POSITION PAPER

WSBI–ESBG Position Paper to the BCBS consultation on Pillar 3 disclosure framework for climate-related financial risks

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Consultation Questions

General

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

Answer:
A Pillar 3 disclosure framework facilitates interbank comparison. It enables Banks to initiate measures to initiate efforts in measuring various metrics in Climate Risk impacting the Bank's portfolio. However, in absence of uniform standards of metrics and approaches towards measurement of Financed / Facilitated emissions at portfolio/borrower level, the information may lead to confusion among the recipients of the information with each bank adopting its own methods. Hence, flexibility should be given to national regulators to adapt the core framework to country specific context and capacity levels.

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

Answer: Not introducing disclosures is likely to result in probable delay in uniform adoption of Climate Risk management across different banks leading to risks being unattended

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?

Answer: Yes. Implementation of a Pillar 3 framework for climate-related financial risks would significantly aid market participants in understanding the exposure of banks, to such risks.
Disclosures help as regulatory push from both industry and banks.

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?

Answer: Yes, However, it will require extensive coordination both at national level and at global levels.

The BCBS should not go beyond the extensive and highly complex disclosure frameworks already in place within the EU under the Capital Requirements Regulation (CRR) and the Corporate Sustainability Reporting Directive (CSRD). Therefore, we propose that the following points are considered in the following process:

- Untested metrics, such as off-balance financed emissions and facilitated emissions, should only become mandatory when a certain degree of maturity was reached and relevance of the information to market participants was established beyond doubt. Currently, this appears questionable as both the sufficient data and the necessary calculation methodologies are not available. In our view, results-oriented and science-based development and testing of those metrics should precede any disclosure obligation in order to ensure a serious and sound implementation. Moreover, disclosure should be streamlined to focus on market-oriented information that offers added value.

The proposed classification of sectors according to the Global Industry Classification Standard (GICS) and the Task Force on Climate-Related Financial Disclosures (TCFD) differs from EU regulation, which uses NACE-codes. This can create divergencies. In our view, sector delimitation should be left to the implementing jurisdictions. Alternatively, a mapping table to NACE-codes should be published by BCBS.

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

Answer: The availability, sophistication and reliability of data is critical, and any framework designed with these limitations could lead to the wrong conclusions, especially given the disparity in data availability and quality across geographies.

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

Answer: This may be avoided, and the framework should mature first through successive interactions in Banking book transactions.

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

Answer: The proposed classification of sectors according to the Global Industry Classification Standard (GICS) and the Task Force on Climate-Related Financial Disclosures (TCFD) differs from EU regulation, which uses NACE-codes. This could lead to the unintended consequences of including some vulnerable communities/geographies to provide credit. In our view, sector delimitation should be left to the implementing jurisdictions. Alternatively, a mapping table to NACE-codes should be published by BCBS.

As Pillar 3 disclosure is subject to materiality assessment there should be no requirement for disclosures regardless of their materiality (see instructions for CRFR1 and CRFR5 - 18 TCFD sectors should be disclosed regardless of materiality assessment).

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

Answer: Striking a balance between national discretion and mandatory elements is essential to foster effective climate-related financial risk management.

Flexibility allows adaptation to local contexts, encouraging broader adoption, while mandatory standards ensure consistency, comparability, and a common baseline for risk assessment and disclosure, facilitating global understanding and collaboration.
All elements could be left to national discretion as a first phase.

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?

Answer: The legal risk is amplified due to the underlying data issues as also internal capacity building within institutions.

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

Answer: At present, we do not see the need for additional assurance / audit. Selective assurance areas may be identified in a phased approach.

Qualitative disclosure requirements

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

Answer: The proposed qualitative Pillar 3 climate-related financial risk disclosure requirements offer benefits such as:

- Governance frameworks and policies
- Strategic insights into preparedness and future planning to adapt to climate challenges.
- Engagement with stakeholders
- Enhanced Transparency by disclosures

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

Answer: Making the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements mandatory would significantly enhance comparability across banks.
Standardization of metrics is also required, before making disclosures mandatory.
However, mix of mandatory and non-mandatory exposures could also be considered.

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?

Answer: Challenges would be the subjectivity and level of interpretation, data availability and quality/reliability, compliance to regulatory instructions, standardisation in measurement metrics, Capacity especially in terms of qualified and trained manpower with climate expertise as well as domain knowledge across banking.

The measures to overcome these challenges are: Capacity Building, Regulatory guidance and support, Collaboration with reputed data providers, Meaningful and transparent disclosures by entities.

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

Answer: No additional requirements are necessary at this stage.

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?

Answer: Simplified approaches may be considered to begin with, with enhancements in a phased manner.

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?

Answer: The proposed requirements can facilitate interbank comparison in terms of Green/Brown/Red Portfolio. They can enable Banks to initiate measures to reduce/mitigate climate risks as well as facilitate regulators to build better controls and regulations towards the NetZero Transition Plan.
The requirement to disclose whether and how the bank prioritises climate-related financial risks relative to other risks should be removed (CRFRA). In addition, concentration risk is an overriding single aspect that should not be disclosed separately for climate-related issues.

Quantitative disclosure requirements

General

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

Answer: The benefits are Quantification of Risks, Comparability and Benchmarking, Risk Assessment and Decision-making, Investor and Stakeholder Insights, Regulatory Compliance and Oversight, Long-term Planning and Resilience.

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

Answer: Making the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements mandatory would significantly enhance comparability across banks.
A critical requirement would be regulatory advisory/instructions on Standardization of metrics, before making disclosures mandatory.
However, a mix of mandatory and non-mandatory exposures could also be considered.

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?

Answer: Challenges would be the subjectivity and level of interpretation, data availability and quality/reliability, compliance to regulatory instructions, standardisation in measurement of metrics, Capacity especially in terms of qualified and trained manpower with climate related domain knowledge.

Ex: CRFR1 – Transition Risk: Data challenges in GHG financed emissions: GHG absolute emission forecasts require extensive engagement with corporates which must be supported by regulatory requirement to materialise. As Transition risks are dependent upon policy level decisions, technology among others, proxy data may not be effective.
Real Estate Exposures in mortgage portfolio by energy efficiency level: May be put on hold for now as obtaining data on energy consumption at unit level is challenging and involves engagement with a substantially large no. of people in mitigation outreach. To be left to local jurisdiction. Moreover, measuring the real energy consumption on unit level leads to severe data protection issues, which must be solved before setting reporting obligations.
Emission intensity per physical output: Also getting the data is significantly challenging.
Facilitated Emissions: May not have significant impact for banking sector as getting data is challenging from units not enjoying credit facilities.

The measures to overcome these challenges are: Capacity Building, Regulatory guidance and support, Collaboration with reputed data providers, Meaningful and transparent disclosures by entities, legal basis for Data Disclosure on real estate single unit level.

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

Answer: No additional requirements to consider at this stage.

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?

Answer: Simplified approaches may be considered to begin, with enhancements in a phased manner.

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?

Answer: They are relevant to the extent that they pitch forth the Climate Risk Management at industry level**.**

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

Answer: The calculations require specialized expertise, access to comprehensive data sources, and sophisticated modelling tools. Also, it would be a significant help if regulator recommend tools/methodologies to be used, at least as a minimum level of compliance.

<u>Transition risk: exposures and financed emissions by sector</u>

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

Answer: They are useful to begin with. However, Transition Risk involves a larger and varied coverage with different stakeholders as Government, Regulator, Industry etc.

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

Answer: Data is a major challenge. However, with more institutions, industries require to use the data and put in place necessary frameworks, data quality and coverage is likely to improve.

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

Answer: Challenges are: Data Granularity, Quality and Consistency, Complexity in Metrics Calculation and Reporting, uniformity in adoption by different Banks. Mandatory reporting requirements for a larger number of corporates would ensure availability of significant data in public domain.

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

Answer: No additional requirements to consider at this stage.

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?

Answer: Classification must be as per local jurisdiction. The industry classification standards as advised by the local authority should only be applicable.

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?

Answer: Yes, globally acceptable and standard methodologies like Partnership for Carbon Accounting Financials (PCAF) or similar are more useful.

<u>Physical risk: exposures subject to climate change physical risks</u>

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

Answer: Yes, if the methodology is aligned with metrics already in use (e.g. the ones described in the Taxonomy delegated acts).

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?

Answer: Any regulatory guidance would significantly facilitate uniform adaptation and comparability among different banks.

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?

Answer: Regulators should set the standards specifically for each geographical region or location.

Q33. What additional physical risk disclosure requirements should the Committee consider?
Answer: No additional requirements to consider at this stage

<u>Bank-specific metrics for quantitative climate disclosures</u>

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?

Answer: May not be of immediate value unless proper methodologies are evolved which can reasonably estimate asset quality duly factoring in for evolving risk mitigation mechanism.

Q35. What challenges would exist for preparers or users of these disclosures? How could these be overcome?
Answer: Challenges would be the subjectivity and level of interpretation, data availability and quality/reliability, compliance to regulatory instructions, standardisation in measurement metrics, Capacity especially in terms of qualified and trained manpower with climate related domain knowledge.

The measures to overcome these challenges are: Capacity Building, Regulatory guidance and support, Collaboration with reputed data providers, Meaningful and transparent disclosures by entities.

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

Answer: No additional requirements to consider at this stage.

<u>Forecasts</u>

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?

Answer: This aspect may be taken up after basic infrastructure & capabilities for measuring and monitoring climate risk are in place. Significant challenges in getting borrower level emissions information including forecast.

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

Answer: It might be useful; however feasibility of such forecast is challenging to accomplish.

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

Answer: Climate Scenario Projections, Transition Risk Scenarios, Physical Risk Projections, Sector-Specific Impact Forecasts, Carbon Pricing and Regulatory Forecasts etc.

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

Answer: The major challenges would be Data Quality, availability and Reliability, Interpretation Complexity, Forecasting Models etc.

Measures to overcome these challenges are: Regulatory Guidance and Reputed data providers, Standardized Methodologies, Transparency in Assumptions etc.

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

Answer: The regulator/legislator could help in facilitating such forecasts.

Concentration risk

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

Answer: In the absence of a regulatory framework detailing the methodologies and metrics, the intended recipient of the information may not be able to correctly evaluate risk and mitigation mechanism as different banks may adopt different approaches, and data granularities in arriving at requireddisclosures. Concentration risk is an overriding single issue that should not be disclosed separately for climate-related issues.

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?

Answer: Qualitative disclosures provide a platform to contextualise Quantitative disclosure output. However, given the current complex nature of these metrics, the narrative also be challenging. Concentration risk is an overriding single issue that should not be disclosed separately for climate-related issues.

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?

Answer: Challenges are Data Collection and Quality, Modelling Complexities, Interpretation Complexity, Comparability Across Institutions and Confidentiality Concerns etc.

Measures to overcome these challenges are:
Regulatory guidance and support, Reputed Data providers, Capability building and expertise to articulate current position and justify forward looking scenarios is a critical requirement and there is dearth of such expertise in the numbers required, if the disclosures became mandatory. May be sufficient head time to be given.

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

Answer: Yes, physical risk events of six or seven broadly defined hazards, such as heat stress, floods, droughts, storms, wildfires, etc., might be helpful in gathering event wise data for assessing banks' climate-related concentration risk, provided that this classification is already in place according to EU-wide legislation, especially by EU taxonomy rules.

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

Answer: No additional requirements to consider at this stage.

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?

Answer: The proposed templates are adequate for the purpose of meaningful disclosures.

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?

Answer: Challenges: Data availability, quality and consistency, Complexity in Data Interpretation and Compilation. Further challenges may arise while attempting the exercise.

Potential Solutions: Regulatory Guidance and support, Streamlined Reporting Frameworks, reputed data providers.

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?

Answer: Should be subject to local jurisdiction and local (national) norms.

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?

Answer: Key challenges are Compliance Complexity, Data Availability and Quality, Comparability and Consistency, Increased Complexity in Analysis.

Potential Solutions to overcome challenges: Harmonization Efforts, Standardization of Core Elements, Guidance and Support, International Frameworks and Collaboration, Continuous Dialogue and Iterative Improvement.

Q51. What are your views on the feasibility, meaningfulness and practicality of banks' disclosure of facilitated emissions?
Answer: While it is a necessary tool in direction of climate risk management efforts, significant challenges have to be negotiated in the process.
GHG projections (decarbonisation targets) for additional sectors and a requirement to disclose off-balance sheet positions extend the BCBS requirement beyond existing EU disclosure and reporting requirements. These requirements further increase the administrative and reporting burden and should be removed. The methodologies for facilitated emissions (e.g. published by PCAF in December 2023) are not yet mature, there is currently no market consensus on their use. Facilitated emissions in general could therefore be disclosed on a voluntary or phased basis.

Effective date

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

Answer: The potential effective date for implementation, i.e., 1st January 2026, may be a bit early. Further interim stages /milestones can be identified. It should initially be voluntary. It should not become mandatory until 2027/2028 at the earliest. With regard to the disclosure of facilitated emissions, an appropriate phase-in period would be desirable.

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

Answer: Transitional arrangements such as Data Collection and Infrastructure Enhancement, Capacity Building and Training, Data Availability and Reliability, Standardization and Consistency, Regulatory Clarifications and Guidance etc., are required from now on, to make the Banks comfortable to implement the desired disclosures as expected. With regard to the disclosure of facilitated emissions, an appropriate phase-in period would be desirable.

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?

Answer: Yes, the Committee may explore extending the proposal to consider the impacts of climate-related financial risks on deposits/funding and liabilities. However, further analysis is required before considering the explicit inclusion of liquidity risk aspects in climate-related disclosures.

About WSBI (World Savings and Retail Banking Institute)

Founded in 1924, WSBI brings together savings and retail banks from 67 countries, representing savings and retail banks worldwide. WSBI focuses on international regulatory issues that affect the savings and retail banking industry and provides a platform for knowledge exchange between member banks. Its aim is to achieve sustainable, inclusive, and balanced growth and job creation. Supporting a diversified range of financial services to meet customer needs, WSBI favours an inclusive form of globalization that is just and fair. It supports international efforts to advance financial access and financial usage for everyone. WSBI recognizes that there are always lessons to be learned from savings and retail banks from different environments and economic circumstances. It, therefore, fosters the exchange of experience and best practices among its members and supports their advancement as sound, well-governed, and inclusive financial institutions.

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About ESBG (European Savings and Retail Banking Group)

ESBG is an association that represents the locally focused European banking sector, helping savings and retail banks in 16 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 871 banks, which together employ 610,000 people driven to innovate at 41,000 outlets. ESBG members have total assets of €6.38 trillion, provide €3.6 trillion billion in loans to non-banks, and serve 163 million Europeans seeking retail banking services.

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