BCBS consultation on Pillar 3 disclosure framework for climate-related financial risks

Position paper – Executive summary

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On 29 November 2023, the Basel Committee on Banking Supervision (BCBS) released a public consultation paper on implementing a Pillar 3 disclosure framework to address climate-related financial risks, as part of its broader efforts to enhance global banking system stability. The framework comprises qualitative elements such as governance frameworks and risk management practices, alongside quantitative requirements covering sector exposures, financed emissions, and geographical risk assessments. Bank-specific metrics, including credit quality and maturity profiles, are incorporated, with illustrative templates provided. The proposed implementation date for this framework is 1 January, 2026.

General remarks

WSBI-ESBG believes that implementing a Pillar 3 disclosure framework for climate-related financial risks would offer several benefits. It would promote comparability of banks' risk profiles within and across jurisdictions, facilitating market discipline. Additionally, it would enable banks to measure various metrics impacting their portfolios, initiating efforts to manage climate risk effectively. However, the absence of uniform standards may lead to confusion, hence, flexibility for national regulators to adapt the framework to specific contexts is essential. The risks of not introducing such disclosures include a probable delay in the uniform adoption of climate risk management across different banks, leaving risks unattended.

Interoperability and coordination

WSBI-ESBG suggests that the Pillar 3 framework should be sufficiently interoperable with other standard-setting bodies' requirements, requiring extensive coordination at both national and global levels. It emphasizes the importance of not going beyond the existing disclosure frameworks, proposing untested metrics become mandatory only when mature enough.

Enhanced disclosure frameworks and methodologies

WSBI-ESBG emphasizes the need for robust methodologies and frameworks to effectively assess and disclose climate-related financial risks, including liquidity risk disclosures, bank-specific metrics, and concentration risk disclosures. Addressing challenges in data interpretation and collection is crucial for meaningful risk assessment.

Forecasts and forward-looking Information

WSBI-ESBG recognizes the potential value of including forecast information in Pillar 3 disclosures, such as climate scenario projections and transition risk scenarios. However, it highlights the challenges associated with obtaining accurate forecasts, especially concerning borrower-level emissions information. While forward-looking information could provide valuable insights, feasibility and reliability issues must be addressed before its inclusion in disclosure requirements.

Transition risk exposures and facilitated emissions

WSBI-ESBG highlights the importance of assessing banks' exposure to transition risks and facilitated emissions. While these metrics offer insights into climate-related financial risks, challenges exist in data availability, quality, and consistency. It suggests a phased approach to implementation and emphasizes the need for regulatory guidance and collaboration to overcome these challenges effectively.

Physical risk exposures and hazard classification

WSBI-ESBG recognizes the relevance of assessing banks' exposure to physical risks and suggests dividing exposures into broadly defined hazards for better understanding and comparability. However, challenges exist in data granularity, quality, and consistency, which must be addressed to enhance the meaningfulness of disclosures in assessing banks' climate-related concentration risk.

Transitional Arrangements and Effective Date

Overall, WSBI-ESBG stresses the relevance of the proposed disclosures in understanding banks' exposure to climate-related financial risks and suggests transitional arrangements and further analysis for liquidity risk impacts.

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