terms the transmission mechanisms from climate-related risk factors which affect the real economy to the impact on financial risks facing a bank. This is an exercise that banks across the world are currently undertaking to reflect climate-related financial risk drivers within internal risk management, in line with the Basel Committee's 2022 *Principles for the Effective Management and Supervision of Climate-related Financial Risks*[15] (hereafter the "BCBS Climate Principles") and other motivations; it is vital that the BCBS Pillar 3 standards appropriately characterize this analytical work to market participants.

Section 2: Overarching messages on the BCBS proposals

- **The disclosures proposed in the consultation are not consistent with the stated objectives of Pillar 3 disclosure, as described in Section 1.** In general, a Pillar 3 framework should establish transparency and comparability (across banks and jurisdictions) of relevant, material, risk-related information for market participants to ensure market discipline and reduce information asymmetry. This is a crucial threshold issue as it relates to the integrity of the Basel framework. In the consultation, the BCBS does not substantiate how the proposed disclosure tables and templates are relevant to Pillar 3 objectives of market discipline with respect to capital adequacy and risk exposures. Many of the proposed disclosures would potentially belong in broader corporate disclosure requirements and not Pillar 3, such as disclosure of a bank's business strategy with respect to climate risk. **Before imposing significant new Pillar 3 disclosure requirements, more BCBS work is needed to substantiate how the proposed disclosure is necessary to achieve Pillar 3 objectives.**
- **The proposed Pillar 3 standards are not consistent with the BCBS Climate Principles.** The BCBS concluded in 2021 that climate-related risks can be a driver of traditional financial risks, rather than a new risk category of their own; this was reflected in the structure of the BCBS Climate Principles. However, this consultation proposes to introduce several new, standalone templates that would approach climate-related financial risks outside of the context of the traditional financial risk types (credit, market, operational, etc.). This approach is not consistent with the notion of climate-related risks as risk drivers, so not only contradicts the existing BCBS Climate Principles but could also generate confusion among Pillar 3 disclosure users. In particular, the proposed quantitative metrics, which are very wide-ranging in nature, would require detailed disclosure of balance sheet and other information which is not clearly linked to specific measures of financial risk, which would be inappropriate in a Pillar 3 context. If the BCBS effectively positions this disclosure as relevant for market participants in assessing banks' capital adequacy and risk exposures, this could mislead disclosure users about

[15] https://www.bis.org/bcbs/publ/d532.pdf.

potential climate-related financial risks to which banks are exposed and generate net costs rather than net benefits. **Before imposing significant new Pillar 3 disclosure requirements, the BCBS should make clear how it is viewing this disclosure as a driver of the traditional risk types with respect to capital adequacy.**

- **We would also encourage the BCBS to carefully consider which information would be appropriate for public disclosure to market participants in the context of Pillar 3 prudential objectives versus which information may be useful only to meet supervisory objectives**, such as supervisory engagement, confidential reporting and Quantitative Impact Studies (QIS). More specifically, some information that may be of interest to prudential supervisors to deepen their understanding of the relevance of climate-related financial risks for banks could be shared via confidential supervisory reporting or through QIS data requests, but would not be appropriate for Pillar 3 disclosure.
- **The proposed quantitative disclosure requirements are not tied to Pillar 3 objectives, do not provide key information relating to a bank's regulatory capital and risk exposures, and treat climate risk as a standalone risk type rather than a risk driver.** For transition risk, the proposals largely hinge on financed and facilitated emissions disclosure; however, aggregate portfolio-level financed and facilitated emissions metrics are not direct measures of transition risk-driven financial risk to a bank. The disclosure of emissions does not align with Pillar 3 objectives of providing information to the market on banks' capital adequacy and risk exposures, and it would be misleading to market participants to characterize emissions disclosure as reflective of a bank's financial risk exposure. For physical risk, the current definition in the consultation poses challenges related to scope and quantification. The current proposal for jurisdictional supervisors to determine which geographic regions or locations are at high physical risk could lead to consistency and comparability challenges. For any such assessments, it would be preferable for supervisors globally to refer to a common list developed with a transparent, science-based methodology, rather than having to make individual assessments.
- **IIF members find the proposed detailed qualitative disclosures, particularly those regarding a bank's climate strategy, concerning in the context of Pillar 3 as it is not clear how certain proposed elements would be useful for market discipline with respect to a bank's capital adequacy and risk exposures.** For example, the CRFRA template includes detailed disclosure on a bank's climate strategy, including its transition plan and climate-related forecasts. While disclosing strategic risks may be appropriate for corporate disclosure – such as the ISSB disclosure standards which are leveraged in the consultation proposals – this is not appropriate for Pillar 3 disclosure, where the focus should be on informing the market about banks' capital adequacy and risk exposures. In fact, the BCBS Framework excludes strategic and reputational risk from its definitional of operational risk.[16] Further, existing Pillar 3 standards do not require extensive business strategy disclosure on any particular standalone topic, and climate-related disclosure should be treated in a consistent way.
- **More broadly, the BCBS should not seek to duplicate corporate disclosure requirements in a Pillar 3 context.** International harmonization and coordination are key for effective disclosure requirements, and we appreciate the BCBS's stated effort to avoid conflicting with corporate climate disclosure requirements. However, corporate disclosure has a much broader objective to provide investors with decision-useful information, while the Pillar 3 mandate is narrower and focused specifically on supporting market participants in the assessment of capital adequacy and risk exposures. Indeed, complementing and respecting

[16] See OPE10.1 Definition of operational risk https://www.bis.org/baselframework/BaselFramework.pdf.

the boundaries with corporate disclosure is one of the Basel Committee's original principles of Pillar 3 standards.[17] Importing the content of the IFRS S2 corporate climate disclosure standard into the Pillar 3 prudential context would effectively divorce the substance of the disclosure from the IFRS reporting principles outlined in IFRS S1—including the principle of financial materiality, which is specifically tailored to the corporate reporting context rather than the prudential context. ISSB has stated that the general reporting principles in IFRS S1 are essential for the application of IFRS S2.[18] In our comments below, we have suggested some ways in which there could be reductions to the proposed Pillar 3 templates and tables given information which is expected to be published in accordance with ISSB-compliant disclosures, including those mandated by jurisdictional authorities, or where we believe information would be more appropriate in the context of different disclosures.

- **The proposed disclosure will not achieve the BCBS's comparability objectives for Pillar 3 given ongoing challenges around data availability and quality, varying methodological approaches and widespread use of proxies and estimates.** Despite significant efforts and investments, banks across the world continue to struggle with issues of gathering climate-related data, partly given their reliance on data provided by their clients and counterparties. This also has implications for the timing of the implementation of any final Pillar 3 requirements, as it is important that sufficient time is provided between ISSB uptake and the effective date of any final Pillar 3 disclosure that leverages ISSB requirements. This is particularly the case for international banks with significant activities in emerging and developing markets and for banks' SME clients; banks' clients may be subject to lesser disclosure requirements in these cases and the availability of high-quality data can be even more challenging. As such, it is still quite early for high-quality and comparable quantitative climate-related data to be disclosed, although this situation is expected to change in time and particularly as and when ISSB-based disclosures are published by firms across sectors. Many firms are reliant on proxies and estimates, particularly for GHG emissions, which are often shown to have a wide margin of error when cross-validated, and which introduce comparability issues across banks.
- **Finally, IIF members hope that supervisors across the world will align on any final BCBS Pillar 3 tables and templates, accounting for any national discretions which are embedded in such standards**. The BCBS should encourage consistent application of any final Pillar 3 standards by jurisdictions in order to ensure consistency and comparability of disclosures and to alleviate reporting burden on preparers. Jurisdictions that would have effectively equivalent, or more stringent, disclosure rules for banks as compared to any final BCBS standards, should be regarded as compliant with the BCBS standards. Likewise, banks meeting the local regulatory requirements in those jurisdictions should not be required to comply with duplicative disclosure requirements in their home jurisdiction or elsewhere. When assessing

[17] See BCBS 2006, "International Convergence of Capital Measurement and Capital Standards" (hereafter, "BCBS 2006"): *"The Committee recognises the need for a Pillar 3 disclosure framework that does not conflict with requirements under accounting standards, which are broader in scope. The Committee has made a considerable effort to see that the narrower focus of Pillar 3, which is aimed at disclosure of bank capital adequacy, does not conflict with the broader accounting requirements. Going forward, the Committee intends to maintain an ongoing relationship with the accounting authorities, given that their continuing work may have implications for the disclosures required in Pillar 3. The Committee will consider future modifications to Pillar 3 as necessary in light of its ongoing monitoring of this area and industry developments."* Part 4, General Considerations, D, paragraph 813.

[18] IFRS S2 standard, p.4: "*The Standard should be read in the context of its objective, the Basis for Conclusions and IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*."

equivalence with the BCBS standards, minor differences due to national accounting specificities, for example, should not present a barrier.

Section 3: Feedback on the specific BCBS consultation questions

General (Q1-Q10)

Question 6 (Trading book): Regarding the trading book, much less progress has been made to date on assessing climate-related financial risk transmission mechanisms for exposures held for trading as compared to positions held in the banking book. Positions held in the trading book are actively risk managed and hedged in order to minimize potential financial risk to the bank. Some positions are intermediated on behalf of the bank's clients and, typically, positions are held for very short time horizons and, as such, may not present a very meaningful reflection of how the bank is exposed to climate-related risk factors. From a reporting and disclosure perspective, some conceptual challenges that would need to be further considered are that instruments held in the trading book can be held for very short durations (e.g., minutes or hours), so a yearly snapshot would not provide particularly useful information. Trying to capture the associated financed emissions on such positions, for example, would certainly lead to significant multiple counting of the same instruments held by different banks at different times.

We recommend that trading exposures should not be subject to any new Pillar 3 disclosure requirements until more analysis has been done on these conceptual issues so that any disclosures would be informative and not misleading for market participants in a prudential Pillar 3 context. In the meantime, climate scenario analysis is an informative exploratory tool for individual banks and supervisors to analyze the potential impact of climate-related risk drivers on market risk.[19]

As a more general comment, there is uncertainty on how different jurisdictions will implement the 'Trading book boundary' which forms part of the revised BCBS market risk standards that are currently being transposed and implemented across jurisdictions globally. There might be inconsistencies of implementation which could significantly impact the scope of positions to be included in the various templates and thus hinder comparability.

Question 10 (Assurance): IIF members do not see the need for additional assurance controls or reviews beyond the usual procedures for Pillar 3. It is important to note that some of the proposed information in the disclosure standards would be very challenging for banks to assure to the same degree of confidence that they strive for with other Pillar 3 disclosures, particularly if Scope 3 GHG emissions remain in any final standard given the significant level of estimation involved in Scope 3 emissions reporting and the challenges related to data quality and availability.

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[19] For example, see ISDA 2024, "Climate Risk Scenario Analysis for the Trading Book – Phase 2" for a description of pilot climate scenarios designed specifically for the trading book.

Other general comments not covered by specific consultation questions

The BCBS should clarify the scope of the Pillar 3 disclosure requirements in terms of regulatory consolidation. The consultation is silent on the bank entity or entities to which the proposed Pillar 3 disclosure would apply, and which supervisor would have responsibility for certain national discretions. It is necessary to clarify this for completeness, and also because of the proposed national discretions which would introduce differences in requirements across cross-border banking groups depending on supervisors' options. **The IIF recommends that banks be permitted to elect group consolidated disclosure.** As cross-border banks may not take an entity-level approach to measurement, monitoring or management of climate-related risk, allowing banks to disclose at a group level would provide necessary flexibility to avoid disclosures that are unrealistic and misleading. Satisfying a home jurisdiction's implementation of any final BCBS Pillar 3 standard at group consolidated level should be treated as satisfactory in other jurisdictions where the bank operates. Further, host supervisory authorities should not apply additional Pillar 3 disclosure requirements to foreign subsidiaries under their supervision.

The proposals are currently not based on a clear definition of materiality in a Pillar 3 disclosure context; IIF members recommend that a clearer materiality lens is applied in any final Pillar 3 standard, particularly for data which are very challenging for banks to gather, such as financed emissions. In the current proposals for Templates CRFR1, CRFR4 and CRFR5, banks are expected to disclose exposures and financed emissions for the 18 sectors defined by TCFD, regardless of materiality. Exposures and financed emissions for other sectors are required to be disclosed based on a materiality assessment, the details of which are expected to be described in the accompanying narrative. IIF banking members consider the current proposals burdensome and misaligned with Pillar 3 objectives. The Basel framework suggests that disclosure should be limited to key information, and non-material information should not be included. For example, see DIS10.1: "*Pillar 3 of the Basel framework aims to promote market discipline through regulatory disclosure requirements. These requirements enable market participants to access **key information** relating to a bank's regulatory capital and risk exposures*" and DIS10.18: (Principle 3 – Meaningfulness) "*Disclosures that do not **add value to users' understanding or do not communicate useful information** should be avoided." (Emphasis added.)*[20]

We do not see a compelling argument for financed emissions to be disclosed for all 18 TCFD sectors regardless of materiality. As further discussed in response to Questions 24 to 29, IIF members have identified multiple significant challenges associated with financed emissions metrics. Notwithstanding the conceptual issues, financed emissions data are costly and challenging to procure and estimate, and so it is important that requirements for those data are carefully scoped. Simply using the 18 TCFD sectors as a baseline also presents operational challenges as these sectors are broad, include some overlap with one another, and are not used

[20] The Basel Committee has previously stated, in relation to the role of disclosure more generally, that a *"bank should decide which disclosures are relevant for it based on the materiality concept"* and that *"[i]nformation would be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions." See* Part 3 of the Basel II framework (BCBS 2006), "E. Materiality: B17." While this document was subsequently superseded, many jurisdictions continue to assess materiality in this way. For example, Article 432 in the EU Capital Requirements Regulation states "*Information in disclosures shall be regarded as material where its omission or misstatement could change or influence the assessment or decision of a user of that information relying on it for the purpose of making economic decisions."*

internally by all banks. Moreover, since the TCFD sectors are based on the Global Industry Classification Standard (GICS), there would be additional operational burden in jurisdictions where another industry classification is used (e.g., NACE, ANZSIC). As discussed below in the comments on the quantitative disclosures, the BCBS should publish a mapping between GICS and the regional/national industry classification codes used in BCBS member jurisdictions as these codes do not match completely.
Where there are references to materiality assessments, the consultation could better define *how* a bank is expected to undertake a materiality assessment for sectors in the Pillar 3 context—e.g., whether materiality is related to climate-driven risk exposure (e.g., with respect to credit risk). While some banks are undertaking materiality assessments in the context of corporate disclosure (e.g., for EU CSRD disclosures), Pillar 3 has different objectives than corporate disclosure, and it is unclear how the BCBS contemplates undertaking a materiality assessment in the Pillar 3 context where the focus is to allow the market to assess a bank's regulatory capital adequacy and risk exposures. Without further specification, this will lead to challenges for preparers and lack of comparability of disclosure for market participants. The requirement for a bank to disclose its materiality assessment in the absence of consistent BCBS guidance could present legal and reputational risk without corresponding benefit to market discipline.

IIF members would propose that a clear materiality lens that is appropriate to Pillar 3 is applied to any expectations on financed emissions that remain in any final standards. This would align with the general approach in the BCBS's disclosure framework and in market-based frameworks such as those developed by the TCFD, for example. Despite some challenges (described in Section 4 comments on CRFR1), the gross carrying amount of credit exposures by sector are more comparable data for disclosure purposes, so there are fewer concerns than for the proposed financed emissions disclosures. Indeed, in recent years, some banks have published 'heatmaps' showing their exposure to the TCFD sectors, which have been informative to different stakeholders that are trying to understand banks' exposures to that core set of important sectors.

Frequency of Pillar 3 disclosures: IIF members support the proposed annual frequency of the disclosures.

Qualitative Disclosure requirements (Q11-Q16)

In general, it would be more appropriate for the qualitative disclosures to be aligned with the governance and risk management pillars of the ISSB framework, formally in the TCFD framework, and not the strategy pillar. This reflects the focus of Pillar 3 as providing information about a bank's risk exposures as a complement to internal risk management under Pillar 2. To the extent that certain information which may also be disclosed in a corporate disclosure context is deemed relevant to a bank's Pillar 3 disclosure, **the bank should be able to cross-refer to this information in its corporate disclosure**.

As discussed above, disclosure on a bank's climate strategy, including its transition plan and climate-related forecasts, is not appropriate for Pillar 3 disclosure. While disclosing strategic risks may be appropriate for corporate disclosure – such as the ISSB disclosure standards which are leveraged in the BCBS's proposed qualitative templates – it is not appropriate for Pillar 3 disclosure, where the focus is on informing the market about banks' capital adequacy and risk exposures. We particularly stress that transition plans are strategic business plans, not climate risk management tools, so BCBS Pillar 3 templates should not include blanket transition plan disclosure. This topic is discussed further in an IIF report published in October 2023.[21] It is not clear why the BCBS views a bank's business strategy with respect to climate as uniquely meriting Pillar 3 disclosure, while the existing Pillar 3 standards do not require detailed disclosure on business strategy in any other context. The BCBS definition of operational risk, as also reflected in the operational risk Pillar 3 standards, excludes strategic and reputational risk.[22]The existing Pillar 3 disclosure standards do not require public disclosure of projected medium- and long-term views on any other topic or risk driver, and the Basel Committee does not provide justification for why climate-related risk warrants extensive novel disclosure in the Pillar 3 context. The ISSB S2 standard finalized last year includes a transition planning disclosure requirement for firms that have a transition plan. ISSB is expected to be implemented across major jurisdictions and, therefore, for banks and other firms to disclose their transition plan, if they have one, in that way. In the EU, banks will be required to disclose their transition plans under the European Sustainability Reporting Standards (ESRS).

Given that the consultation relates to Pillar 3 disclosures and not corporate disclosure standards, the BCBS should further specify what information related to a bank's transition plan might be necessary to disclose specifically in a prudential Pillar 3 context, as this is not currently explained. The BCBS Climate Principles do not refer to bank transition plans specifically. The BCBS Climate Principles do refer to how the bank's climate strategy may need to be reflected in corporate governance and risk management, which could be referring to a bank's transition plan. To the extent that *certain* information which may also be disclosed in a corporate disclosure context is deemed relevant to a bank's Pillar 3 disclosure, the bank should be able to cross-refer to this information in its corporate disclosure.

As there are important questions about potential mandatory disclosure requirements for financial institution transition plans, including in the context of jurisdictional developments such as the EU, IIF members would be pleased to discuss that topic in an appropriate context and forum outside of a Pillar 3 context— for example, as part of the future work program of the ISSB, another global standard setter such as IOSCO, or within the remit of the G20 Sustainable Finance Roadmap. IIF members would urge jurisdictional authorities to engage at the level of the global standard setting bodies on these topics to avoid future regulatory fragmentation.

Quantitative Disclosure requirements – General (Q17-Q23)

In general, while many banks across the world have been developing experience with climate-related disclosures in recent years, for example using the TCFD framework, most requirements/frameworks have been less prescriptive than the BCBS proposals in terms of quantitative disclosure requirements and specific metrics.[23] For instance, the ISSB, and the TCFD framework before it, prescribe categories of cross-industry metrics but these are non-specific in the case of climate-related transition risks[24] and climate-related physical risks.[25]

[21] IIF 2023, "IIF Report on The Role of The Financial Sector in the Net Zero Transition".

[22] See OPE10.1 Definition of operational risk https://www.bis.org/baselframework/BaselFramework.pdf.

[23] With a notable exception of the EBA Pillar 3 requirements.

[24] IFRS S2, paragraph 29(b): "climate-related transition risks—the amount and percentage of assets or business activities vulnerable to climate-related transition risks".

[25] IFRS S2, paragraph 29(c): "climate-related physical risks—the amount and percentage of assets or business activities vulnerable to climate-related physical risks".

The BCBS's proposals for quantitative metrics would be inconsistent with the notion of climate-related risks as risk drivers, as they do not clearly link to traditional financial risks (e.g., credit, market, operational) and are instead 'raw' climate-related data or exposure data which do not directly translate into, or correlate with, financial risk. This is not appropriate for the purposes of Pillar 3, could generate confusion among disclosure users, and may duplicate existing Pillar 3 disclosure requirements.

Quantitative Disclosure requirements - Transition Risk (Q24-Q29)

Financed emissions are not a comprehensive indicator of transition risk, could be misleading in a Pillar 3 context, and could impede transition finance. The BCBS titles Templates CFRF1, CRFR4, and CRFR5 as "Transition risk" but does not substantiate its assumption that financed and facilitated emissions metrics would provide meaningful information to the market about banks' capital adequacy and risk exposures. The consultation document and proposed Pillar 3 templates consistently conflate financed emissions with climate risk exposure, specifically in the proposed quantitative templates which require disclosure of financed emissions by sector and geography.

It would be misleading to the market for the BCBS to suggest that financed emissions equate to a bank's transition risk-related credit risk exposure. It is unclear why the BCBS views emissions as reflective of transition risk that could drive credit risk, for example. Credit risk is the probability of a financial loss resulting from a borrower's failure to repay a loan. The absolute financed emissions of a bank's lending portfolio do not have a demonstrated correlation to probability of default and do not indicate increased credit risk exposure – they indicate the total amount of Scope 1, 2, and 3 GHG emitted by a bank's clients, including clients' operations and entire value chains. Effectively, absolute emissions metrics are often simply a crude indicator of the size of a firm's business and the sector in which it operates. The BCBS appears to assume that transition risk to a client's business model will translate directly into financial risk to a bank that provides financing to that client. While a client's business model may be subject to transition risk over time, that client's business risk does not necessarily translate into credit risk to a bank that finances that client. A higher-emitting client may present very little credit risk given that transition risk to that client's business model may be unlikely to materialize over the time horizon of the loan. Moreover, a higher-emitting client may be following a pathway towards lower emissions.

Client-level or counterparty-level emissions data are commonly used by banks to monitor alignment with portfolio-level decarbonization targets from a business strategy perspective, and for client-level engagement. Some financial institutions may use emissions-based metrics where available, such as emissions intensity, as one input into their overall assessment of an exposure's transition risk. However, emissions data alone are not a direct or comprehensive indicator of transition risk of a counterparty or exposure. This is because measures of emissions suffer from systematic reporting biases, tend to be backwards-looking, and may not accurately capture how a firm's profitability is likely to be affected by an increase in the cost of emissions (including that brought about by the imposition of a carbon tax). IIF/WTW 2023 research finds little empirical correlation between firms' emissions intensity and a more risk-sensitive measure of climate transition risk. Furthermore, there is a particularly weak link between financed emissions and (credit) risk when financed emissions are aggregated to sector-level, for example, because the firm-specific context around the financed emissions and business model sensitivity to transition risk is lost. The BCBS seems to recognize the limitations of emissions-based metrics in the consultation which states that *'Emissions by obligors could be considered an indicator of their* *transition risk, particularly when examined alongside appropriate supporting context.'* [26] Nevertheless, absolute emissions and emissions intensity are being proposed as the primary indicators for transition risk in the proposed templates.

There is also the risk of a significant unintended consequence if financed emissions are taken as a singular proxy for transition risk – this could impede financing to the high-emission regions/sectors that need transition financing the most (particularly in EMDE markets and in crucial sectors such as power and steel). As real economy transition takes time, a bank's financed emissions may increase in the short- term due to transition finance for such regions/sectors.[27] If prudential frameworks, including Pillar 3 disclosures, label financed emissions as a measure of risk, it may disincentivize banks from providing transition finance.

While we appreciate that emissions-based metrics have the apparent advantage of being relatively objective and straightforward for external stakeholders to verify, it is essential that any data or metrics included in any final Pillar 3 standards are appropriate to measure a bank's exposure to climate-related risk factors, which is the stated objective of Pillar 3.[28] Before imposing any new disclosure requirements, the BCBS should provide evidence for its working assumption that emissions-based metrics are a good primary indicator of transition risk, and reconsider the central role it gives to emissions-based metrics in the proposed Pillar 3 disclosures.

The fundamental conceptual challenges discussed above – that Scope 3 emissions are not a comprehensive indicator of transition risk – are key in the context of Pillar 3 disclosure requirements. However, Scope 3 emissions disclosure requirements are also known to be difficult to produce on a reliable, comparable or decision-useful basis. The challenges with GHG emissions data include:

- **There is a high dependency on estimation methods, which can vary in complexity and accuracy.** There are well-known challenges with the quality and reliability of emissions data in many sectors. This means banks sometimes rely on estimated versus directly measured emissions data. For example, in the Oil & Gas sector, there are inconsistencies in the measurement, management and reporting of data across organizations, as well as a lack of reliable and standardized techniques for measurement in certain areas, such as methane emissions. As a result, reported methane emissions rely on estimation methods that are less accurate than direct measurement methods.
- **Limited availability of reliable, credible, and real-time data sources for some sectors**. In the Auto Manufacturing sector, for example, certain data from regulatory sources can experience significant delays — sometimes up to two to three years.
- **Access to data from value chain companies**, given the lack of reporting particularly among smaller businesses and businesses in countries where reporting is less well advanced (e.g., emerging markets and developing economies) but where emissions may be significant.

[26] Consultation, p. 11.

[27] For example, as discussed in Japan Public and Private Working Group on Financed Emissions to Promote Transition Finance 2023, "Addressing the Challenges of Financed Emissions".

[28] This aligns with the guiding principles for Pillar 3 disclosures of 'meaningfulness' and 'comprehensiveness' as set out by the Basel Committee.

- **Lack of Scope 3 emissions calculation methodologies for some sectors and asset classes**, including emissions associated with invoice finance and asset-based lending, and limitations with respect to the methodologies that do exist.
- **Scope 3 financed emissions calculation at subsidiary level of a counterparty is complicated by the fact that data may only be available at the consolidated level of a counterparty**, leading to the use of further assumptions and proxies to interpolate results.
- **Lack of data on emerging decarbonization technologies.** Emerging technologies such as hydrogen, biofuels, and carbon capture, use and storage will play a key role in helping clients decarbonize. However, data availability in these areas remains a significant challenge.

IIF members recommend that facilitated emissions should be removed entirely from consideration. The challenges associated with disclosing facilitated emissions due to capital markets and financial advisory services mirror those associated with financed emissions and are amplified by the novelty of measurement approaches in that area, and an even more tenuous link to banks' credit risk exposure.[29] The Partnership for Carbon Accounting Financials (PCAF) only launched a methodology for facilitated emissions in December 2023: there is no market consensus on its use, it has not yet been sufficiently tested by banks to see how well it works, and it is still unfamiliar to other market participants. Facilitated emissions data are expected to be significantly more volatile than financed emissions, which makes them even harder to estimate and less meaningful to disclose at a point-in-time.[30] We note that the ISSB and jurisdictional regulators in the EU decided not to require facilitated emissions disclosures in their respective standards and requirements.

An industry classification system for defining sectors should not be prescribed in the standard.[31] Additional flexibility should be provided in the case of the classification framework for sectoral exposures. Although the BCBS is proposing GICS consistent with the ISSB standard, GICS is not commonly used across jurisdictions, and it is realistic to expect some jurisdictions to implement the ISSB standard with some adjustments, including the choice of industry classification framework. Flexibility for jurisdictional prudential authorities to determine the industry classification standard would also support consistency between climate-related financial risk Pillar 3 disclosures and other Pillar 3 disclosures for credit risk. **To aid comparability for Pillar 3 disclosure users, the BCBS could publish a mapping between GICS and the regional/national industry classification standards used in BCBS member jurisdictions.**

Quantitative Disclosure requirements – Physical Risk (Q30-Q33)

The definition of physical risks in the consultative document poses challenges related to scope and quantification. From a conceptual standpoint, it could be argued that all geographies and sectors are exposed to long-term gradual shifts and indirect effects from climate change. One extreme conclusion to draw from this could be that a bank's entire book could be exposed at some point and so it should all be in scope. Arguably, this would not be a meaningful or useful approach to informing material risk assessment in a Pillar 3 context.

[29] In general, more experience and backtesting for financed emissions methodologies would be helpful to inform understanding of facilitated emissions methodologies.

[30] Financial institutions are facing this challenge with facilitated emissions in a target-setting context.

[31] Relates to Question 28.

Exposures subject to physical risks do not directly equate to risk of financial loss, and it is dangerous to position this to the market in this way. Each sector has a distinct vulnerability to each type of hazard, and we also cannot know for each sector and location whether climate impacts will be positive (e.g., ability to grow crops that previously were not tenable) or negative (e.g., property damage to manufacturing facilities). Exposure data could be difficult to understand in this context for market participants who lack guidance on how to review/interpret them. Requiring public disclosure of exposures in this context and characterizing them as indicative of physical risk could artificially inflate perceived risk, which could, for example, force repricing and create transition risk that was not previously there. It could also have the unintended consequence of penalizing transition or adaptation finance to certain vulnerable jurisdictions which need it the most.

Notwithstanding the above challenges, in terms of the identification of which geographic locations are subject to physical risk, it would be preferable for supervisors globally to refer to a common list developed with a transparent, science-based methodology, rather than having to make individual assessments. In order for the BCBS standards to be the basis for comparable Pillar 3 disclosures across the world, it would be important for supervisors to agree, based on appropriate scientific resources/inputs, which geographic regions are assessed as being at high physical risk for purposes of template CRFR2. For example, all BCBS members could refer to a common global database or country classification to identify an agreed set of geographic regions that face higher physical risks.[32] The methodology and list of regions should be published by the BCBS for transparency and for reference by producers and users of Pillar 3 disclosures. Without such a framework or classification approach, individual supervisors could make different judgements and banks across jurisdictions would have different disclosure requirements as a result.[33]

Quantitative Disclosure requirements – Bank-Specific Metrics (Q34-Q36)

The majority of IIF members disagree with the suggestion of including asset quality (i.e., non-performing exposures and allowances) metrics in this context. Having such metrics in the template would create an inaccurate perception that there is a statistical relationship between asset quality–which is a complex, multi-dimensional characteristic— and climate-related financial risks specifically. It is unclear how a user of Pillar 3 disclosures would meaningfully interpret such data, which does not, and cannot, attribute the impact of climate-related risk factors on the asset quality.

Similarly, more consideration should be given to whether a maturity breakdown would be meaningful to market participants in the context of aggregated financed emissions and/or regional exposures data as it has not been described in the consultation how a snapshot of the bank portfolio's maturity profile in those contexts is indicative of financial risk.

[32] One such example is the World Bank Climate Risk Country Profiles, which are produced on a rolling basis to reflect the latest evidence. However, it would be necessary for the BCBS to review alternative classifications and potentially refer to more than one for purposes of robustness.

[33] Supervisory reciprocity mechanisms (whereby supervisors reflect other supervisors' assessment of regions at high physical risk) could reduce comparability challenges with the current proposals, but this would not address the issue that supervisors could take inconsistent approaches to determining which jurisdictions are at high physical risk without further guidance from the BCBS.

Quantitative Disclosure requirements - Forecasts (Q37-Q41)

Emissions "forecasts" are significantly different to emissions "targets", but these concepts appear to be confused in the current proposals. It is not appropriate for banks to be required to disclose either as part of Pillar 3 disclosure. The consultation includes requirements to disclose qualitative information about GHG emissions forecasts (CRFRA, under strategy) and quantitative information including GHG emissions forecasts themselves (CRFR1, CRFR5) and calculated metrics that rely on forecast emissions (CRFR4). However, the text appears to conflate "forecasts" and portfolio decarbonization "targets" in some places. **Banks' portfolio decarbonization targets are not forecasts** – banks are not *forecasting* their own view of the future, but rather explicitly using external science-based scenarios (e.g., IEA NZE) aligned with a target of being net zero by 2050, to align with a target outcome. Generally speaking, a forecast is an estimate of a future value (which is not necessarily in the control of the disclosing bank), while a target is something the bank is *aiming for* under certain conditions. The confusion in the current proposals can be seen, for example, in the proposed disclosure of action plans to "achieve" forecasts and remuneration policies tied to performance against forecasts.

It would be inappropriate for banks to provide forecasted information in this context, which they do not do in Pillar 3 disclosures or financial disclosure generally. Forecasts in this context would be highly uncertain and could be misleading to the market. Requiring the disclosure of forecast information would be a significant departure from traditional corporate disclosure and Pillar 3 disclosure requirements which focus on historical information. While banks often have various types of forecasts for internal purposes, they often refrain from publishing such information given the degree of uncertainty around it and, therefore, the potentially limited clarity, meaningfulness and robustness to external stakeholders. Any forecast information that banks may disclose at present is typically over a very short forecast horizon, such as a few months. BCBS's proposed time horizon for GHG emissions forecasts is unclear in the current proposals but the impression is that it would be for one or more years.

There is also not a widely accepted methodology for GHG emissions forecasting, which is a highly subjective and uncertain task. Without further guidance, there would be a large degree of variability in any forecast emissions in terms of the reference dates, underlying assumptions. It is highly questionable how informative that would be to users of Pillar 3 disclosures.

Further, the proposed approach whereby banks would be required to disclose forecasts *"in instances where banks have established such forecasts"* may also discourage banks from becoming more sophisticated in their use of GHG emissions data, for example as part of monitoring their net-zero alignment. Moreover, **IIF members would be concerned about legal and reputational risk associated with disclosing forecast information in case forecasts at time 'T0' are challenged at a later date, when the information set is broader.** If there is any confusion among disclosure users on the differences between emissions *forecasts* and emissions *targets*, this would exacerbate such risks.

While we appreciate that forward-looking information on climate-related risk drivers can be more informative than backwards-looking information, it is also highly subjective, uncertain and based on modelling assumptions and other parameters. As with the broader issues around financed emissions, the link with traditional financial risks to banks needs to be evidenced before requiring in-depth, Pillar 3 disclosure. **Climate scenario analysis is a more appropriate tool by which banks can assess climate-related financial risks in a forward-looking way, under a plausible range of**

climate scenarios. However, the details and results of firm-specific scenario analysis exercises are sensitive and require careful explanation. Banks should be able to select how much information to disclose about such exercises. From a prudential perspective, supervisors could request supervisory reporting on climate scenario analysis, rather than public Pillar 3 disclosure, in order to gain a forward-looking perspective on potential climate risk drivers of financial risk to a bank.

Furthermore, if the BCBS's intention was actually to refer to portfolio decarbonization *targets*, rather than emissions forecasts, Pillar 3 disclosure of targets set for alignment purposes (e.g., with NZE 2050) would not be a clear indicator for assessing banks' exposure to climate risk, and it would be misleading to the market for Pillar 3 disclosures to suggest that banks are using portfolio decarbonization targets as risk management tools. Strategic target-setting is about alignment with a specific net zero outcome. Banks do not use target alignment scenarios to assess potential exposure to climate risk drivers; rather, alignment scenarios (e.g., IEA NZE) represent a targeted outcome or ambition, not a stress scenario. In the risk management context, banks use internationally recognized scenarios to explore potential vulnerabilities and financial impacts under different climate scenarios (e.g., the NGFS Divergent Net Zero Scenario which captures a tail risk of transitioning and IPCC RCP8.5 which is used to assess maximum physical risk impacts if global warming reaches 3 C or more by 2100).

In conclusion, the IIF disagrees with requirements to disclose quantitative GHG emissions "forecasts" as part of Pillar 3 disclosure. Given the current level of uncertainty regarding forward-looking information, and considering the objectives of Pillar 3 disclosure, it would be more appropriate to focus on relevant forward-looking *qualitative* information in a risk context, to complement historic information. For such information, cross-referencing by a bank to other relevant disclosures should be permitted.

Quantitative Disclosure requirements - Concentration Risk (Q42-46)

At present, the consultation includes qualitative disclosure requirements in relation to concentration risk in Table CRFRB, section (3). The proposed qualitative disclosure requirements are very broad and put the onus on individual banks to determine the relevant information to disclose. This may be acceptable for qualitative disclosures if the aim is to provide context to market participants on how a bank is considering concentration risk as part of its broader risk management. This would also be consistent with the current BCBS approach to disclosure of information about concentration in a bank's sovereign exposures.[34]

The consultation questions ask whether additional quantitative information on concentration risk would be useful; there would be significant challenges with introducing quantitative metrics for disclosure purposes at this stage. First, there is not currently a common global definition of what constitutes concentration risk in relation to climate-related factors. The consultation does not specify how concentration should be considered or calculated for purposes of the Pillar 3 disclosure, and indeed Table CRFRB appears to acknowledge that individual banks can take different approaches to defining and measuring concentration risk in relation to climate-related risk factors. Without further specification, there would be a large degree of variability in the resulting disclosures which would make them very difficult to compare by disclosure users. It is

[34] See BCBS Template SOV3: "Exposures to sovereign entities - accounting classification breakdown" which is a template at national discretion and includes a narrative component whereby a bank must "explain any material concentration of exposures to sovereigns."

challenging to define concentration risk in a climate context. A common methodology to classify exposures at higher transition or physical risk would be needed and is extremely challenging to develop. Thresholds for what constitutes a 'high degree of concentration' would likely be needed as well, including analysis of an appropriate way to define and calibrate such thresholds. As with other aspects of climate disclosures, given that the risk assessment process is multidimensional, it is also necessary to avoid unintended consequences associated with giving an impression that certain sectors or geographies are generally more risky (and that others are generally less risky) because of climate-related factors alone. Finally, for consistency, the BCBS should consider how any concentration-related metrics in a climate context would interact with the existing large exposures framework, which does not have associated disclosure requirements, and other Pillar 3 disclosure requirements.

Quantitative Disclosure requirements - Templates (Q47-48)

A certain degree of flexibility in disclosure requirements is helpful to increase the likelihood of faithful implementation and meaningful disclosures, reduce duplication with other disclosures and minimize implementation costs. In terms of the structure and design of the proposed templates, it is of the utmost importance to IIF members that the content as well as the structure of any final BCBS standards will be sufficiently interoperable with other disclosure requirements, including jurisdictional requirements (such as the EU Pillar 3 requirements). Notwithstanding the comments in this letter on the contents of the qualitative disclosure tables CRFRA and CRFRB, the proposed flexibility in the structure of the qualitative disclosure tables is helpful and welcome.

Quantitative Disclosure requirements Subject to National Discretion (Q49-51)

IIF members hope that supervisors across the world will align on any final BCBS Pillar 3 tables and templates, accounting for any national discretions which are embedded in such standards. **This would mean that individual supervisors would reflect on any existing Pillar 3 or similar disclosure requirements for climate-related risk in light of any final BCBS approach and adjust them as appropriate in order to align as far as possible on the final global standards and to avoid multiple, duplicative disclosure requirements**. Unless the final BCBS standards are sufficiently interoperable with jurisdictional approaches, and unless jurisdictional authorities align on any final BCBS standard, an international banking group may have to face different Pillar 3 disclosure requirements for climate-related financial risk depending on where its subsidiaries are located.

The majority of IIF members see some benefits in the proposed distinction between core global tables/templates, and optional tables/templates for implementation at national discretion. This distinction could be practical and appropriate considering different jurisdictional policy and regulatory contexts, and the different speeds at which jurisdictions are developing approaches to climate-related risks. Nevertheless, it is important that (i) any tables/templates finalized by the BCBS, whether for global implementation or at national discretion, respect the guiding principles of a risk-based approach and the purposes of Pillar 3 disclosures; and that (ii) with the finalization of BCBS standards, including national discretions, jurisdictions are able to avoid a proliferation of slightly different Pillar 3 requirements across the world. **However, IIF members recommend that facilitated emissions (currently included in Template CRFR5) should be removed entirely from any further proposals, for the reasons mentioned above.**

In order to support global uptake of any final Pillar 3 standards, the BCBS could consider some proportionate simplification of the standards for use in EMDE market contexts. For other complex parts of the Basel standards, the BCBS has developed simpler options for some banks or jurisdictions, such as the Simplified Standardized Approach as part of the Fundamental Review of the Trading Book (FRTB).

Effective Date (Q52-53)
Availability of data for banks to comply with the Pillar 3 requirements is, and is likely to continue to be, a real challenge for bank across jurisdictions. This will be particularly the case if banks are required to disclose information either before other regulations affecting their clients come into force, or the requirements call for data that is currently not available in certain geographies, such as real estate energy efficiency information. To support the future new Pillar 3 disclosure requirements, many banks will need to collect new data, process existing data differently, and develop additional systems and processes. To the extent that some client data will become more available due to ISSB implementation and uptake across jurisdictions, this will eventually flow through to banks to support their own analysis and disclosures.

This has implications for the implementation timing of any final Pillar 3 requirements as it is important that sufficient time is provided between ISSB uptake across jurisdictions and Pillar 3 disclosure requirements. The current proposed effective date is aligned to the ISSB implementation timeline plus one year – however, many jurisdictions could implement ISSB with a delay and/or exercise transitional reliefs within the ISSB standard such as not requiring companies to disclose scope 3 GHG emissions for the first year.[35] Moreover, the BCBS Pillar 3 proposal contains numerous requirements beyond what would be gathered from clients' ISSB-based corporate disclosures, or beyond the data reporting processes a bank would be required to develop to meet its own ISSB-based requirements. Therefore, additional time would be required before a bank is mandated to disclose information that is not covered by the ISSB standards to allow time for data development, setting up measurement methods and internal processes, including assurance.

Given these factors, the IIF would suggest that (i) there is some flexibility to align with the local timeline for implementation of the ISSB standards also accounting for the exercise of transitional provisions within the ISSB standards, and (ii) a longer gap is allowed after the local implementation of the ISSB standards – specifically, two years rather than one year. Therefore, the effective date could be two years after the jurisdictional implementation of the ISSB standard.

Liquidity Risk (Q54)
IIF members do not think that disclosure requirements for the impacts of climate-related financial risks on deposits/funding and liabilities should be explored at this time. There has been significantly less research on the relevance of climate-related risks to the deposits/funding and liabilities than on the asset size of the balance sheet. It is too early to define meaningful climate-related financial risk exposures in this area; more analysis is needed to establish potential risk transmission channels and to support a consistent understanding of potential risks across the industry, in the public sector and markets. In the BCBS Climate Principles, there are expectations that banks "should identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes, including their stress testing programmes where appropriate" (Principle 5), and there is recognition that "climate-related financial risks will probably be incorporated into

[35] IFRS 2023, "The jurisdictional journey towards implementing IFRS S1 and IFRS S2 — Adoption Guide overview".

banks' internal capital and liquidity adequacy assessments iteratively and progressively" as analytical gaps are filled and methodologies/data mature.

Requiring standardized public disclosure of information about deposits/funding and liabilities in the context of climate-related financial risks—before the necessary analytical gaps are filled—would not be consistent with the approach taken in the BCBS Principles and is unlikely to be meaningful to market participants. It may even cause confusion about the BCBS or local supervisory expectations for liquidity risk management.

Section 4: Feedback on the specific proposed templates

Table CRFRA: Qualitative information on climate-related financial risks (governance, strategy and risk management)

- **The proposed disclosure directly overlaps with the ISSB's corporate disclosure standards. However, in a regulatory Pillar 3 context, this can generate inconsistency with the objectives of Pillar 3 and, rather than promoting consistency, is likely to confuse the market.** Pillar 3 disclosure has different objectives (informing market about banks' regulatory capital adequacy and risk exposures) than corporate securities disclosure (information that is useful for investor decision-making). Further, importing the content of the IFRS S2 corporate climate disclosure standard into the Pillar 3 prudential context would effectively divorce the substance of the disclosure from the IFRS reporting principles outlined in IFRS S1—including the principle of financial materiality, which is specifically tailored to the corporate reporting context rather than the prudential context.
- **It is more appropriate for the qualitative disclosures to be aligned to the governance and risk management pillars of the ISSB framework, formally in the TCFD framework, and not the strategy pillar.** To the extent that certain information which may also be disclosed in corporate disclosure context is deemed relevant to a bank's Pillar 3 disclosure, the bank should be able to cross-refer to this information in its corporate disclosure.
- **Disclosing strategic risks is appropriate for corporate disclosure, not for Pillar 3 disclosure where the focus is on informing the market about banks' capital adequacy and risk exposures.** The purpose of risk management frameworks is not to achieve the company's climate strategy. Pillar 3 disclosure related to a bank's business strategy on climate should be consistent with the level of disclosure of other business strategy. Banking regulators do not ask for similar disclosure for business strategy and planning with respect to pandemics, potential recession, emerging markets business risk, etc. In this context, transition planning should not be separately disclosed in a Pillar 3 risk context and is more appropriately captured in corporate disclosures or other, non-Pillar 3 disclosures.
- **Concerning governance, we caution that elements of the proposed framework appear to go beyond disclosure to specify Board conduct and in some cases confuse the role of the Board with that of management.** For example, items 1(b)[36] and 1(d)[37] under Table CRFRA appear to guide Board conduct by presuming the described activities as tasks of

[36] Suggests that banks must describe: *"How the board ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related financial risks."*

[37] Suggests that banks must describe: *"How the board and its committees consider climate-related financial risks when overseeing the bank's strategy, its decisions on major transactions, and its risk management processes and related policies, including whether the board has considered trade-offs associated with those risks."*

the Board, and further do not recognize that day-to-day decision making regarding a bank's business strategy with respect to climate is the responsibility of management and not the Board of Directors.

- **Any qualitative disclosures regarding the effects of climate risk on business model and value chain, strategy and decision-making, etc., should be explicit that these only apply to *material* climate-related financial risks**—in line with the BCBS Climate Principles, which focuses on *material* climate-related financial risk. Disclosing immaterial risk is not consistent with Pillar 3 objectives, burdensome to banks without a corresponding benefit to market discipline, and in fact would be misleading to the market. There are several places in the qualitative disclosure section that refer to "risk" rather than "material risk." The use of "value chain" is not defined and effects on a bank's value chain equate to double materiality rather than financial materiality – the BCBS should only focus on material risk exposures to the bank.
- **The proposal to disclose the time horizons in which short-, medium-, or long-term effects of each climate-related financial risk the bank has identified could reasonably be expected to occur, and anticipated effects on bank's business model and value chain, is not feasible and will result in misleading disclosure.** Climate-related risks can manifest over longer horizons than typically considered, e.g., chronic sea level rise will worsen over several decades. As such, this requires speculation over time horizons far beyond traditional planning horizons.[38] Additionally, disclosures about potential long-term risks are conjectural and/or have a very low probability of occurring and are not indicative of what a bank reasonably expects to occur.
- **As discussed above, GHG emissions forecasts should not be included in Pillar 3 disclosures.** Given the current level of uncertainty regarding forward-looking information and the objectives of Pillar 3 disclosure, disclosure of forecasted information under Pillar 3 could be misleading to market participants and open banks to potential legal risks.
- **The proposed disclosure of effects (and anticipated effects) of climate-related financial risks on the bank's financial position, financial performance, and cash flows over the short-, medium-, and long-term may not result in comparable or meaningful disclosures in a Pillar 3 context.** First, this does not acknowledge that climate risk is a driver of traditional financial risks, not its own risk type, and is inconsistent with the approach the BCBS has taken in its Climate Risk Principles. Second, it is not currently feasible for banks to disaggregate the financial impact of climate risk with any certainty—e.g., a credit downgrade may be due to many factors of which climate risk may be one. Third, it might not be feasible for some banks to project those financial impacts in an accurate and comparable way, and as such, this disclosure may be misleading to the market.
- **More clarity is needed to align assessment of "climate resilience" with the BCBS Climate Principles and avoid conflating climate scenario analysis (used for risk management purposes) with Scope 3 emissions targets (used for business strategy purposes).** Notably, the BCBS Principles mainly discuss "climate resilience" under Principle 12 ("Scenario Analysis"), noting that *"banks should make use of scenario analysis to assess the resilience of their business models and strategies to a range of plausible climate-related pathways and determine the impact of climate-related risk drivers on their overall risk profile."*[39] However, the consultation's proposed disclosure does not make clear that

[38] On the other hand, strategy decisions (e.g., target-setting and transition planning) are aligned with longer-term net zero objectives (e.g., net zero by 2050), with interim 2030 targets aligned with that longer-term objective.
[39] *BCBS Principles on Effective Management and Supervision of Climate-related Financial Risk*, at p. 7.

assessment of climate resilience relates to a bank's use of climate scenario analysis. There is also no reference to climate risk drivers of traditional financial risk types. Rather, the consultation positions the discussion of climate resilience in the context of "forecasts" and appears to connect banks' use of climate scenario analysis with the portfolio-level financed emissions targets that banks are setting for business strategy purposes.[40] It is important that the alignment pathways used for target-setting are not conflated with the stress scenarios that banks are using for climate scenario analysis. Banks are using alignment pathways (e.g., IEA NZE) to align their portfolios with a target end state, not to assess the resilience of the bank's strategy and business model.

- **The BCBS's reference to "indirect" mitigation and adaptation efforts in Paragraph 2(c) is unclear.** This seems to be based on premise that banks should undertake broader mitigation and adaptation efforts outside of targets. This also appears to be a double materiality approach.

Table CRFRB: Qualitative information on climate-related financial risks (transition risk, physical risk and concentration risk)

- **In relation to the transition risk proposals in this table, finance in support of climate change mitigation and adaptation relates to business strategy, and is not part of a bank's climate risk management framework** – this information is wholly irrelevant for market understanding of a bank's capital adequacy and risk exposures. Referring back to the BCBS's Climate Principles, it is unclear how the BCBS views finance in support of climate change mitigation and adaptation as relevant for climate risk management with respect to any of the traditional risk types.
- **Plans to estimate and disclose financed emissions are not relevant for market understanding of a bank's capital adequacy and risk exposures.** See our broader comments on financed emissions and climate risk above.
- **The proposed qualitative disclosures on physical risk appear to effectively ask banks to publicly disclose climate scenario analysis results for the entire banking book.**[41] While many central banks have run climate scenario analysis exercises, they have not published results for individual banks, recognizing that this information is still nascent and that it will be challenging for the market to interpret and could be misleading. As discussed above, while some information may be appropriate in the context of supervisory reporting, such as detailed information around banks' scenario analysis, this must be distinguished from what is appropriate for Pillar 3 disclosure to the market.
- **References to concentration risk would result in a large degree of variability as there is currently no common international definition of what constitutes a concentration risk for climate-related financial risks as discussed in more detail above.** International coordination on key terms like this is key.

Template CRFR1: Transition risk – exposures and financed emissions by sector

- **We reiterate our earlier message that financed emissions metrics are not adequate to assess banks' exposure to transition risk and are not relevant to the stated Pillar 3 objectives related to assessing banks' capital adequacy and risk exposures.** Disclosure of such metrics – if required at all – should be limited to sectors which are material in the

[40] Consultation, at p. 6.

[41] For example, 2(a) explicitly requires banks to provide details of the "*time horizons and scenarios used to assess the physical risks.*"

context of Pillar 3. We also note that such disclosures are dependent on counterparty data, which can be difficult to obtain.

- **Gross carrying amount should be limited to credit exposure, and banks should not be required to disclose allowances by sector.** Equity is variable and point-in-time exposure will not be consistent or meaningful, while debt securities may be held on behalf of clients and therefore are not indicative of firm-owned risk. Allowances by sector are not required of any other BCBS Pillar 3 disclosures and may give a misleading impression to market participants that there is a clear link between financed emissions and asset quality. Off-balance sheet exposures should also be excluded from disclosure requirements.
- **Retail exposures should be excluded from financed emissions**. Many firms do not include any kind of retail exposures in their financed emissions calculations as footprint information is not available at the customer level, or even for most SMEs (see comments on emissions reporting challenges in Section 3 above). As the sectoral exposures figures should be reflective of the same sectors/activities as the financed emissions figures, it may be necessary to exclude the gross carrying amount of retail exposures if the financed emissions figure is scoped out.
- **We ask for clarification that this requirement would exclude derivatives, trading, and margin loans** (i.e., loans to customers or institutional investors to buy financial investment securities).
- **Clarification is required on where in the value chain sector is determined.** For example, European rules use the sector of the ultimate financed party.

Template CRFR2: Physical risk – exposures subject to physical risks

- **Proposed disclosures under template CRFR2 do not meaningfully inform the market about banks' capital adequacy and risk exposures. Exposures subject to physical risks do not equate to risk of financial loss, and it would be dangerous to position this to the market in this way.** Exposure and impact are not linearly related – i.e., exposure going up does not necessarily mean that risk is going up. This is particularly true when aggregating exposures to all types of physical risks, which will result in an aggregate that is not meaningful. Any sector in which a bank operates will have a very different vulnerability to each natural hazard, and we further cannot know for each sector and location whether climate impacts will be positive (e.g., ability to grow crops that previously were not tenable) or negative (e.g., property damage to manufacturing facilities). It is also important to note that an area could be subject to physical risk, but exposures located there are not at risk of financial loss (e.g., risk of default), and therefore the determination of a location as "subject to physical climate change risk" is not automatically meaningful for bank disclosure related to its own risk profile. For example, financial risk to the bank could be mitigated by a client's climate-related insurance or guaranteed public compensation schemes. Exposure aggregated at this level is a difficult number to understand, particularly for market participants who lack guidance on how to review/interpret it. Requiring public disclosure of exposures in this context, and characterizing them as indicative of physical risk, would be misleading to market participants and could force repricing and create transition risk that was not previously there. It could also have the unintended consequence of penalizing transition or adaptation finance to certain vulnerable jurisdictions which need it the most.
- **In terms of the identification of which geographic regions or locations are subject to physical risk, it would be preferable for supervisors globally to refer to a common list**

developed with a transparent, science-based methodology, rather than having to make individual assessments. This determination should be based on a climate scientific assessment of what the physical risks are and how they may increase over time. From a comparability and consistency perspective, different jurisdictional determinations would also create significant issues, and create additional reporting burdens and operational challenges for firms reporting in multiple jurisdictions.

- **For consistency between banks, it would be important for the BCBS to specify their expectations for how banks should identify exposures that are "subject to physical risks" for disclosure purposes—** for example, over what time horizon, for which climate hazards (e.g. floods, storms, wildfires), and the risk threshold to assess an exposure as more or less subject to physical risks or not. The current proposal is for banks to determine these parameters individually and describe their approach in the accompanying narrative, however that would not produce comparable disclosures across banks.
- **It is not sufficiently clear how to determine the geographical location of the activity of a counterparty.** The relevant location could, for example, be based on the domicile of the client, location of assets, upstream and downstream activities, etc. These determining factors may not necessarily be the best reflection of a counterparty's physical risk, and the lack of clear definition may also pose challenges to comparability. It is also unclear how to handle instances where a counterparty has multiple locations.

Template CRFR3: Transition risk – real estate exposures in the mortgage portfolio by energy efficiency level

- **Disclosure of the data proposed under template CRFR3 would not meaningfully reflect credit risk exposure driven by transition risk.** Simple disclosure of real estate exposures by energy efficiency level will not be sufficient for market participants to extrapolate the suggested insights. The credit risk exposure to the bank on a given mortgage would be determined by several other factors, such as the LTV of the mortgage. Internally, banks use several inputs to model the credit risk of a mortgage.
- **It is also important to note that any disclosure regarding the energy efficiency of banks' mortgage portfolios will not be relevant in many jurisdictions.** In jurisdictions without requirements for properties to satisfy certain energy efficiency criteria, the potential link to financial risks to the lending bank is much less clear. Further, where not associated with government policy or requirements, energy efficiency certifications for properties may not be possible to source in some jurisdictions, or may be unavailable for residential retail properties for example.
- **Nevertheless, even in jurisdictions where this template may be relevant, it is dependent on counterparty data, which can be difficult for the bank to obtain.** Lack of available data will make producing reliable, comparable, or meaningful disclosure nearly impossible. At the mortgage level, the information on energy efficiency levels is sparse and there is not a reliable or comprehensive source from which to collect this information. While estimation of energy efficiency levels is permitted in the consultation proposals, most banks do not have the expertise to produce these estimates reliably. Further, if data are not widely available and banks are producing estimates using their own methodologies, the disclosure will not be accurate or comparable.

Template CRFR4: Transition risk – emission intensity per physical output and by sector

- **As noted in our response to the consultation questions, financed emissions are not a comprehensive indicator of transition risk, could be misleading in a Pillar 3 context and could impede transition finance.** See our response to Questions 24-29 on transition risk for more detail on this point.
- As above for Template CRFR1, gross carrying amount should be limited to credit exposure, and banks should not be required to disclose allowances by sector.
- **Emissions intensity per physical output by sub-sectors is not feasible in all cases**. Emissions intensity per physical unit is a very sector-specific metric, which is computationally challenging to produce (could require tens of different methodologies). Physical intensity works only for sectors with uniformity of output.
- **Related to the lack of clarity between forecasts and targets, banks should not be required to explain why they have not set targets for any of the 18 TCFD sectors.** As noted above, portfolio decarbonization targets are set for alignment purposes (e.g., with NZE 2050) and are not useful for assessing banks' exposure to climate-related financial risk. Internal frameworks and/or guides used to select the sectors for which banks set targets is part of their business strategy and are not relevant in a Pillar 3 context.

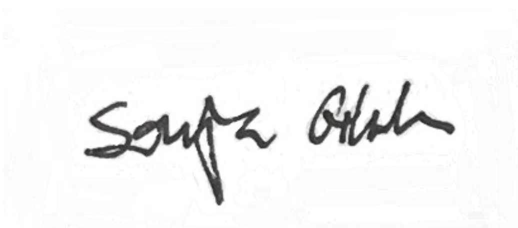
Template CRFR5: Transition risk – facilitated emissions related to capital markets and financial advisory activities by sector

- **We strongly recommend removing facilitated emissions from any further proposals.** Again, as noted in our responses to the consultation questions regarding transition risk (Q24-29), the BCBS does not substantiate its claims that financed and facilitated emissions metrics are indicative of banks' risk exposure. Facilitated emissions are not an effective measure of banks' transition risk and thus are not appropriate in the Pillar 3 context.
- **Facilitated emissions calculation methods not fully developed or widely accepted.** The ISSB explicitly decided to exclude facilitated emissions disclosure requirements from for the Investment Banking & Brokerage industry because there was not a widely accepted calculation methodology at the time[42] and, despite the progress by PCAF, their standard is brand new and untested.
- Disclosure for 18 TCFD sectors of amount of absolute facilitated emissions categorized by (a) underwriting, (b) advisory and (c) securitisation by sector of economic activity will be operationally challenging.
- Proposed accounting of capital markets transactions only in the year facilitation occurs can lead to significant volatility based on the market. If such data is considered relevant in future, the BCBS could consider a rolling average, or providing flexibility over the choice of methodology for accounting for facilitated emissions.
- In general, more experience with and backtesting of *financed emissions* methodologies would be helpful to inform our collective understanding of the accuracy of *facilitated emissions* methodologies.

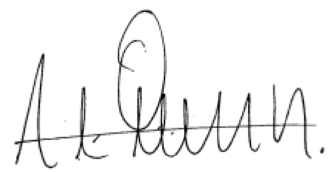
[42] See IFRS 2022, "Staff paper on financed and facilitated emissions", paragraphs 29-30.

Thank you for your consideration of these comments. On behalf of the IIF membership, we hope that these global industry perspectives will contribute constructively to your efforts, and would be happy to further discuss our comments. As mentioned above, we believe that further reflection, also in conjunction with the banking industry as Pillar 3 disclosure preparers, and further consultation on revised proposals is required. The IIF would be very happy to assist in convening opportunities for further analytical engagement with our global membership. We invite you to contact Sonja Gibbs (sgibbs@iif.com) or Andres Portilla (aportilla@iif.com) should you have questions or comments.

Yours Sincerely,



Sonja Gibbs
Managing Director and
Head of Sustainable Finance,
Institute of International Finance (IIF)



Andrés Portilla
Managing Director and
Head of Regulatory Affairs,
Institute of International Finance (IIF)

Panayiotis Dionysopoulos
Head of Capital,
International Swaps and Derivatives
Association (ISDA)