German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

Basel Committee on Banking Supervision Consultation on Disclosure of climate-related financial risks

EU Transparency Register No 52646912360-95
German Lobby Register No R001459

Contact:

Jana Tschiltschke

Telephone: +49 30 20225-5338

Telefax: +49 30 20225-5325

E-mail: jana.tschiltschke@dsgv.de

Berlin, 14 March 2024

The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks.

Coordinator:

German Savings Banks Association

Charlottenstraße 47 | 10117 Berlin | Germany

Telephone: +49 30 20225-0

Telefax: +49 30 20225-250

www.die-deutsche-kreditwirtschaft.de

Comments Basel Committee on Banking Supervision Consultation on Disclosure of climate-related financial risks

Answers to the consultation questions

1. 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?

We generally welcome the BCBS's initiative to create an international level playing field for disclosures on climate-related financial risks. However, 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 finalization process:

- Untested metrics, such as facilitated and off-balance financed 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.
- Template CRFR5 concerning facilitated emissions and two new data fields included in template CRFR1: GHG forecasts (decarbonization targets) for additional sectors and a requirement to disclose off-balance sheet positions extend the BCBS requirement beyond existing EU disclosure and reporting obligations. These requirements would increase the administrative and reporting burden further and should be deleted. The methodologies for facilitated emissions (e. g. published by PCAF in December 2023) are not yet mature, there is currently no market consensus on its use. The facilitated emissions in general could be therefore disclosed voluntarily or phased in.

BCBS proposes an annual disclosure at the highest consolidated level. Large listed EU banks have to disclose ESG-related data semi-annually. An alignment on the frequency for international and large listed EU banks is required to create an international level playing field. In some EU ESG-disclosure templates with regard to the credit quality there are columns for stage 2 (IFRS) exposures which could be included in to the BCBS templates from the risk perspective.

Climate risks are drivers of financial risks, not a separate risk category. It should also be recognised, that data challenges persist for banks regarding the measurement of climate-related risks, partially due to reliance on data provided by clients and counterparties, and also due to the lack of maturity and homogeneity of methods (e.g. Scope 3, facilitated emissions).

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?

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 finalization 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.
- Template CRFR5 concerning facilitated emissions and two new data fields included in template CRFR1: GHG forecasts (decarbonization targets) for additional sectors and a requirement to disclose off-balance sheet positions extend the BCBS requirement beyond existing EU disclosure and reporting obligations. These requirements would increase the administrative and reporting burden further and should be deleted. The methodologies for facilitated emissions (e. g. published by PCAF in December 2023) are not yet mature, there is currently no market consensus on its use. The facilitated emissions in general could be disclosed voluntarily or phased in.

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?

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 finalization 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.

- Template CRFR5 concerning facilitated emissions and two new data fields included in template CRFR1: GHG forecasts (decarbonization targets) for additional sectors and a requirement to disclose off-balance sheet positions extend the BCBS requirement beyond existing EU disclosure and reporting obligations. These requirements would increase the administrative and reporting burden further and should be deleted. The methodologies for facilitated emissions (e. g. published by PCAF in December 2023) are not yet mature, there is currently no market consensus on its use. The facilitated emissions in general could be disclosed voluntarily or phased in.

The transition plans focusing on assessing and embedding financial risk considerations related to the transition are still at an early development phase and should thus not be included in the planned BCBS P3 templates at this stage.

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

CRFR3 requires the following narrative: “The jurisdictional coverage of the information and whether there are legal requirements to measure the energy efficiency of buildings in each of the jurisdictions in which the bank operates”. This information could be submitted by the national supervisory authorities to the Basel Committee and published centrally. So, there would be no need in disclosing by every credit institution.

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

It would be not appropriate to extend Pillar 3 framework to the trading book for climate-related risks considering trading positions do not depend so much on contractual maturity. In addition, trading book transactions are extremely numerous and are often only held for a very short time (sometimes minutes). Thus, a snapshot of the trading book at a given moment may not provide the relevant information. In fact, the risk of multiple counting of the same emissions would be rife. Thus, an implementation would be very burdensome and result in various implementation challenges, while the immediate added value of the information for investors is also unclear. With regards to the trading book, banks serve as intermediaries taking and hedging positions for clients. They are not taking significant risks themselves.

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

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.

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

CRFR2 row Z requires the disclosure of “Total geographical regions or locations where the bank is unable to judge whether or not they are subject to climate change physical risks”. We see the need in such a row. But it would be helpful to replace “unable to judge” with “doesn’t judge” as the missing judgement could be a consequence of immateriality of exposures and not of the inability to judge.

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

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.

Any assurance requirements should be left to national discretion, see Q10.

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?

Legal risks could arise from disclosing forecasts and very granular 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?

The controls in place by EU institutions for other Pillar 3 disclosures are adequate. According to the ECB[1] there are only few cases of the disclosure report resubmissions with minor changes. We do not see the need for additional assurance / audit.

2. Qualitative disclosure requirements

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

No additional requirements are necessary at this stage.

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?

The requirement of information on whether and how the bank prioritises climate-related financial risks relative to other risks should be deleted (CRFRA). Moreover, the concentration risk is an overriding individual aspect which should not be disclosed separately for climate-related aspects.

[1] https://www.bankingsupervision.europa.eu/banking/statistics/html/index.en.html

3. Quantitative disclosure requirements

Transition risk: exposures and financed emissions by sector

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

We recognize that there is a risk that exposures will be assigned an inaccurate risk if they are allocated solely on the basis of their sector. It should be possible to consider mitigating measures that may have been taken on the basis of other criteria/portfolio compositions. For this reason, it should not be mandatory to focus on the sector level, but an individual presentation should be allowed.

Financed emissions do not necessarily provide a good way of understanding banks' strategies, especially on transition financing. Financed emissions by sector may be relevant but are not adequate for assessing banks' exposure to transition risk: for that other indicators (e.g. forward-looking ones, best in class) and portfolio trajectories would be appropriate.

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 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.

Physical risk

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

In order to be a useful metric, defined climate scenarios would be necessary. 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 national catastrophe schemes or similar frameworks, to better reflect their actual exposure to physical risks.

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?

Concentration risk is an overriding individual aspect which should not be disclosed separately for climate-related aspects. Thus far, there is no common definition of concentration risk in a climate context.

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?

Concentration risk is an overriding individual aspect which should not be disclosed separately for climate-related aspects.

4. Quantitative disclosure requirements subject to jurisdictional discretion

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

Untested metrics, such as facilitated and off-balance financed 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.

Template CRFR5 concerning facilitated emissions and two new data fields included in template CRFR1: GHG forecasts (decarbonization targets) for additional sectors and a requirement to disclose off-balance sheet positions extend the BCBS requirement beyond existing EU disclosure and reporting obligations. These requirements would increase the administrative and reporting burden further and should be deleted. The methodologies for facilitated emissions (e. g. published by PCAF in December 2023) are not yet mature, there is currently no market consensus on its use. The facilitated emissions in general could be therefore disclosed voluntarily or phased in.

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 standard should initially be introduced on a voluntary basis. It should only become mandatory in 2027/2028 at the earliest. Any requirements on disclosure of facilitated emissions should remain voluntary or be consulted after the methodologies for banks are further developed and generally accepted.

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

The standard should initially be introduced on a voluntary basis. It should only become mandatory in 2027/2028 at the earliest. Any requirements on disclosure of facilitated emissions should remain voluntary or be consulted after the methodologies for banks are further developed and generally accepted.

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?

Further analysis is required before considering an explicit inclusion of liquidity risk related aspects to climate-related disclosures.