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CFA Institute appreciates the opportunity to response to the Basel Committee on Banking Supervision's consultation on a Pillar 3 disclosure framework for climate-related financial risks. We thank CFA Institute members from Germany, Spain, Ireland and the United Kingdom for sharing their views, which have been incorporated in our responses below.

Consultation questions

5.1. General

1) **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?**

The proposed Pillar 3 disclosure framework for climate-related financial risks would significantly promote comparability of banks' risk profiles within and across jurisdictions, allowing for more accurate benchmarking and competition. In addition, the disclosures have the potential to mitigate information asymmetry between banks and stakeholders as the latter would have a better awareness of banks' risk profiles.

The framework would enormously empower banks to better manage risks, and finance transition projects. It would also be helpful to investors and regulators, facilitating their assessment and comparison of climate related risks across different jurisdictions.

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

The main risk relates to the over-engineering of regulation on ESG disclosures for banks, which could lead to confusion for investors. Another risk is related to a possible over-emphasis on compliance with this framework, which could go at the expense of effective risk management.

3) **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?**

Yes, we believe that market participants will be able to better assess the climate-related financial risk exposures of banks and how banks are managing these risks. However, clarity for investors would also rely on the level of detail that will be disclosed by banks.

4) **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?**

In order to be sufficiently interoperable with the requirements of other standard-setting bodies, regulators should focus on the harmonisation of definitions and methodologies with other standards around the world, like the standards by International Sustainability Standards Board, and the Carbon Disclosure Project standards.

CFA Institute appreciates that the Basel Committee is acknowledging the current lack of internationally agreed terms and methodologies necessary for ensuring consistency and comparability of disclosures. We are also pleased that the Committee will be considering incorporating a certain level of flexibility in this framework, including the introduction of additional quantitative metrics that would not be mandatory, but subject to jurisdictional discretion. This is a positive feature of this framework as it recognizes the diverse range of banks' activities and risk profiles. However, excessive flexibility might also lead to inconsistent and incomparable disclosures. For example, the South of Europe (e.g., Spain) experiences different temperature rise effects compared to the northern regions of the continent. Consequently, banks in that area may have varying potential real estate exposures in their mortgage portfolio based on energy efficiency level.

The development of a Pillar 3 disclosure framework for climate-related financial risks should be an iterative process, with needed periodic reviews to improve clarity and comparability of disclosures.

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

Similarly to other ESG disclosure requirements that have been introduced by regulators or other standard-setting bodies, the proposed framework is likely to give rise to some perceptions of greenwashing for investors. Increasing omissions of information, unsubstantiated claims, inconsistencies and exaggeration of certain ESG-related information could arise, and further confuse investors. To mitigate such risks, it is essential that this framework is accompanied by clear guidance from the Basel Committee, and national regulators. Furthermore, as mentioned in our response to Q4, increasing regulatory focus on harmonisation of terms and definitions on climate-related financial information would facilitate a common understanding of these risks across jurisdictions.

Finally, another unintended consequence would be a possible increase of costs and compliance burdens for banks due to additional disclosure requirements.

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

We do not have a particular view on the potential extension of a Pillar 3 framework for climate-related financial risks to the trading book. However, our members from CFA Society Germany believe that this integration should not be too complex for banks as the data required to comply with this new proposed framework should be similar to data and methodologies used for loan or investment portfolios (only the expected holding period may be shorter).

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

CFA Institute believes that the proposed methodology would provide very helpful information for investors and stakeholders, who would be better able to understand banks' approach to taking risks.

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

As mentioned in our response to Q4, we recommend that the framework does not allow for excessive jurisdictional flexibility to ensure greater comparability and consistency of the information to be disclosed by banks.

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

We believe that the framework should explicitly address the potential legal risks for banks arising from their disclosures. This is a crucial aspect as misleading or inadequate disclosures could expose banks to legal risks. Hence, the framework should provide guidance on how to ensure that disclosures are clear, accurate, and not misleading.

The inherent potential legal risks emanating from climate-related disclosures would become evident to the public sooner or later. However, this should not stop banks from disclosing climate-related information.

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

Yes, assurance would significantly benefit users of these disclosures. The verification of this information provided by banks would substantially mitigate the perception of greenwashing for investors and stakeholders.

We believe that there is need for an assurance standard covering graduated audit opinion for non-financial information. This type of assurance could be limited as a higher level of assurance (reasonable) could be too burdensome for small banks and could potentially drive them out of business.

5.2. Qualitative disclosure requirements

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

The proposed disclosure requirements would allow investors, regulators, and stakeholders to be aware of banks' own strategy and approach toward climate-related financial risks. Users of this information would consequently be more likely to understand, assess and compare companies' actions and targets regarding climate related risks.

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

Mandatory requirements would certainly facilitate comparability across banks for investors.

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?

The proposed qualitative climate-related financial risk disclosure requirements are reliant on the availability of ESG data, which also should be reliable, regularly updated, and transparent. Unfortunately, ESG data is often lacking and unreliable.

The possibility of misunderstanding the information that is provided by banks represents another challenge. This could be overcome by improving communication. Regulators could provide guidance and guidelines, including case studies and examples, to allow preparers to improve communication.

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

No view/opinion.

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?

The framework could also provide disclosures providing a more comprehensive view of how banks' exposures to climate-related financial risks interact with main risks faced by banks (i.e., credit, market or operational risks). Disclosure is effective but real value for the bank's day-to-day would be greater.

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?

Please see our response to Q11 related to the benefits of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements.

5.3 Quantitative disclosure requirements

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

Similarly to the benefits of the quantitative disclosures, also the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements would facilitate investors, stakeholders and regulators globally to better understand, assess and compare climate related risks across different jurisdictions.

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

Similarly to our response to Q12, mandatory quantitative Pillar 3 climate-related financial risk disclosure requirements would help comparability across banks.

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?

Availability and reliability of ESG data is a significant challenge.

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

When referring to the absolute gross greenhouse gas emissions (GHG) generated during the reporting period, the framework should include requirements to disclose GHG intensity as a percentage of revenue to provide more significant and reliable information for users.

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?

No view/opinion

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?

Quantitative climate-related financial risk information could play a crucial role in enabling the accurate adoption of valuation models.

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

Data on emissions should be disclosed in relation to balance sheet size or assets under management. This approach would ensure that data can be comparable across banks.

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

No view/opinion.

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

Availability and quality of data might be lacking.

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

Data availability, measurement uncertainty, different calculation definitions in different methodologies or standards represent the main challenges for preparers to disclose metrics on the exposures and financed emissions.

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

The transition risk disclosure requirements could also include some assumptions and expectations on the use of technology and innovation techniques to better manage transition risks.

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?

The framework should avoid overcomplex classification. A six-digit industry level code would be sufficient.

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

The disclosure of the specific methodology used by banks in calculating financed emissions would be extremely helpful in providing more clarity for users of climate-related financial risk disclosures. Our members believe that disclosure of methodology would not be particularly costly and time consuming for banks.

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

Yes, we believe that banks' exposures on climate change physical risks have a certain level correlation/causality to banks' exposures to physical risks. Therefore, disclosure of such information would be relevant for users.

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?

Yes, there would be limitations in terms of comparability if national jurisdictions refer to different definitions and criteria to identify regions at risk, leading to inconsistencies and issues in comparing the level of risk across different jurisdictions.

Regulators should work on the harmonisation of terms and definitions to facilitate comparability and consistency of disclosed information.

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?

Our members from CFA Society Germany suggest that the Committee could use generally accepted vulnerability indices which help to classify regions. Classification could also be based on the country of risk, the country where production is based, or the country where consumers are based.

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

Additional physical risk disclosure requirements that could be considered concern the impact of drought (depleting groundwater, glaciers), soil degradation, and excessive heat. In general, it becomes crucial for banks to trasparently disclose their sensitivities and scenario analysis.

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?

Banks should provide more granular data on their assumptions and expectations on asset quality and maturity analysis for different time horizons.

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

Challenges include more burdensome and time-consuming processes to generate, analyse and report this additional information.

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

These requirements could also include the disclosure of the qualification and commitment of senior management level regarding climate risks.

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?

We support the proposed inclusion of forecast information (where banks have established such forecasts) in the framework. Nevertheless, banks should also disclose their underlying assumptions used for the forecasts.

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

Forecast information would be extremely helpful in improving investors' understanding of banks' transition risks.

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

It would be helpful for users to read forecasts focusing on litigation, physical and transition risks. The disclosure of such forecasts should be accompanied by the publication of assumptions and scenarios that banks have considered.

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

The challenge of disclosing increasing potential forecast information is the higher likelihood for banks to incur litigation risks. To overcome these risks and motivate banks to disclose this information, the Committee could provide a clear guidance highlighting the type of information that banks should be expected to include in their disclosures.

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?

Investors and stakeholders could use third-party information, and the Intergovernmental Panel on Climate Change's forecasts, and then relate this information to banks' sector and location exposures.

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?

The disclosure of quantitative information of risk concentration would be highly valuable for users as this information could give insights on banks' financial conditions, including capital resources and liquidity positions.

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?

Providing these complementary disclosures would provide users with more important details on how banks have been managing climate-related concentration risk.

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

Similarly to our response to Q35, banks could find burdensome and time consuming disclosing this additional information on climate-related risk concentrations.

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?

Yes, such a division of climate-related concentration risk could provide more clarity for investors and stakeholders, and facilitate comparability across banks.

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

Additional information on climate-related concentration risk that could be disclosed would be banks' strategy on how they plan to increase diversification to reduce exposures to high climate risk sectors, regions, and how banks plan to actively support transition.

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?

The structure and design of the proposed templates could help facilitate comparability of information across banks, and allowing market participants to better understand banks' 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?

No view/opinion.

5.4. 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?

Please see our response to Q4. The benefits of the proposed Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion would be increased flexibility in recognising the diverse range of banks' activities and risk profiles.

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?

Please see our response to Q4. The main challenge of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion would be increased issues related to the comparability and consistency of information.

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

We believe that disclosures of facilitated emissions would be extremely helpful to better understand banks' contribution and impact on climate, environment and society.

5.5. Effective date

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

The proposed effective date of the Pillar 3 climate-related disclosure requirements (1 January 2026) would be feasible if the Committee will be able to provide the necessary guidelines, including examples of best practices in early 2025 to ensure that preparers could produce clear and consistent disclosures, and to allow users to clearly comprehend the information that is provided by banks.

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

Yes, we recommend that the Committee could consider a transitional timeline to allow banking institutions to explain how they plan to reduce their portfolio emissions.

5.6. 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?

It is essential that deposits, funding and liabilities are treated in a consistent manner, and that the measurements actually match counterparties' exposures.