

# A response to the BCBS Disclosure of climate-related financial risks

March 2024

## 1. Introduction

- 1.1. UK Finance is the collective voice for the banking and finance industry. Representing over 300 firms, we act to enhance competitiveness, support customers, and facilitate innovation.
- 1.2. We welcome this opportunity to respond to the [Basel Committee on Banking Supervision's consultative document 'Disclosure of climate-related financial risks'](#) (The BCBS Pillar 3 proposals)
- 1.3. UK Finance supports a strong regime around the reporting of climate related financial risk, including ISSB's IFRS standards<sup>1</sup>. We recognise that understanding the risks that firms are exposed to is an important part of moving towards a net-zero and more sustainable economy and creating robust risk management practices as climate change and other sustainability issues grow as risk drivers. However, we believe that significant changes will be needed to the proposed framework if it is to be introduced at all, and that the current proposals go far beyond what is proportionate under Pillar 3 objectives.
- 1.4. A broad cross section of our members, large UK banks, subsidiaries of globally significant foreign banks and smaller banks and building societies have contributed to this response. We make **five recommendations, in order**, and summarise the **key challenges in section 2**. In sections 3 – 8 we respond to the 54 questions in the BCBS consultation, assuming that at some time in the future BCBS will go ahead with some of the Pillar 3 proposals, incremental to corporate reporting to meet prudential requirements.

## 2. Key recommendations and messages

- 2.1. **First, endorse and implement ISSB's IFRS S2<sup>2</sup> standard globally:** UK Finance calls on BCBS to back the ISSB's IFRS standards and throw its weight behind promoting their adoption globally. We recommend that BCBS encourage IFRS S2 adoption by banks in those regions that do not implement them. We recommend that the BCBS do all that is necessary to ensure that the global baseline framework of IFRS S2 requirements become and continue to inform jurisdictional climate risk disclosure requirements, driving consistency, comparability and thereby support broader sustainability disclosure objectives. Rather than developing a wholly new Pillar 3 disclosure standard, it would be more beneficial for IFRS S2 or equivalent standards to be adopted and implemented by all sectors in all jurisdictions to support the transition to a decarbonised economy.
- 2.2. **Second, allow sufficient time for IFRS S2 implementation:** Following endorsement and implementation of IFRS S2, BCBS should allow sufficient time for banks and companies to implement the requirements, and for corporate disclosures evolve through learnings and investor and market discipline.

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<sup>1</sup> International Sustainability Standards Board's International Financial Reporting Standards

<sup>2</sup> IFRS S2 'Climate-related Disclosures'

- 2.3. **Third, develop prudential capital regime:** Whilst corporate disclosures evolve and improve, as discussed in 2.2, BCBS should evaluate and finalise any climate financial risk related prudential regime requirements, as needed, including through Quantitative Impact Studies (QIS) and other tools. This should precede any new Pillar 3 disclosure proposals.
- 2.4. **Fourth, implement supervisory reporting:** BCBS should develop supervisory reporting standards, incremental to requirements of IFRS S2 or similar standards. We recommend that these be disseminated through jurisdictional supervisors and allow sufficient time for embedding. This should precede any new Pillar 3 disclosure proposals.
- 2.5. **Fifth, develop incremental Pillar 3 disclosures where required and related cost-benefit analysis:** Starting with supervisory reporting standards, BCBS should select summaries or extracts for evaluation for potential Pillar 3 proposals. Should BCBS go ahead with Pillar 3 proposals, we recommend undertaking a cost benefit analysis, including considering duplication with IFRS S2 or equivalent standards before moving forward. BCBS should draw on existing best practices and lessons learned from the implementation of frameworks such IFRS S2 and EU Pillar 3 to maximise regulatory coherence. Whilst standardisation may be an objective, BCBS should reduce the risk of climate reporting becoming an industry in its own right, with slightly different requirements across different regulatory bodies for no meaningful benefit to users. Any future Pillar 3 proposals should follow the BCBS's guiding principles for Pillar 3<sup>3</sup> of **Clarity, Comprehensiveness, Meaningfulness, Consistency over time, and Comparability across banks**. It is important that BCBS focus on the prudential rationale for any Pillar 3 disclosures.

## 2.6. Challenges with the BCBS Pillar 3 proposals

- 2.6.1 **Inconsistencies with Pillar 3 objectives:** The current proposals are not consistent with objectives of Pillar 3 disclosures. The proposals require significant modifications, tailoring and further specification to deliver the potential benefits associated with such disclosures. This specifically relate to enhancing market transparency and discipline about the impact of climate-related financial risks on bank capital adequacy and risk exposure. We strongly believe that further reflection, analysis, engagement with banks, as preparers of Pillar 3 disclosures, and evidence will be required to develop a robust global Pillar 3 standard incremental to corporate disclosures under IFRS S2 and other similar standards.
- 2.6.2 **Undermine corporate disclosures and financial materiality:** Corporate disclosures provide investors with decision-useful information while the Pillar 3 mandate is narrower and focused specifically on supporting market participants in the assessment of risks in a prudential and capital adequacy context. Complementing the boundaries with corporate disclosure is one of the BCBS's original principles of Pillar 3 standards.<sup>4</sup> Importing parts of 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<sup>5</sup>, including the principle of financial materiality, which is specifically tailored to the corporate reporting context rather than the prudential context. In effect, this is likely to undermine the implementation of IFRS S2 and cause confusion to users, thereby also undermining broader Pillar 3 disclosures.
- 2.6.3 **Climate strategy is irrelevant for market discipline,** as it is not clear how certain proposed elements would be useful with respect to a bank's capital adequacy or prudential considerations. Existing Pillar 3 standards do not require business strategy disclosure on a particular standalone topic (strategic and reputational risk are scoped out of operational risk, for example).<sup>6</sup>

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<sup>3</sup> As set out in [DIS10](#), 10.13-10.20.

<sup>4</sup> See [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.

<sup>5</sup> IFRS 'General Requirements for Disclosure of Sustainability-related Financial Information'

<sup>6</sup> See OPE10.1 Definition of operational risk <https://www.bis.org/baselframework/BaselFramework.pdf>.

- 2.6.4 Data challenges and lack of comparability:** Data challenges persist for banks and other preparers regarding measurement of climate-related risks, partly due to reliance on data provided by clients and counterparties, and partly due to the lack of maturity and homogeneity of methods (e.g., Scope 3, facilitated emissions). The proposed disclosures will not achieve BCBS's comparability objectives for Pillar 3 given ongoing challenges around data availability and quality and variances in methodological approaches. Despite significant efforts and investments, banks across the world continue to struggle with gathering climate-related data, particularly data provided from 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 the uptake of ISSB's IFRS standards and the effective date of any final Pillar 3 disclosure that leverages ISSB's requirements. Confidence in providing high-quality and comparable quantitative data on climate-related risks is likely to be low in the short and potentially medium term, although this is expected to change over time as and when IFRS S2-based disclosures are published by firms across all sectors.
- 2.6.5 Sectoral and geographic information:** IFRS S2 requires disclosure of material information about climate-related risks and opportunities, including physical and transition risks. BCBS Pillar 3 proposals requiring disclosure against all 18 TCFD<sup>7</sup> sectors as a baseline presents reporting inconsistency and operational challenges as these sectors are broad, overlap, and are not decision-useful to allow users to assess a bank's approach to managing the risk. There are also elements of the consultation that look to introduce a 'double materiality' basis, mis-aligned with the ISSB's IFRS framework. Full disclosure of banking sector climate-related financial risks can only be understood and assessed with adequate customer/client data. This underpins the importance of aligning any banking disclosure regime with disclosure requirements for non-banking sectors including real economy corporates. It is therefore imperative that any future BCBS standards align with the ISSB IFRS requirements. Climate risk concentration by sector / geography should not be considered for BCBS Pillar 3 proposals unless and until there has been time to learn from existing approaches attempting to address this complex area.
- 2.6.6 Transition risk and financed and facilitated emissions:** The proposals largely hinge on financed and facilitated emissions disclosures; however, aggregate portfolio-level financed and facilitated emissions metrics are not direct measures of transition 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 material risk exposures, and it would be misleading to market participants to characterise emissions disclosure as reflecting a bank's financial risk exposure. For physical risk, the current definition in the consultation poses challenges related to scope and quantification, and the proposal for jurisdictional supervisors to determine which jurisdictions are at high physical risk is inappropriate and would lead to comparability challenges in disclosures across jurisdictions and a lack of meaningful disclosure.<sup>8</sup> Classifying financed and facilitated emissions as a proxy for transition risk also poses a danger of stymying finance for hard-to-abate sectors – an important component of financing the decarbonisation of the economy. The BCBS proposals do not apply a clear materiality lens, particularly for data which is very challenging for banks to gather such as financed emissions. In the current proposals (Templates CRFR1, CRFR4 and CRFR5), banks are expected to disclose exposures and financed emissions for the 18 sectors defined by TCFD, regardless of materiality. The current proposals are overly burdensome and misaligned with Pillar 3 objectives.
- 2.6.7 Forecasts:** BCBS consultation uses the term "forecasts" inconsistently, alternating between the meaning of "targets" (i.e. achieving emission targets") and actual forecasts (i.e. "forecasts of future conditions"). When referring to targets, BCBS should rename these forecasts as "targets". Actual forecasts are not made under disclosure frameworks and such information generally would not be made public due to the inherent uncertainty and the potential litigation risk. Requiring the disclosure

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<sup>7</sup> Taskforce on Climate-related Financial Disclosures


<sup>8</sup> Supervisory reciprocity mechanisms (whereby supervisors reflect other supervisors' assessment of regions at high physical risk) would be required to reduce comparability challenges, but this would not address the issue that supervisors could take inconsistent approaches to determining which jurisdictions are at high physical risk without greater guidance from the BCBS.



of forecast information would be a significant departure from traditional corporate disclosure and Pillar 3 disclosure requirements which focus on historical information.

**2.6.8 Entity scope and alignment with banks' risk management:** The consultation is silent on the bank entity/entities to which the proposed Pillar 3 disclosure would apply. Proposed national discretions would introduce differences in requirements across cross-border banking groups depending on supervisors' options. Disclosures should reflect how banks manage the risk; management and monitoring of climate-related risk is generally set at a sector/Group level, therefore allowing banks to disclose at a group level would provide necessary flexibility to avoid disclosures that are unrealistic and misleading.

**2.6.9 Materiality assessments:** These proposals are silent on how materiality assessments should be undertaken in the Pillar 3 context—e.g., whether materiality is related to climate related financial risk exposure (e.g., with respect to credit risk). While some banks will be undertaking materiality assessments in the context of corporate disclosure (e.g., across ISSB IFRS and for EU CSRD disclosures), Pillar 3 objectives differ from corporate disclosure. It is unclear how 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.

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## CONSULTATION RESPONSE

## 3. General

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

3.1 For a disclosure framework for climate-related risks to promote comparability of risk profiles across jurisdictions and market discipline, it will need to have the characteristics set out below. We also highlight how and where these or other BCBS proposals or standards address these characteristics:

<b>Characteristic</b>	<b>Addressed by BCBS Pillar 3 frameworks or proposals?</b>
<b>Global standard</b>	<ul style="list-style-type: none"> <li>• Yes, to a degree, in that the BCBS proposals are intended to be based on ISSB standards which is regarded as the global baseline for climate risk disclosures</li> <li>• The BCBS proposals could provide a consistent global standard for banks Pillar 3 reporting of climate-related financial risks, reducing the likelihood of divergent jurisdictional Pillar 3 requirements, however requirements in the proposals anticipate requiring customer information relating to other sectors which are not in scope and which in some cases are not subject to mandatory climate reporting.</li> </ul>
<b>Clear definitions</b>	<ul style="list-style-type: none"> <li>• Yes, to a degree. But there are many global and national jurisdictional definitions which are unlike to yield comparability</li> <li>• There is a level of flexibility on column and row headings of quantitative templates, not amenable to comparability or market discipline.</li> <li>• Key globally consistent definitions are required, for example the sensitivity, granularity and methodology used to identify regions subject to physical risk.</li> </ul>
<b>Taxonomy</b>	<ul style="list-style-type: none"> <li>• No, not currently available, albeit there are some jurisdictional information</li> </ul>
<b>Aligned to or complement firms' risk management</b>	<ul style="list-style-type: none"> <li>• Prescriptiveness such as all 18 TCFD sub-sectors make materiality and relevance to internal risk management moot</li> <li>• Key that in providing the data and insights with the focus and granularity required by the consultation, firms are not misrepresenting the firm-specific risks they are exposed to.</li> </ul>
<b>Linked to Pillar 1, Pillar 2 and existing reporting to regulators</b>	<ul style="list-style-type: none"> <li>• Current Pillar 3 disclosures are an exposition of Pillar 1 and Pillar 2 risks that banks are exposed to and manage and that supervisors monitor through capital, liquidity and risk frameworks.</li> <li>• We understand that Pillar 1 (and Pillar 2) considerations relating to climate financial risks are at an extremely nascent stage within BCBS and most if not all national supervisors. Therefore, prima facie, Pillar 3 or market discipline relating to climate financial risks seems too premature.</li> <li>• Current BCBS Pillar 3 disclosures are anchored on regulatory reporting by banks to their national supervisors and selected aggregation to BIS<sup>9</sup>. We are not aware of such advancements relating to climate-related financial risks and certainly not the case in the UK.</li> </ul>

<sup>9</sup> Bank for International Settlements

- 3.2 Banks are acting on a best effort basis in their approach to climate risk reporting and their full compliance depends on the preparedness of third parties to provide the required environmental data requested at this stage. Predictability is not yet a consolidated feature in the scope of climate related expectations and therefore any mandatory regulatory expectations on disclosures are unwarranted, unnecessary and inappropriate at this stage.
- 3.3 We appreciate that there is potentially a tension between ensuring global consistency and fostering good climate-related financial risk disclosures by banks that meet investor and other market participant's requirements. We see some merit in parts of BCBS Pillar 3 proposals being introduced in countries that do not adopt ISSB's IFRS or similar standards. But even then, we recommend that BCBS encourage or even mandate ISSB IFRS Standards' adoption by banks in those regions rather than introduce Pillar 3 disclosure regulations. We recommend that BCBS undertake cost benefit analysis, including duplication with ISSB's IFRS standards before moving forward with any Pillar 3 proposals. It is worth noting in this regard the endorsement of the ISSB standards by the International Organisation of Securities Commissions (IOSCO); BCBS might, as a first step, usefully offer similar endorsement or backing to the ISSB standards rather than going far beyond them.
- 3.4 Any climate-related financial risk disclosure regulation should focus on providing transparency on climate related financial risks and other downstream risk types by addressing any material gaps in other specific regulations and standards such as ISSB IFRS standards. It is helpful that the BCBS consultation references IFRS S2 proposals. The ISSB's IFRS standards have gained support from many jurisdictions globally because they apply a more principles and risk management focus. The more representative nature of reporting that is likely to be generated using the IFRS S2's principles-based approach is more conducive to developing a proportionate and quality disclosure regime, whilst recognising key dependencies and emerging methodologies. The BCBS and ISSB's IFRS frameworks should be complementary and should not overlap. In case of any inadvertent overlap, cross-referencing should be adopted, instead of duplication.
- 3.5 BCBS must articulate the use-case for these disclosures and align requirements with that use-case. Firms' experience of Pillar 3 reports over a number of years is that usage is materially insignificant compared with that for banks' annual reports. Therefore, we question the benefit of significant duplication in the BCBS proposals compared with disclosures that meet ISSB's IFRS S2 requirements. We also encourage the BCBS to consider the primacy of banks' annual reports in its deliberation of the Pillar 3 proposals.
- 3.6 The proposed level of granularity and potential extent of disclosures will result in significant cost for banks. The proposal does not consider the materiality of firms' climate risk exposure - readers would obtain significantly less benefit from the Pillar 3 disclosures of those firms with homogenous low-risk assets, for example.

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

- 3.7 We consider the risks of a Pillar 3 disclosure framework for climate-related financial risks not being introduced to be low, due to the enhanced disclosure and reporting firms anticipate will be available to stakeholders through IFRS S2 implementation in the short-term. ISSB standards were only issued in June 2023 and various jurisdictions are in the process of endorsement and implementation considerations and processes. Therefore, we see no merit in a duplicative suite of separate climate risk disclosures, such as BCBS Pillar 3 proposals, being mandated for banks by regulators and national supervisors.
- 3.8 We recommend that the BCBS do all that is necessary to ensure that the IFRS S2 requirements become and continue to inform jurisdictional climate risk disclosure requirements, driving consistency, comparability and thereby support broader sustainability disclosure objectives.

- 3.9 We think it would be more beneficial for ISSB IFRS or equivalent standards and particularly IFRS S2 on climate risk to be adopted and implemented by all sectors in to support the transition to a decarbonised economy.
- 3.10 With imminent adoption of ISSB IFRS implementation in many countries, including the UK, bringing in mandatory regulatory disclosure requirements for banks on a nascent area and fast evolving areas such as climate risk seems a little too early. We question the incremental value over and above the ISSB IFRS proposals both as a package as a whole and on specific parts.
- 3.11 All in all, we do not think there are material risks related to a Pillar 3 framework for climate-related financial risks not being introduced as an easier solution would be for BCBS and / or national supervisors to recommend or even mandate adoption of ISSB's IFRS S2.
- 3.12 The risks of implementation are greater than non-implementation (i.e. Pillar 3's diversion from firm's real risk management activities, additional cost, dilution / repetition of disclosure (and associated reader confusion))

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

- 3.13 We encourage the BCBS to carefully evaluate whether the proposed disclosure standards align with the primary objectives of Pillar 3 disclosure. BCBS should publish a detailed summary of this assessment to inform banks as preparers and market participants as users of Pillar 3.
- 3.14 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."<sup>10</sup> When introducing the concept of Pillar 3 standards, the BCBS noted the following tenets and parameters (among others):
- 3.14.1 **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.<sup>11</sup>).
- 3.14.2 **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.<sup>12</sup>)
- 3.15 The current BCBS standards include the following guiding principles for Pillar 3, which are important to review when considering the introduction of new standards which are:<sup>13</sup> Clarity, Comprehensiveness, Meaningfulness, Consistency over time, and Comparability across banks. While we recognise that there may be a broadening of supervisory interests on banks' strategies with respect to climate change and the net zero transition (including associated risks), we would reiterate the importance of BCBS focusing on the prudential rationale for Pillar 3 disclosures as an integral component of the risk-based BCBS framework.
- 3.16 The current proposals are not consistent with the stated objectives of Pillar 3 disclosures, and the proposals require significant modifications, tailoring and further specification to deliver the potential benefits associated with such disclosures. This specifically relate to enhancing market transparency and discipline about the impact of climate-related financial risks on bank capital adequacy and risk

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<sup>10</sup> Part 4, General Considerations, B, paragraph 809. [www.bis.org/publ/bcbs128.pdf](http://www.bis.org/publ/bcbs128.pdf)

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

<sup>13</sup> As set out in [DIS10](#), 10.13-10.20.

exposure. We strongly believe that further reflection, analysis, engagement with banks as preparers of Pillar 3 disclosures and evidence will be required in order to develop a robust global Pillar 3 standard.

- 3.17 The BCBS climate risk proposals do not in most aspects allow alignment with banks' own strategy and risk management. This appears to contravene the principles in the ISSB standards, the intended foundation of BCBS climate risk proposals. We highlight examples in physical risk, concentration, transition risk.
- 3.18 BCBS should not duplicate corporate disclosure requirements in a Pillar 3 context. International harmonisation and coordination are key for effective disclosure requirements, and we appreciate the BCBS's 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 material climate risk related financial exposure and capital adequacy. Complementing the boundaries with corporate disclosure is one of the BCBS's original principles of Pillar 3 standards.<sup>14</sup> 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.
- 3.19 BCBS should not require disclosures where they are irrelevant to market discipline, such as climate strategy. The proposed detailed qualitative disclosures are 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. The existing Pillar 3 standards do not require extensive business strategy disclosure on a particular standalone topic (strategic and reputational risk are scoped out of operational risk, for example).<sup>15</sup>
- 3.20 IFRS S2 requires disclosure of material information about climate-related risks and opportunities, including physical and transition risks. Requiring disclosure against all 18 TCFD sectors as a baseline presents reporting inconsistency and operational challenges as these sectors are broad, include some overlap with one another, and are not decision-useful to allow users to assess a bank's approach to managing the risk. There are also elements of the consultation that look to introduce a 'double materiality' basis which is mis-aligned with the ISSB framework.
- 3.21 Full disclosure of banking sector climate related financial risks can only be understood and assessed with adequate customer/client data. This underpins the importance of aligning any banking disclosure regime with disclosure requirements for non-banking sectors including real economy corporates. It is therefore imperative that BCBS standards align with the ISSB requirements.
- 3.22 We consider that ISSB related disclosures will help market participants understand the climate-related financial risk exposures and risk management thereof of not just banks but their customers such as corporates. We therefore do not see much merit in additional Pillar 3 disclosures on climate-related financial risks and in fact we consider that this could have a detrimental consequence by causing confusion to market participants. Climate risk disclosure can be beneficial, especially if it aligns with a unified framework like ISSB IFRS standards. However, it's important to recognise that traditional financial risk management already covers some climate-related impacts, and overemphasising climate could divert resources from other pressing issues like geopolitical risks, particularly if timelines are aggressive.

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<sup>14</sup> See [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.

<sup>15</sup> See OPE10.1 Definition of operational risk <https://www.bis.org/baselframework/BaselFramework.pdf>.



- 3.23 We also question the effectiveness of the proposed metrics to provide sufficient information on how climate risks can influence banks' financial risks. Not all climate-related risks will necessarily transmit to banks as a financial loss. For example, with greenhouse gas (GHG) emissions, alone they are not a comprehensive indicator of a given corporate's exposure to transition risk because it is backward-looking metric and unlikely to capture the firm's transition activities and therefore how prone they will be to transition risks, nor how profitability is likely to be impacted by carbon pricing. Further, once considered at an aggregate portfolio level, these risk transmission channels become further complicated by the diversity of corporates within that portfolio.
- 3.24 We are also concerned that the volume of reporting could mask key messages and therefore we would prefer to support jurisdictional adoption of ISSB IFRS standards as the global baseline, to focus on the most material features, where there is consensus and maturity on methodologies, and in an integrated manner.

*Q4. Would the Pillar 3 framework for climate-related financial risks be sufficiently interoperable with the requirements of other standard-setting bodies? If not, how could this best be achieved?*

- 3.25 The proposed disclosure in the consultation is inconsistent 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 as it relates to the integrity of the BCBS 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, risk exposures. Many of the proposed disclosures would potentially belong in broader disclosure requirements and not Pillar 3, such as disclosure of a bank's business strategy with respect to climate risk.
- 3.26 The proposed Pillar 3 standards capture climate-related risks inconsistently with the BCBS's 2022 Principles for the Effective Management and Supervision of Climate-related Financial Risks<sup>16</sup> (hereafter 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 its 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.). If the BCBS effectively positions this disclosure as relevant for market participants in assessing banks' capital adequacy and risk exposure, this could create confusion for disclosure users about potential climate-related financial risks to which banks are exposed and generates net costs rather than net benefits. 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 and BCBS should make clear how it is viewing this disclosure as a driver of the traditional risk types with respect to capital adequacy.
- 3.27 We would also encourage the BCBS to carefully consider which information duplicates existing disclosure practices, which incremental climate-related financial risk information would be appropriate and useful for public disclosure to market participants in the context of Pillar 3 prudential objectives and which information may be useful only to meet for supervisory objectives, such as supervisory engagement, confidential reporting and QIS. Any final requirements for the disclosure of climate-related financial risks by BCBS should therefore be narrowly tailored to reflect the Pillar 3 objective of providing market participants with the key information necessary to understand a bank's risk exposures and the adequacy of a bank's regulatory capital. It is important that the BCBS maintain a prudential risk-based approach and provide for a risk-based materiality approach application throughout the entire framework. We encourage BCBS to evaluate whether the proposal aligns with the primary objectives of Pillar 3 disclosures and ensure that it does not conflict with and/or duplicate corporate reporting disclosure. We recommend that BCBS publish a detailed summary of this assessment to inform preparers and users of Pillar 3 disclosure.

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<sup>16</sup> <https://www.bis.org/bcbs/publ/d532.pdf>

- 3.28 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 material 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, and the proposal for jurisdictional supervisors to determine which jurisdictions are at high physical risk is inappropriate and would lead to comparability challenges in disclosures across jurisdictions and a lack of meaningful disclosure.<sup>17</sup> Classifying financed and facilitated emissions as a proxy for transition risk also poses a danger of stymying finance for hard-to-abate sectors – an important component of financing the decarbonisation of the economy.
- 3.29 Despite in theory being aligned with IFRS S2, we do not think they are interoperable with banks' disclosures in annual reports under IFRS S2. As set out earlier, in many places the proposed framework goes well beyond the requirements of IFRS S2, which is intended to act as the global baseline for sustainability reporting and has been endorsed as such by IOSCO.
- 3.30 Somewhat helpfully these proposals also seem to be a copy of EU Pillar 3 templates. But it should be noted that just because some firms are preparing for EU Pillar 3 templates for their EU operations does not mean it is not a significant effort for banks to comply.
- 3.31 Inconsistencies between other standard-setting bodies like specified sector classification in domestic regulation, can result in additional effort to address variances in reporting requirements.

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

- 3.32 **Rushed Pillar 3 proposals:** As set out in the Key challenges in Section 2, we see a range of damaging unintended consequences of a poorly thought-out Pillar 3 framework for climate-related financial risks. These include over-proliferation of disclosures which generates significant burden and cost for firms without commensurate benefit to users or the ability to manage those risks; information inaccuracies because of a lack of consistency with disclosure frameworks applying to non-financial firms; and potential real-world consequences as poor measures for climate-related financial risk (e.g. firm emissions as a proxy for transition risk) lead banks to reduce their exposures.
- 3.33 **Availability of and flexibility in existing financial resources to deal with climate risk** – A significant increase in climate reporting requirements risks diverting bank staffing and resources away from critical activities needed to transition portfolios toward low-carbon lending and investment.
- 3.34 **Lack of consistency in reporting will lead to confusion for users**– While we agree there are benefits in Pillar 3 readers understanding comparative flexibility and resilience of firms' existing financial resources, the lack of consensus with respect to capturing climate risks within capital frameworks would limit consistency and therefore value.
- 3.35 **Disclosure of commercially sensitive information** Capital and liquidity assessments (ICAAP/ILAAP) are submitted to national supervisors confidentially and contain market sensitive and confidential information on firms' consideration of any capital requirements. The BCBS proposals raise a risk that such commercially sensitive information is disclosed to other parties. The fact that this information is held confidentially also risks limiting consistency of reporting. In line with the ISSB standards, the BCBS framework should consider including a relief permitting an entity to omit such data in line with

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<sup>17</sup> Supervisory reciprocity mechanisms (whereby supervisors reflect other supervisors' assessment of regions at high physical risk) would be required to reduce comparability challenges, but this would not address the issue that supervisors could take inconsistent approaches to determining which jurisdictions are at high physical risk without greater guidance from the BCBS.

the ISSB IFRS S1 requirements (par B34-B37). Sensitive information would include budgets and strategic growth disclosure, etc.

- 3.36 Market discipline implications** - As the quantitative templates in the BCBS proposals are very detailed and significantly more than those required by and likely to be included in banks' annual reports. There are therefore likely to be material differences and reconciliations. This will be extremely unhelpful to investors, market participants and other users of banks' climate risk reports and significantly add to banks' operational burden. There will also need to be significant education programmes by BCBS and national supervisors on the purpose and value of Pillar 3 climate disclosures, especially duplicating with and exceeding the global baseline of ISSB standards, the standard for investors and market participants. There is a risk that BCBS's Pillar 3 climate risk proposals undermine the global standing of IOSCO endorsed ISSB IFRS standards which are applicable not just to banks but to the whole economy and thereby endanger the wider objective of providing decision-useful information in the transition to a sustainable economy.
- 3.37 Data inconsistencies** - Given the relatively nascent nature of climate risk data, particularly relating to banks' corporate customers, there is likely to be a time lag for climate risk related exposures and other data and metrics. As this climate risk data is intended to be reported alongside existing Pillar 3 data, there will likely be differences and in some cases, these will be material. This has the potential to undermine investors and market participants' trust in banks' climate risk related disclosures and hence undermine not just Pillar 3 climate risk disclosures but also main climate risk disclosures in annual reports. As an example, there is a template that brings exposure and carbon intensity together, raising uncertainty whether banks should make them consistent on a lagged basis.
- 3.38 Data unavailability and estimation** – Firms will rely on estimates to fulfil some reporting requirements and will need the flexibility to do so. For example, this poses a challenge for firms with exposure to domestic and commercial buildings: given lack of data for all parts of firms' portfolios, firms may extrapolate energy efficiency across their portfolios. For example, UK Energy Performance Certification (EPC) ratings (used in the UK for measurement of energy performance in buildings) are estimates and are not available for a large proportion of portfolios. There is also the risk that stakeholders place too much reliance on data which is inaccurate. To reduce the risks attached to that information, there needs to be provision for disclosures to be accompanied by explanatory narrative, and appropriate cautionary statements that enable users to understand not just the disclosures, but also underlying data, methodologies and limitations – including the most significant uncertainties affecting the information reported. We think that it is important that approach or methodology should be described to provide sufficient information to make a sound judgment on the quality of the data and possible comparisons being made. Another issue is the comparability of quantitative factors that rely on assumptions and judgements. Some firms use overlays and alternative data sources which can severely impact on results. To improve the usefulness and comparability of information it is important that methods, and data score (e.g. PCAF<sup>18</sup> data score) are incorporated into the disclosure to justify and explain the approach to the user. This will mean that end users are able to make better judgements on the quality of the data which will reduce the risk of misinterpreting it.
- 3.39 Production intensity** – requirement to report production intensity for all sectors can differ with practice, in particular in some cases, banks may be targeting absolute emissions instead for some sectors which is more ambitious. We do not think such evolution in risk management and reporting should be discouraged as part of regulatory disclosure implementation. Also, production intensity for non-high carbon sectors would be new, undefined and difficult to evaluate and hence comply with in practice.
- 3.40 Disclosure frequency** – We strongly recommend that any Pillar 3 climate risk disclosures, should they be implemented, align with ISSB S2 frequency requirements so as not to undermine the primary climate risk disclosures in banks' annual reports and also to avoid operational burden for banks and national supervisors in production, controls, assurance, governance, and review.

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<sup>18</sup> Partnership for Carbon Accounting Financials

- 3.41 **Reporting entity** – we are concerned about the potential for disaggregating consolidated group-level strategic risks and targets into entity/subsidiary / jurisdiction level Pillar 3 disclosures. Entity or location level measurement and monitoring is not consistent with how firms manage climate risk, and therefore would result in disclosures that are unrealistic and misleading. We recommend aligning with the ISSB's requirement that an entity's sustainability-related financial disclosures shall be for the same reporting entity as the related financial statements.
- 3.42 **Facilitated emissions** – methodologies require development and maturity. For example, recent PCAF guidance will provide some coverage but not all, hasn't been tried and tested, and has not yet established global consensus on best practice. Scope 3 in particular is a challenge. There is a lack of availability of high-quality data meaning calculating scope 3 emissions with a degree of confidence is difficult. Inaccuracy is also increased given the reliance on corporate and counterparty data as well as the lack of methodology for certain sectors and asset classes for Scope 3 financed emissions. We should not add new disclosures that would need to use this data (use of unreliable data can lead to legal and reputation risk) We should wait to have back testing on financed emissions before we reconsider inclusion of facilitated emissions.
- 3.43 **Sector differences:** We would also like to point out that scope 3 may not be relevant to all industries and different industries pose different challenges in collecting this information. Scope 3 for mortgages and motor finance assets for instance may not be as material as for Oil and Gas or construction. We therefore think it is important that materiality is considered here. But this needs to be done on a best endeavours basis to recognise that this is a developing practice.
- 3.44 **Industry / sector classification:** We note the BCBS Pillar 3 proposals require that sector templates use the Global Industry Classification Standard (GICS). However as other sectoral classification standards are adopted by many jurisdictions (e.g., SIC, NACE, NAICS). We recommend that jurisdictional supervisors Government adopt more flexibility, in collaboration with the BIS, to allow for the use of codes that are already in use in jurisdictions. While it is not impossible for banks to create mapping tables, it certainly is time consuming and increases subjectivity in the sectoral bifurcation. This also impacts the committee's goals of comparability since existing industry classifications follow different definitions and a counterparty that falls clearly into one identifiable category under one system could often fall within different categories under another system. We suggest the committee to develop a standard mapping system between the most used classifications to promote comparability.
- 3.45 **National supervisor accountabilities:**
- 3.45.1 **Geographic location** - national supervisors will need to have responsibility for defining, maintaining and updating geographic location affected by climate change and climate risk. This could have far-reaching unintended consequences, including political and reputational ramifications as well as limiting international comparability and resulting in a lack of harmonisation. Ideally the regions sensitive to climate physical risk would be determined centrally at the global level, in consultation with the local jurisdictions, and made available in a central dataset for all banks to reference. This would ensure consistency in methodology and reduce the risk of bias or differing opinion in assessments. Another possible solution would be for each national supervisor to determine regions sensitive to physical risk a for its own country using a globally consistent methodology (geographic granularity (country, region, department or even postal area), sensitivity to the risk and the time horizon being considered),, and other jurisdictions should use those criteria (eg Italy determines climate change physical risks for Italian regions/locations; French companies with Italian-based exposures etc would then use Italy's criteria)
- 3.45.2 **Granularity and climate risk interpretation** - by aiming for significant level of detail, national supervisors may also inadvertently become responsible for setting climate risk related interpretations. Also, there is potential for regulatory definitions/sensitivities to differ from those used by banks in internal processes and disclosures. The granularity of requirements and templates is also likely to result in public disclosure at an individual counterparty level for sectors and geographies where banks have very low numbers of clients, creating commercial sensitivity and confidentiality risks.

3.45.3 **EPC ratings vs BCBS proposals:** There are known limitations with the data which would form the basis for this template. In the UK by law, all domestic and commercial buildings made available to buy or rent must have an Energy Performance Certificate (EPC), which includes an assumed and estimated energy usage value. However, there are widely recognised limitations of the EPC assessment process, with broad assumptions used, and as such the EPC data does not accurately reflect actual energy usage of a property. These are likely to change through time as methodologies are improved, as such banks should be permitted to explain these assumptions and associated limitations. It is also highly unlikely that banks disclosures will be comparable as different countries will use different methodologies and assumptions.

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

3.46 Less progress has been made to date on assessing climate-related financial risk transmission mechanisms for trading book exposures compared with banking book. Trading books are actively risk managed and hedged, with some exposures intermediated on behalf of clients.

3.47 Trading book positions are held for short time horizons and, as such, may not present a very meaningful reflection of how a bank is exposed to climate-related risk factors. From a reporting and disclosure perspective, point-in-time snapshot once or twice per year would not provide particularly useful information. Target setting at sector level is likely to prove challenging given the volatility of capital markets transactions and the fact that banks may not necessarily exercise full control over the timing, volume, and size of transactions. We would also welcome industry guidance on target setting for facilitated emissions as the first step before setting disclosure requirements on such targets and forecasted information.

3.48 Trying to capture the associated financed emissions on trading book positions would lead to significant multiple counting of the same instruments held by different banks at different times. Fundamentally, it is difficult to make a link between long-term ESG factors and the short-term nature of the trading book, where instruments may be held for only a few minutes (meaning that a snapshot at a given moment may not provide relevant information), transactions are extremely numerous (including in secondary and private markets) and the risk of multiple counting of the same emissions would be rife. The issue is more acute for financial intermediaries taking and hedging positions for clients, which does not correspond to significant risk-taking

3.49 We recommend that trading exposures should not be subject to any new Pillar 3 disclosure requirements until more analysis has been carried out on these conceptual issues such 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 analyse the potential impact of climate-related risk drivers on market risk.<sup>19</sup>

3.50 We also highlight that there are uncertainties on the consistent implementation between jurisdictions of the trading book boundary as part of the revised market risk standards being implemented across jurisdictions globally through Basel 3.1. This may significantly impact the scope of positions to be included in the various templates and thus hinder comparability.

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

3.51 See response to Q5.

3.52 Members are concerned about feasibility and practicality due to data limitations: banks currently report on entire portfolios, not geographically. Developing systems to consolidate data specifically for this reporting could be challenging. Restrictions on financing sectors based on climate risk may conflict

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<sup>19</sup> For example, see [www.isda.org/a/YHlgE/Climate-Scenario-Analysis-in-the-Trading-Book—Phase-II.pdf](http://www.isda.org/a/YHlgE/Climate-Scenario-Analysis-in-the-Trading-Book—Phase-II.pdf) for a description of pilot climate scenarios designed specifically for the trading book.

with competition regulations in certain regions. Sector and location-specific requirements differ from other risk drivers (e.g., geopolitical) and create a high reporting burden for teams. Disclosing commercially sensitive data also raises concerns. Limited data availability might distort results. We would prefer that a phased approach is used here.

- 3.53 The allocation of corporates to a specific geographic region or location will also be problematic for all but localised activities. Many corporates operate over multiple geographic locations and so determining a company's exposure to physical risk based on one of those locations would not provide a meaningful measure of the risk exposure. Until materially greater provision of corporate activity is available, any quantitative disclosure of corporate exposure to physical risk should be limited to loans collateralised on residential and commercial properties.

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

- 3.54 Given our concerns on unintended consequences relating to national supervisors, as set out in response to Q5, we do not consider that there should be national discretion on the templates.

3.55 However, we strongly believe that national supervisors should have the mandate to:

- 3.55.1 Decide if BCBS Pillar 3 disclosures are implemented if IFRS S2 is adopted. There should be national discretion that BCBS proposals are not required if IFRS S2 is adopted as adopted in that jurisdiction or as adopted voluntarily by banking industry and other sectors
- 3.55.2 Set out the scope - entity level for reporting – and frequency, should some parts of BCBS proposals be implemented.

*Q9. What are your views on whether potential legal risks for banks could emanate from, or be mitigated by, their disclosures as proposed in this consultation, and why?*

- 3.56 Existing Pillar 3 reflects data collected through existing regulatory reporting or other established reporting but the BCBS Climate Pillar 3 would be outside of any such established reporting processes. This has implications for banks' processes, controls risk management and governance. We think this poses legal risks to banks and national supervisors.

- 3.57 Our response to Q5 highlights various unintended consequences, some or all of which could also pose legal risks.

- 3.58 We fully recognise that perfection should not be the enemy of good and many banks are developing their climate disclosures accordingly, but there is consensus across UK industry that provisions and protections must be provided to encourage organisations to disclose best possible information available at a given reporting date, without undue fear of litigation.

- 3.59 The changing nature of client data and measurement means it is far more likely that previous information will require updating in subsequent periods. To reduce the risks attached to that information, there needs to be provision for disclosures to be accompanied by explanatory narrative, and appropriate cautionary statements that enable users to understand not just the disclosures, but also its limitations – including the most significant uncertainties affecting the information reported.

- 3.60 Notwithstanding our earlier point that there is limited readership of Pillar 3 disclosures, there is a risk that Pillar 3 disclosures engenders too much trust in data / modelling which is nascent and not necessarily reflective of how firms are managing the risk

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

- 3.61 If assurance is considered, it should align with and not be at a greater level than that required for existing Pillar 3 disclosures. Some of the proposed information in the BCBS proposals would be very

challenging for banks to assure to the same degree of confidence to which they strive for other climate related financial risk disclosures.

3.62 Assurance may enhance the quality and meaningfulness of climate risk disclosures but there are several challenges. External assurance can be costly, there can be tight implementation timelines and limited data at present may make assurance impractical initially. The field of climate risk assessment is also evolving quickly and methodologies for calculating emissions and assessing risk are subject to regular updates. This would make consistent and reliable assurance challenging. Other Pillar 3 disclosures currently do not require assurance, raising concerns about consistency and fairness. Many banks are seeking limited or reasonable assurance already for scope 3 financed emissions at an extraordinary cost, and with methodologies and constant restatements due to data quality enhancements, the time and cost spend on assurance could be better spent on direct investment in climate mitigation or adaptation investment rather than assurance.

#### 4. Qualitative disclosure requirements

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

4.1 Qualitative disclosures are a fundamental part of any climate risk disclosures. As note in section 2 and response to response Q16, there is limited benefit if qualitative disclosures in banks annual reports meetings IFRS S2 requirements are duplicated in Pillar 3 reports. This is particularly relevant in the context of the low level of readership of Pillar 3 reports and the confusion caused by this additional information source.

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

4.2 See responses to Qs 1, 2 and 11 above.

4.3 Given our widespread suggested changes to the BCBS proposals, we would not agree with mandatory application of the current proposals.

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

4.4 As set out in response to Q11 above, repetition of the qualitative information is the main issue.

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

4.5 We do not see the need for any additional Pillar 3 disclosures, qualitative or quantitative.

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

4.6 BCBS should clarify the terms "short-term," "medium-term," and "long-term" within the context of climate-related financial risk disclosures by aligning them with the strategic planning timeframes that guide decision-making processes, ensuring both consistency and relevance.

4.7 Any BCBS Pillar 3 proposals should provide a detailed account of the constraints associated with data, the employment of substitute data, and the foundational assumptions applied in the calculation of climate-related metrics, such as the evaluation of climate risks and the emissions attributed to financing activities. Such caveats should align with relevant IFRS S2 positioning. This level of openness allows stakeholders to grasp the basis of preparation, along with potential uncertainties and constraints inherent in the data presented.

- 4.8 There needs to be a refocusing of attention from predominantly long-range forecasts, which can be subject to economic fluctuations, to a comparison of current performance against the previous year's results and established goals. This shift offers a more transparent view of the bank's actions and dedication to addressing climate concerns.

*Q16. What are your views on the relevance of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements to understand climate-related financial risks to which banks are exposed?*

- 4.9 Qualitative templates have a high correlation with disclosures required under ISSB. Allowance should be made to reference existing qualitative disclosures on climate strategy, governance and risk management practices to avoid duplication of information across disclosure suites.
- 4.10 Qualitative disclosures should be aligned with ISSB's IFRS framework risk management pillar, rather than the strategy pillar, reflecting focus of Pillar 3 as providing information about a bank's risk exposure as a complement to internal risk management under Pillar 2. Where information is disclosed in corporate disclosure such as annual accounts that is deemed relevant to a bank's Pillar 3 disclosure, cross referencing should be allowed.
- 4.11 Disclosure on a bank's climate strategy, including its transition plan and climate-related forecasts, is not appropriate for Pillar 3 disclosure, where the focus is on informing the market about banks' capital adequacy and risk exposure. BCBS's definition of operational risk in Pillar 3 standards excludes strategic and reputational risk.<sup>20</sup>
- 4.12 Current Pillar 3 disclosure standards do not require disclosure of projected medium and long-term views on other risks, and the BCBS has not explained why climate-related risk warrants such extensive novel disclosure in the Pillar 3 context.
- 4.13 Transition plan disclosure in a Pillar 3 context would wrongly indicate that a bank's transition plan is a risk management tool and that disclosure will inform the market about a bank's capital adequacy and material risk exposures. Transition plans are strategic business plans, not climate risk management tools.
- 4.14 The IFRS S2 includes a transition planning disclosure requirement for firms that have a transition plan. In the EU, banks will be required to disclose their transition plans under the European Sustainability Reporting Standards (ESRS).

## 5. Quantitative disclosure requirements

### 5.1. General

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

- 5.1.1 Whilst we can see some merit in BCBS's Pillar 3 quantitative proposals in countries that do not adopt IFRS S2 or similar standards for climate risk, we do not see benefits outweighing the disadvantages.
- 5.1.2 Even in countries that do not adopt IFRS S2 or similar climate risk standards, there would need to be wider implementation of qualitative and quantitative climate risk disclosures beyond the banking industry to enable high quality and comparable disclosures of banks climate-related financial risks.
- 5.1.3 Even in such countries, banks may struggle with some of the disclosures proposed by BCBS if bank's customers are not required to make similar disclosures, such as sector and facilitation disclosures.

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<sup>20</sup> See OPE10.1 Definition of operational risk <https://www.bis.org/baselframework/BaselFramework.pdf>.



5.1.4 In jurisdictions that have or are on the path to adoption of ISSB IFRS standards, we see no merit in duplication of disclosures and in fact seen more disadvantages from a cost benefit analysis, not just from banks' perspectives, but also from national supervisors who will need to have significant accountability and responsibility to issue definitions and details guidance needed to meet a number of the quantitative templates.

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

5.1.5 We recommend that BCBS give national supervisors discretion to allow dispensation from meeting BCBS proposals if ISSB or similar climate risk standards have been implemented.

5.1.6 Mandating disclosures that enhance comparability may seem beneficial, but if the data is not available at a sufficiently detailed level, imposing such a requirement is not suitable and will ultimately not result in comparable data (even if template requirements align). Mandatory disclosures also do not complement materiality and proportionality required across climate related risk disclosures given different sizes and business models within the banking industry.

5.1.7 It is also essential to take into account the differences between domestic and international banks operating in emerging markets; data is far less available in some jurisdictions with less advanced real-economy or corporate reporting regimes, and this once again will result in lower comparability and granularity.

*Q19. What key challenges would exist for preparers or users of the proposed quantitative Pillar 3 climate related financial risk disclosure requirements? How could these be overcome?*

5.1.8 See Section and responses to Q 3.

5.1.9 The suggested disclosure obligations present considerable difficulties due to the scarcity of available data, especially in banks that may have operations in emerging economies. For instance, acquiring detailed, dependable, and systematically collected data, is challenging because of underdeveloped regulatory frameworks and limited access to public data in these economies.

5.1.10 The establishment of systems for data collection, verification, and validation can be exceptionally costly and time-intensive. Moreover, discrepancies in how data is segmented compared to current credit reporting practices, along with the potential sensitivity of commercial information, create issues regarding reconciliation and transparency.

5.1.11 At the appropriate time after IFRS S2 disclosures are in train and if additional Pillar 3 disclosures are deemed necessary from a market discipline context, then any new mandates should be aligned with established reporting practices to ensure uniformity and minimise repetitive reporting. We would also recommend a phasing in of comprehensive requirements progressively, providing ample time for the maturity of data infrastructure and regulatory frameworks.

5.1.12 BCBS should encourage cooperative efforts among banks to jointly collect and disseminate the required data, thereby easing the load and expense for individual institutions.

5.1.13 Banks should be encouraged to utilise sanctioned substitute data and globally accepted methods for calculating emissions where appropriate, to enhance comparability and lessen dependence on inaccessible data.

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

5.1.14 At this time, we do not see the need for any additional quantitative Pillar 3 climate related financial risk disclosures. However, following the ISSB's anticipated work on connectivity between climate risk and financial reporting, we expect there to be interconnected disclosures. However, we see this as

a natural evolution of the ISSB's work and do not see the requirements for them to be advanced ahead of or duplicated in BCBS's Pillar 3 climate risk proposals.

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

5.1.15 The adoption of the “strategy, reporting and metrics” approach of ISSB IFRS standards will over time lead to more meaningful risk disclosures that reflect banks’ strategy, business models, risk appetite and risk management.

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

5.1.16 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, with the exception of the EBA Pillar 3 requirements. For instance, the IFRS S2, and the TCFD framework before it, prescribe categories of cross-industry metrics but they do not specify details on climate-related transition risks<sup>21</sup> and climate-related physical risks.<sup>22</sup>

5.1.17 The BCBS proposals for quantitative metrics are 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 financial risk. This is inappropriate for the purposes of Pillar 3, could generate confusion among market participants, and may duplicate existing Pillar 3 disclosure requirements.

5.1.18 Additionally, until there is a substantial enhancement in the availability and quality of data, the desired level of detail in reporting will not be precise, comprehensive or comparable.

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

*Transition risk: exposures and financed emissions by sector*

5.1.19 The BCBS Pillar 3 proposals are considerably more granular compared with IFRS S2 requirements. Whilst climate financial risk has been subject to voluntary disclosures by larger organisations, including banks over a number of years, climate risk is still in its infancy compared with Pillar 3 disclosures relating to other well established, managed and monitored financial risks such as credit risk. Having the level of granularity analogous to the most granular of credit risk quantitative templates is also not appropriate or warranted and likely to mislead users as to the level of data quality and sophistication.

5.1.20 The BCBS proposals require climate risk disclosures to be disclosed alongside credit risk templates. We are concerned that there will be misleading interpretations that climate risk is credit risk and also that exposure measures may be the same.

5.1.21 These disclosures contemplated by BCBS, that almost duplicate those of ISSB standards in banks’ annual reports or other simultaneous reports may have a detrimental impact on the latter in terms of confusing investors and users. Given that the market discipline concept is already fully addressed by the ISSB standards we do not see any value in the duplicative BCBS Pillar 3 proposals.

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<sup>21</sup> IFRS S2, paragraph 29(b): “climate-related transition risks—the amount and percentage of assets or business activities vulnerable to climate-related transition risks”.

<sup>22</sup> IFRS S2, paragraph 29(c): “climate-related physical risks—the amount and percentage of assets or business activities vulnerable to climate-related physical risks”.

5.1.22 If Pillar 3 becomes the most detailed document for climate risk, this would lead to national supervisors having the responsibility to define components not already defined and for providing interpretations e.g. precise definitions and interpretations Scope 1, Scope 2, Scope 3 where best practice is still emerging in the market.

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

5.1.23 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, CFRF4, and CFRF5 are indicated as "Transition risk" but BCBS has explained its assumption that financed and facilitated emissions metrics would provide meaningful information to the market about banks' capital adequacy and material 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.

5.1.24 It would be misleading to the market for BCBS to suggest that financed emissions disclosure equates to a bank's transition risk-related credit risk exposure. It is unclear why BCBS views emissions as reflecting transition risk that could drive credit risk. Empirical literature indicates that financed emissions are a poor indicator of transition risk.<sup>23</sup>

5.1.25 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 relationship 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.

5.1.26 The BCBS appears to assume that transition risk to a client's business model will translate directly into 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 materialise over the time horizon of the loan.

5.1.27 Client-level or counterparty-level emissions data are commonly used by banks to monitor portfolio alignment with portfolio-level decarbonisation 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 backward-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). It is important to note that emissions are not necessarily the driver of risk unless the price of carbon is implemented across all sectors and this price can then be passed on to customers e.g., construction of low carbon homes is likely to still be carbon intensive due to the nature of the process, but it may be less risky than a loan on an energy efficient mortgage. The same could be applied to a highly emitting asset with no low carbon alternative yet on the market e.g., some heavy-duty vehicles will have low transition risk until an alternative marketable model is on the market.

5.1.28 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

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<sup>23</sup> <https://www.iif.com/Publications/ID/5406/Emissions-Impossible-Quantifying-financial-risks-associated-with-the-net-zero-transition>

climate-related risk factors, which is the stated objective of Pillar 3.<sup>24</sup> Before imposing any new disclosure requirements, 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.

5.1.29 Banks play an important role in financing the decarbonisation of high-emitting sectors (sometimes referred to as “transition finance”). In some cases, providing such finance will result in a temporary increase in financed emissions. Any regime that equates financed emissions with heightened transition risk could inadvertently disincentivise transition finance at the time it is most acutely needed. The BCBS proposals need to be sensitive to this risk.

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

5.1.30 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, as set out in a separate paper by UK Finance,<sup>25</sup> 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:

5.1.30.1 There is a high dependency on estimation methods, which can vary in complexity/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.

5.1.30.2 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.

5.1.30.3 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.

5.1.30.4 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.

5.1.30.5 Scope 3 financed emissions calculation at subsidiary level 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.

5.1.30.6 Including the Scope 3 emissions of portfolio companies results in double/triple counting of emissions across value chains for example, Scope 3 of the Oil & Gas sector.

5.1.30.7 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.

5.1.31 A significant number of companies are not legally obligated to quantify and report their emissions, which complicates the process of obtaining data. The extent to which companies comply with CDP or alternative reporting frameworks, obtain external verification, and set emissions reduction goals differs markedly among industries. Detailed, dependable, and systematically collected data is often in short supply, and when available, it may be dispersed across various systems, hindering its integration into metric computations.

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

5.1.32 See response to Q 25.

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<sup>24</sup> This aligns with the [guiding principles for Pillar 3 disclosures](#) of ‘meaningfulness’ and ‘comprehensiveness’ as set out by BCBS..

<sup>25</sup> <https://www.ukfinance.org.uk/system/files/2023-12/UK%20Finance%20DESNZ%20Scope%203%20reporting.pdf>

- 5.1.33 It is important to acknowledge that the principal issue lies in the availability and quality of data. To address this, industry collaboration and improved data storage mechanisms are essential, including:
- 5.1.33.1 a unified sector classification system for large corporations.
  - 5.1.33.2 Harmonised assumptions regarding emissions factors.
  - 5.1.33.3 Further investment in data infrastructure to mitigate challenges.
  - 5.1.33.4 Solutions to addressing discrepancies in sector definitions across various regulatory reporting frameworks, leading to the need to manage multiple definitions for the same obligors. The task of documenting the geographic locations of operations for obligors with international activities is also problematic.
  - 5.1.33.5 Moving disclosure of information by obligor to Internal Capital Adequacy Assessment Process as sensitive and proprietary.

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

- 5.1.34 BCBS should articulate the exact sectors and their associated activities to be encompassed within the disclosure's remit. Should the BCBS intend to utilise a distinct sector classification standard, it would be advantageous for the disclosure stipulations to clearly identify the precise sector codes that fall within the scope and provide mapping to other established frameworks such as ISIC, NACE.

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

- 5.1.35 Although the BCBS is proposing the Global Industry Classification Standard (GICS) consistent with the IFRS S2, GICS is not commonly used across jurisdictions. To aid comparability to support Pillar 3 disclosure users, the BCBS could publish a mapping between GICS and the most commonly used regional industry classification standards in BCBS member jurisdictions.
- 5.1.36 We do not recommend specifying a set approach for sector classification as such specification without discretion would make the disclosures misalign with internal strategy and risk management. It will also add to operational burden in banks by creating unnecessary reconciliation processes and could lead to delays in publication. It is also important to look at the assets that banks invest in as opposed to just the industry that they are investing in. Many high carbon sectors will have low carbon or 'green' aspects of their business operations. Materiality should be taken into consideration as this will not disincentivise lending to green initiatives in high carbon sectors.
- 5.1.37 There are requirements to disclose some aspects irrespective of materiality, such as disclosure carbon intensity for all 18 sectors irrespective of materiality. This contradicts with the principles of annual report disclosure thresholds and also importantly the principles in IFRS S2. If BCBS Pillar 3 proposals mandates that all sectors need to be disclosed the notion of how a bank manages risk or sectors that are material is removed.
- 5.1.38 All sector reporting irrespective of relevance to risks is potentially heading towards a 'double materiality' lens rather than the financial materiality lens of the ISSB IFRS standards.
- 5.1.39 Production intensity is mandated but some firms may be capable of disclosing better metrics in terms of absolute emissions. We appreciate the approach lends itself to consistency but BCBS should provide flexibility in keeping with ISSB IFRS principles.
- 5.1.40 We recommend flexibility or suggest BCBS develop a standard mapping system between the most used classifications to promote comparability

*Q29. Would it be useful to require disclosure of the specific methodology (such as Partnership for Carbon Accounting Financials (PCAF) used in calculating financed emissions?*

- 5.1.41 Banks should continue to provide clarity on their approach to calculation of financed emissions. This typically forms part of their annual report and supplementary disclosures. In many instances, the

approaches are complex. Even where banks follow specific methodologies, e.g. PCAF, there continues to be diversions across the industry for example the scope of emissions for sectors, what lending are included (on/off balance sheet, facilitated emissions) and therefore a simple reference to a methodology would not be sufficient to drive comparability.

- 5.1.42 We do not support prescribing a specific methodology for calculating financed emissions while best practice is still under development. However, we strongly recommend disclosure of details and assumptions underpinning methodologies used. This will make comparability between reports easier for firms and show where comparisons are not appropriate.
- 5.1.43 Prescribing specific methodologies for Pillar 3 disclosures would further increase the burden for firms that have taken alternative approaches.

## ***5.2. Physical risk: exposures subject to climate change physical risks***

### ***Q30. Would exposures subject to climate change physical risks be a useful metric for assessing banks' exposure to physical risk?***

- 5.2.1. The ability for this template to create value is in having consistent definitions and methodologies, so all banks are reporting on a consistent basis. Requiring jurisdictions to define these could lead to differing levels of geographic granularity (continental, country, region, department or even smaller), sensitivity to the risk and the time horizon being considered. Differing views by jurisdiction would hinder comparability and would also pose challenges to banks that operate across multiple jurisdictions.
- 5.2.2. The BCBS approach should align with ISSB IFRS guidance. Where BCBS chooses to adopt its own approach, there would be a need for defined climate scenarios for the disclosures of physical risks to be useful.
- 5.2.3. BCBS should consider giving banks that have developed the capability to collect information about and quantify their residual risks the possibility to disclose their net exposure, i.e. net of private and public insurance coverage, based for example on available national catastrophe schemes or similar frameworks, to better reflect their actual exposure to physical risks.
- 5.2.4. To start with, any quantitative disclosure of exposure to physical risk should be limited to loans collateralised on residential and commercial properties. The allocation of corporates to a specific geographic region or location will be problematic for all but localised activities. Many corporates operate over multiple geographic locations and so determining a company's exposure to physical risk based on one of those locations would not provide a meaningful measure of the risk exposure.
- 5.2.5. Specific metrics like energy efficiency of all real estate collateral in KWh/property area (residential and commercial) will be subject to significant data availability constraints, as well as consistency issues arising from different national approaches (e.g. see our note on UK EPC measurements above). IFRS S2 gives flexibility to firms to consider/adapt metrics to their actual risk management.
- 5.2.6. Other requirements incremental to IFRS S2 requirements include:
  - 5.2.6.1. Property assets in locations sensitive to physical risk
  - 5.2.6.2. Energy efficiency of property assets in KWh/area – this requirement would provide a comparable measure of energy efficiency across different jurisdictions but would be dependent on mapping EPC (or equivalent) ratings to the suggested bandings. Further guidance would be required to ensure consistency and comparability of reporting.
  - 5.2.6.3. IFRS S2 requires the amount and percentage of assets or business activities vulnerable to climate-related physical risk to be disclosed, however there is no prescription as to the level of granularity required and this should reflect the firm's approach to assessing and managing physical risk. Given the subjective nature of this assessment (and potential jurisdictional divergence), the usefulness of the BCBS proposed table on exposures subject to physical risks is questionable.

- 5.2.6.4. IFRS S2 requirements state the need to disclose performance against targets, whether absolute or intensity based. The quantitative table in BCBS proposals prescribing the emission intensity per physical output and by sector is a level of granularity that is over and above IFRS S2 requirements. There should be flexibility to disclose either physical intensity or economic intensity.
- 5.2.6.5. The IFRS S2 does not prescribe facilitated emissions quantitative disclosure and given the nascent stage of this methodology as stated above it seems too soon to prescribe granularity in this space.

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

- 5.2.7. National supervisors should aim to harmonise the geographical regions they define at a jurisdictional level into a universally accepted standard. The task of aligning previous exposure assessments, which employed varying geographical regions, with those of future assessments that use different regions, could prove difficult. Hence, any reporting mandates that call for historical trend analysis should take into account the complexities and associated costs of re-evaluating past assessments.
- 5.2.8. 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 jurisdictions 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 jurisdictions with areas that face higher physical risks.<sup>26</sup> The methodology and list of countries 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.
- 5.2.9. Much physical risk data also relies on assumptions meaning there is a risk of inconsistency between data sets. There is likely to be very different outcomes based on the scope of different risks used (e.g. Pluvial, surface and coastal flooding). One of our members recently had data from two different market leading providers and there was a substantial difference in outcomes based on the assumptions and their internal definitions of risk. Firms also do not collect flooding or physical risk data on all assets/businesses as this is not always relevant, we would therefore ask for proportionality to be considered in cases where there is a lack of data or this is not relevant.

*Q32. What alternative classification approaches could the Committee introduce for the classification of geographical region or location subject to climate change physical risk to reduce variability and enhance comparability amongst banks?*

Refer to response to Q31.

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<sup>26</sup> 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.

*Q33. What additional physical risk disclosure requirements should the Committee consider?  
Bank-specific metrics for quantitative climate disclosures*

- 5.2.10. The CRFR2 template seems to not distinguish between chronic and acute physical risks. It would be beneficial to receive clarification from the BCBS on whether they plan to introduce this distinction at a later stage.
- 5.2.11. Disclosures that detail the bank's own vulnerability to physical risks, especially concerning the effects on its owned or leased assets or infrastructure, would offer important information.
- 5.2.12. The adoption of uniform definitions for physical risk hazards would improve understanding and promote uniformity in how institutions interpret these risks.
- 5.2.13. Metrics should be tailored to each bank for quantitative climate disclosures.

*Q34. What are your views on the prudential value and meaningfulness of the disclosure of the proposed bank-specific metrics on (i) asset quality (non-performing exposures and total allowances); and (ii) maturity analysis?*

- 5.2.14. We do not consider that climate risk disclosures are mature enough to warrant development on asset quality and allowances at this stage, especially given the long time frame and the likely minimal losses at this time.
- 5.2.15. Maturity analysis should be consistent with those used in the BCBS disclosures connected to credit risk.

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

- 5.2.16. Banks continue to face difficulties in obtaining data with the necessary level of detail. Additionally, there are issues regarding the ability to compare data across different banks.
- 5.2.17. Adoption of a standard global approach, consistent for both banks and non-banks such as that offered by the ISSB IFRS standards, will be one mechanism to improve availability of data.

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

- 5.2.18. We question whether it is appropriate for national supervisors to have responsibility to determine geographical regions or locations subject to climate change physical risks. There are likely to be adverse political and reputational risks for national supervisors and central banks. At the other end of the spectrum, it may be appropriate to consider that every organisation in every jurisdiction is subject to some level of physical climate risk.
- 5.2.19. Sensitivity of a location or region to climate change physical risks is a spectrum, and where a jurisdiction or bank draws a threshold on that spectrum can be subjective and relative. As a result, it is important for global comparability that definitions and thresholds are aligned as much as possible. For example, a regulator in one country may consider physical risk for areas of their country against the spectrum of physical risk encountered within that country, whereas other jurisdictions may set their thresholds relative to the spectrum of risks encountered globally. Banks disclosing against these two thresholds will not be comparable. It would therefore be beneficial for a common global definition or threshold for sensitivity to physical risk, so that disclosures on exposure to these areas are comparable globally.



- 5.2.20. As mentioned above, the concept of relativity for the spectrum of physical risk sensitivity also applies to individual banks internal processes and climate disclosures, and those geographic areas determined as "sensitive" for Pillar 3 reporting. For example, a UK only mortgage lender may consider their threshold for areas sensitive to physical risk relative to the scale of risk observed or forecasted within the UK, but this may be very different when observed relative to the global physical risk spectrum. This internal threshold for risk may also feature in external disclosures to meet ISSB requirements, which could lead to diverging disclosures between annual reports and pillar 3 disclosures.
- 5.2.21. This issue is observed in existing EU Pillar 3 ESG disclosures, where various methodologies and thresholds for "physical risk sensitivity" appear to have been applied, it is also not clear whether these Pillar 3 reporting thresholds align to internal risk management practices.

### 5.3. Forecasts

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

- 5.3.1 In other Pillar 3 disclosures, the term 'targets' is used rather than 'forecasts', which necessitates a precise definition due to the strategic connotations associated with forecasting. It would be beneficial for the BCBS to provide a clear definition of 'forecasting'. Typically, forecasts, particularly those related to decarbonisation goals, are made available and reported in terms of emissions intensity rather than absolute emissions. This is not in line with the rest of the Pillar 3 disclosures, and consideration should be given to their relevance. Using targets might be a more effective approach. The transition of forecasts from voluntary to mandatory should be gradual and accompanied by standardisation to enhance comparability.
- 5.3.2 Emissions "forecasts" are significantly different to emissions "targets", but these concepts appear to be confused in the current proposals. Generally, 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. 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 (CRFR1, CRFR5) and calculated metrics that rely on forecast emissions (CRFR4). However, the text appears to conflate "forecasts" and portfolio decarbonisation "targets" in some places. Banks' portfolio decarbonisation targets are not forecasts – banks are not forecasting their own view of the future, but rather explicitly using external science-based scenarios aligned with a target of being net zero by 2050 to align with a target outcome. The confusion in terminology 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.
- 5.3.3 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 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 indication is that it would be for one or more years. In general, the aim of Pillar 3 disclosure is not to provide forward-looking estimates.
- 5.3.4 There is also not a widely accepted methodology for GHG emissions forecasting, which is a highly subjective and uncertain. 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.

5.3.5 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. Members would be concerned about legal and reputational risk associated with disclosing forecast information in case forecasts at time ‘TO’ 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 a risk.

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

5.3.6 For forecast information to be practical, it is essential to have clear explanations of the scientific pathway and the methodology employed. The existing guidance falls short in providing context compared to other financial risks, as it does not include additional forecast information.

5.3.7 See response to Q 37

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

5.3.8 Forward looking targets, sector exposures and their attainment can serve as valuable indicators for evaluating banks’ susceptibility to climate-related financial risks.

5.3.9 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. 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.

5.3.10 Furthermore, if the BCBS’s intention is to refer to portfolio decarbonisation 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 disclosure to suggest that banks are using portfolio decarbonisation 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 target outcome, 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).

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

5.3.11 Banks are employing a variety of scenarios and methods, which likely results in forecasts that are not directly comparable. Concerns revolve around disclosure of commercially sensitive information.

*Q4.1. Where forecast information is not available, what alternative information might be useful to assess banks' exposure to climate-related financial risks on a forward-looking basis?*

- 5.3.12 It is not helpful or appropriate to have a requirement that where a forecast is produced, it must be disclosed. There is a vast difference between banks sharing forecasts confidentially with national supervisors and disclosing to the market. There are inherent uncertainties with forecasting and publication could open the door to litigation (i.e. misleading investors). This requirement will also introduce inconsistency between forecasting approaches and issues around lack of completeness.
- 5.3.13 The consultation uses the term “forecasts” inconsistently, alternating between the meaning of “targets” (i.e. achieving emission targets”) and actual forecasts (i.e. “forecasts of future conditions”). When referring to targets, it would be preferable to rename these forecasts as “targets”.
- 5.3.14 Inclusion of forecasted facilitated emissions (i.e. targets) per sub-sectors is a nascent process and it will be difficult to obtain forecast client emissions data. Use of unreliable data can lead to legal and reputation risk. BCBS should at least wait to have back testing on financed emissions before we reconsider inclusion of facilitated emissions.
- 5.3.15 Meaningful target setting at sector level may prove challenging given the volatility of capital markets transactions and the fact that banks may not necessarily exercise full control over the timing, volume and size of the transactions. As such the usability of comparative information year-on-year can be compromised.
- 5.3.16 Facilitated emissions will fluctuate accordingly and will not show any useful information on the emission reduction progress year-on-year if reported by sector. We would welcome the establishment of industry guidance on target setting for facilitated emissions (potentially by SBTi or GFANZ) as the first step before setting disclosure requirements on such targets and forecasted information.
- 5.3.17 Facilitated emissions will fluctuate accordingly and will not show any useful information on the emission reduction progress year-on-year if reported by sector. We would welcome the establishment of globally consistent and accepted guidance on target setting for facilitated emissions as the first step before setting disclosure requirements on such targets and forecasted information.
- 5.3.18 Financed emissions targets are required under IFRS S2 and TCFD, as such baseline and target dates and values would be duplicated across disclosure between the annual report and Pillar 3 report.
- 5.3.19 It should also be noted that transition plans and transition targets – which are effectively forecasts - are subject to substantial uncertainty and will require refinement through time.
- 5.3.20 Regulators will need to be clear on the purpose of banks' transition plans and forward-looking forecasts – i.e. what transition plans seek to do and what they do not seek to do. Such uncertainty has impact on the confidence with which preparers approach their transition plans. These considerations are all the more relevant in light of legal liability for banks and also Directors'/senior manager's personal liabilities and responsibilities.
- 5.3.21 Greater clarity will enhance confidence that companies can be ambitious without being penalised as transitions are refined and updated to reflect new insights, data, technological advances or policy changes. There is an important balance, which regulators will need to strike, between reasonable expectations that banks should be accountable for their claims, and seeking to incentivise ambition in environments of incomplete information (given the noted challenges regarding data/reliance on assumptions and estimates).. UK Finance members tend to view transition plans as a transparency and strategic ambition-signalling tool rather than being also viewed as a supervisory tool. We welcome the recognition that transition planning is a dynamic, adaptive and iterative process.
- 5.3.22 Furthermore, there may be two kinds of transition plan: those focusing on strategy and climate-related targets (IFRS S2/ESRS), and those focusing on assessment and embedding of financial risk

considerations related to the transition (CRD, as per EBA's consultation on its draft guidelines on ESG risk management). Only the second kind of transition plans would have relevance for BCBS P3. It is however in early stages in Europe and will probably start out under Pillar 2. Consequently, it is premature to include such planning in BCBS P3 templates.

#### 5.4. Concentration risk

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

- 5.4.1 At present, the consultation includes qualitative disclosure requirements on 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 on disclosure of information about concentration in a bank's sovereign exposures.<sup>27</sup> However, 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. We acknowledge that geographic locations and sectors are affected differently by physical and transition risks, making such information valuable. Nonetheless, there is a shortfall in how these risks compare to other financial risks, and it is important to maintain consistency with disclosures of other concentration risks.
- 5.4.2 There is not currently a common global definition of what constitutes a 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 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 users and likely cause confusion.
- 5.4.3 It is challenging to define concentration risk in a climate context. A methodology to classify exposures at higher transition or physical risk would be required which, as discussed above, is extremely challenging. Thresholds for what constitutes a 'high degree of concentration' would likely be needed, and discussion and analysis of an appropriate way to define and calibrate such thresholds would be required. 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 the impression that certain sectors or geographies are generally more risky (and that others are generally less risky) because of climate-related factors alone.
- 5.4.4 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.

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<sup>27</sup> See 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."

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

5.4.5 It is important to maintain consistency with disclosures of other concentration risks. Significant concerns exist regarding the acquisition of data with the requisite level of specificity and the potential risks of revealing information that is sensitive from a commercial standpoint. A more fitting approach would be to convey this information through qualitative disclosures or to disclose it confidentially to regulatory bodies.

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

5.4.6 The accessibility of data, particularly concerning the supply chain of counterparties when assessing exposure risk, is a concern. The intricacy of climate-related data and the capacity to generate dependable forecasts for concentration risk present challenges.

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

5.4.7 It's important to adapt this to the local context. Moreover, the guidelines should incorporate uniform definitions for each hazard. For example, a standardised classification of physical risks would enhance comparability.

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

5.4.8 Introduces a level of granularity which is quite difficult as banks may have exposure to certain companies whereby it is difficult to identify what is market risk and / or credit risk. If banks already report emissions at a sector level, this raises questions such as to the intention and the rationale behind introduction of concentration risk.

5.4.9 Inherent in all this is data availability challenges, banks will need to have very detailed knowledge of the specific locations (and their unique climate risk characteristics) their clients operate across. We consider that "concentration" disclosures leave limited scope for higher level modelling / fall-back approaches.

5.4.10 Inclusion of concentration risk would be premature as there is still no common definition of concentration risk in a climate context.

5.4.11 However, if concentration risk were to be included, we agree it would be meaningful for assessing banks' climate-related concentration risk if these exposures were divided into six or seven broadly defined hazards, eg heat stress, floods, droughts, storms, wildfires etc, but adapted to the local context. This would help comparability.

5.4.12 Those firms currently preparing EBA templates are struggling with breaking down the Group level transition plan into legal entities. Therefore, it would be useful to understand at the level of reporting in the BCBS Pillar 3 proposals. Consolidated Group level or other sub-consolidated level managed by the banking group would be our recommendation. This again goes back to the principle of risk management and the level of at which risks are managed by banks.

5.4.13 IFRS S2 very helpfully points to top level as jurisdictional targets for reporting purposes may drive the wrong outcome for global outcomes and targets

## 5.5. Templates

*Q47. What are your views on the structure and design of the proposed templates in relation to helping market participants understand the climate-related financial risks to which banks are exposed?*

5.5.1 Given the existing issues with data accessibility, quality, stability and comparability the suggested level of detail in the reporting is excessive. A gradual implementation of these reports should be contemplated to enhance their clarity. As it stands, Template CRFR2 is considered overly intricate and would present difficulties if submission were mandatory. The design of the template should be harmonised with established reporting standards, like those of the ISSB.

*Q48. Would the potential structure and design of the templates pose any challenges for preparers or users of Pillar 3 climate-related financial risk disclosure requirements? How could those be overcome?*

5.5.2 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 minimise implementation costs and cater for proportionality considerations. In terms of the structure and design of the proposed templates, it is important for preparers and market participants that the content as well as the structure of any final BCBS Pillar 3 standards are interoperable with other similar disclosure requirements, including ISSB IFRS standards and other jurisdictional requirements (such as in the UK and European Union).

5.5.3 There does not appear to much alignment with current reporting templates at present.

## 6. Quantitative disclosure requirements subject to jurisdictional discretion

*Q49. What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion?*

6.1. Jurisdictional discretion acknowledges the varying needs and capabilities of different countries or regions and allows authorities to adapt the quantitative requirements to best suit the specific market and specific regulatory requirements. This could allow jurisdictions to cater for proportionality considerations based on size and complexity of banks in the jurisdiction.

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

6.2. It may result in difference in metrics based on jurisdiction which will make comparison cross jurisdictionally more difficult.

6.3. The suggested climate disclosure requirements are at risk of overlapping with the ongoing Basel 3.1 reforms, which could impose undue strain on banks that are already navigating multiple reporting obligations. For multinational banks with subsidiaries at varying levels of climate policy implementation and reporting proficiency, the task of unifying data and achieving consistent reporting standards across these entities adds an extra layer of complexity.

6.4. Concerns about the availability, accuracy, and integrity of data are significant. Discrepancies between Template CRFR3 and the existing Pillar 3 reporting frameworks exacerbate the challenges associated with data gathering and interpretation. In jurisdictions where sustainability reporting is less well embedded, including in emerging markets and developing economies, the feasibility of comprehensive reporting via Template CRFR3 is questionable.

- 6.5. When it comes to comparability and solutions, the limited data access in certain jurisdictions may impede the ability to make comparisons across different regions.
- 6.6. To ensure good quality climate risk disclosures, supervisors across the world need to work together to align on any final BCBS Pillar 3 tables and templates, if any are considered essential on top of ISSB IFRS standards, accounting for any national discretions which are embedded in such standards. This would mean that individual supervisors would reflect on any existing similar reporting or disclosure requirements for climate-related risk in light of any final BCBS approach and adjust them as appropriate in order to avoid duplicative disclosure requirements. If some supervisory authorities decide to require more extensive prudential disclosures (e.g., the EBA), the common elements should be aligned as far as possible for purposes of global comparability of bank disclosures but otherwise the local standards should be recognised as complying with the global BCBS Pillar 3 standards. 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.
- 6.7. When the BCBS Pillar 3 disclosures are contemplated, there would be some benefits in the proposed distinction between core global tables/templates, and optional tables/templates for implementation at national discretion. This distinction would be practical and appropriate considering the different mandates of some central banks and supervisors, and the different speeds at which jurisdictions are developing approaches to climate-related risks. Nevertheless, it is important that (i) any tables/templates finalised 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 finalisation of BCBS standards, including national discretions, jurisdictions are able to avoid a proliferation of slightly different Pillar 3 requirements across the world.
- 6.8. BCBS should consider significant simplification of the standards to improve proportionality. For other complex parts of the BCBS 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.

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

- 6.9. Facilitated emissions do not have a clear link to capital adequacy or the scope of BCBS framework and adds no value to the objectives of Pillar 3. Therefore, we think this metric is more meaningful in a corporate disclosure that is focused on strategic direction of the bank. It is also important to note that facilitated emissions disclosures offer a snapshot of the extent to which banks are financing or assisting clients with emissions-related activities through various products and services. However, such disclosures do not, by themselves, offer a comprehensive perspective on the banks' commitments to achieving net zero targets or the pace at which they are enabling the transition. It is also important to distinguish between banks as providers of capital via a loan kept on their balance sheets, and as facilitators for capital from investors in a stock or bond deal.
- 6.10. We strongly recommend that the BCBS remove proposed template CRFR5 for facilitated emissions and not propose it even as an option at national discretion.<sup>28</sup> 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. 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 is expected to be significantly more volatile than financed emissions, which makes them even harder to estimate and less meaningful to disclose

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<sup>28</sup> In general, more experience and backtesting for financed emissions methodologies would be helpful to inform understanding of facilitated emissions methodologies.

on an annual basis.<sup>29</sup> We note that the ISSB and jurisdictional regulators in the EU decided not to require facilitated emissions disclosures in their respective standards and requirements.

6.11. See response to Q41.

## 7. Effective date

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

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

- 7.1. We consider that implementation of climate financial risk disclosures could be faster if BCBS endorses IFRS S2 as banks are already familiar with a lot of the requirements given strong linkage to more well-established, albeit voluntary TCFD implementation over a number of years.
- 7.2. Availability of data for banks to comply with the Pillar 3 climate risk disclosure requirements is, and is likely to continue to be, a real challenge across jurisdictions, particularly 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 like 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. Where more client data becomes available due to ISSB IFRS standards implementation and uptake across jurisdictions, this will eventually flow through to banks to support their own analysis and disclosures.
- 7.3. This has implications for the implementation timing of any final Pillar 3 requirements as it is important that sufficient time is provided between IFRS S2 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.<sup>30</sup>
- 7.4. Moreover, the BCBS Pillar 3 proposal contains numerous requirements beyond what would be gathered from clients' IFRS S2-based corporate disclosures, or beyond the data reporting processes a bank would be required to develop to meet its own IFRS S2-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.
- 7.5. Given these factors, we 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. We also recommend that prudential capital regime and supervisory reporting is introduced and embedded first before any contemplation of Pillar 3 proposals.

## 8. Liquidity risk

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

- 8.1. We 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

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<sup>29</sup> Financial institutions are facing this challenge with facilitated emissions in a target-setting context.

<sup>30</sup> [www.ifrs.org/content/dam/ifrs/supporting-implementation/adoption-guide/adoption-guide-overview.pdf](https://www.ifrs.org/content/dam/ifrs/supporting-implementation/adoption-guide/adoption-guide-overview.pdf)



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 Principles for the Effective Management & Supervision of Climate-related Financial Risks (June 2022),<sup>31</sup> 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 banks’ internal capital and liquidity adequacy assessments iteratively and progressively” as analytical gaps are filled and methodologies/data mature.

- 8.2. Requiring standardised 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 and may even cause confusion about BCBS/supervisory expectations for liquidity risk management.
- 8.3. Having reflected on the above, some members consider that the climate-related risks associated with liquidity and funding risk are not material and the costs associated with reporting do not outweigh benefits of reporting. However, we recognise the dynamic nature of climate risk. There is potential for transition risks to reduce customer savings over time but this is likely to be slow and over a longer period therefore not becoming a significant liquidity risk. Physical risks that are particularly acute may cause an outflow of savings as customers draw deposits but these kinds of acute damages from extreme weather events is likely to be isolated/regional and therefore this becomes a concentration risk rather than a climate risk in isolation. This means that this is unlikely to be a substantial driver of risk. Members have carefully considered the associated costs including data gathering, analysis, and reporting burdens. Currently given the perceived level of materiality and our current understanding of these risks, the costs outweigh the identified benefits.

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<sup>31</sup> <https://www.bis.org/bcbs/publ/d532.pdf>.