March 14, 2024

Neil Esho, Secretary General
Basel Committee on Banking Supervision
Centralbahnplatz 2
4051 Basel, Switzerland

Re: IACPM response to the Basel Committee on Banking Supervision ("BCBS") consultative document on the disclosure of climate related financial risks dated 29 November 2023 (the "Consultation")

Dear Mr Esho

The International Association of Credit Portfolio Managers ("**IACPM**") appreciates the opportunity to provide comments to the BCBS on the above referenced Consultation.

The IACPM is a global industry association established in 2001 to further the practice of credit exposure management by providing an active forum for its member institutions to exchange ideas on topics of common interest. The IACPM's institutional member firms comprise the world's largest financial institutions, and as such overlap with the membership of several other financial industry associations.

Our perspective is unique, however, in that the IACPM represents the teams within those financial institutions who have responsibility for the prudential management of such institutions' credit portfolios, including actively controlling concentrations, adding diversification, managing the return of the portfolio's components relative to their risk, and allocating capital to new credit exposures. In addition, our members also include investors, insurers, and reinsurers, which participate in banks' risk sharing transactions as sellers of credit protection.

1. Introduction

As mentioned above, the IACPM very much appreciates the opportunity to respond to the Consultation, and also appreciates the work that the BCBS has done to date in considering the implications of climate-related financial risks on both banks and the banking systems. However, IACPM members query whether the Pillar 3 framework is the appropriate framework for this, as the proposed climate related disclosures appear to go beyond the Pillar 3 objectives. The role of the BCBS is to promote international cooperation in the pursuit of financial stability, not to standardise reporting requirements. Further, the proposed disclosure is not consistent with the BCBS Principles on Effective Management and Supervision of Climate-related Financial Risk, which appropriately recognize climate-related financial risk as a driver of traditional risk types rather than a standalone risk type. The BCBS's proposals for quantitative metrics are 'raw' climate-related data or exposure data which do not directly translate into financial risks (e.g., credit, market, operational) and are therefore inconsistent with the notion of climate-related risks as risk drivers. This could generate confusion among disclosure users and may duplicate existing Pillar 3 disclosure requirements.

However, if this is something which the BCBS believes, after considering this feedback, needs to be done within the Pillar 3 framework, a gap analysis should be conducted against other disclosure frameworks (including ISSB for banks' credit risk), with additional requirements only put in place where the BCBS identifies gaps in the current disclosure framework. Where there are no gaps, disclosure requirements should not be duplicated. We are strongly of the view that this will ensure that users are getting the information that they need in relation to climate-related disclosure risks whilst also aligning with what Pillar 3 is designed to achieve.

The IACPM welcomes the BCBS coordination with other international bodies and standard setters, including ISSB, and we agree with this approach. In our view, harmonization with these other bodies and standard setters is absolutely key, as the Pillar 3 disclosure framework needs to be easily reconcilable with existing disclosure requirements in order to minimise duplication, avoid contradiction and provide a common disclosure baseline across international banks.

2. Summary of IACPM feedback

Although, as discussed above, IACPM members query whether the proposed climate-related disclosures align with the objectives of Pillar 3 disclosure, we have gathered feedback from our members in the context of the proposed disclosures. This feedback has been gathered following various working group calls with IACPM members across Europe, North America, and APAC.

3. Key feedback

We have included in the Appendix to this letter a table setting out our responses to each of the questions raised in the Consultation (also identifying where we have not responded). However, for ease of reference, our key feedback can be summarised into the following five points:

(i) The purpose of the Pillar 3 disclosure standard is to provide transparency to the market to allow assessment of internationally active banks' material climate-related credit risks. For banks specifically, the regulatory Pillar 3 disclosure standard should not duplicate, but complement the already existing ISSB disclosure requirements. A gap analysis might be required to identify where the market perceives missing transparency. Pillar 3 should provide national discretion for local specifics in terms of adoption and implementation within the standard.

(ii) Data availability challenges and lack of proxy standards need to be considered, which can lead to ambiguous information.

(iii) Pillar 3 should allow for a "best effort" basis approach, i.e., permit banks to disclose available information now, with the remainder to follow once data is obtainable, while explaining the actions taken to fill-in data gaps ("comply or explain").

(iv) Pillar 3 should focus on material sectors rather than expanding regardless of materiality. This relates to width (too many industries) and depth (extensive granularity). Regulator approved sector mapping must be part of the disclosure guidelines and be arranged based on sub-sectors and/or economic activities.

(v) Forecasts should not be part of the disclosure requirements as they are not traditionally part of Pillar 3. Forecasts should also not be confused with scenarios, which are part of Pillar 2.

These key themes run through our responses and are, in our view, the most material and relevant points to be addressed when considering the appropriateness of the BCBS proposals.

We also note that this is a complex and evolving area, and that authorities globally are considering this topic. The BCBS should ensure consistency with any new proposals/frameworks and that additional complexity is not being introduced.

We appreciate the opportunity to outline our responses to the Consultation and would be happy to discuss at any time should you have any questions or concerns.

Yours Sincerely,

Som-Lok Leung
Executive Director
International Association of Credit Portfolio Managers (IACPM)

Appendix
IACPM responses on Consultation questions

No.	Consultation question	IACPM Response
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?	There are clear benefits to a Pillar 3 disclosure framework for climate-related financial risks as it would allow investors and other stakeholders to compare bank risk profiles across the market more easily. However, some of these disclosures are already covered by, e.g., ISSB. We appreciate from the Consultative document that you have been coordinating with other international bodies and standard setters, including ISSB. We agree with this approach; as you say, any disclosure requirements should complement the ISSB framework (and other relevant voluntary frameworks like the Net Zero Banking Alliance) and provide a common disclosure baseline for international banks. The Basel Pillar 3 disclosure framework should be easily reconcilable with existing disclosure requirements, with no contradiction of disclosure requirements. We suggest that the best way to do this is through the provision of guidance and the creation of a master global reporting template, with national discretion as to how much is adopted and how (see also our answer to question 8 re national discretion). But as a minimum, it needs to be aligned with ISSB before any change to Pillar 3 reporting comes into force.
2	What are the risks of a Pillar 3 disclosure framework for climate-related financial risks not being introduced?	Lack of comparable information on banks' climate-related financial risks. Other frameworks such as ISSB may be helpful, but there is nothing standardised at present covering bank specific climate-related financial risks (particularly e.g., financed emissions). However, we acknowledge that the development of aligned international and national reporting framework through the ISSB and national accounting boards, the take up of voluntary initiatives like NZBA and reporting guidance like PCAF are gradually leading to some consistency in disclosures across banks.

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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?	There are some key limitations (as discussed below), and in particular, challenges around data, and still evolving methodologies/modelling. Further, particular disclosures might be misleading. For example, Scope 3 emission materiality does not necessarily equal financial materiality. Given this, it is key that any climate-related disclosures incorporated into Pillar 3 reporting remain true to Basel and Pillar 3 objectives (i.e., the general Basel objective of of supporting capital adequacy and financial resilience and the specific Pillar 3 objective of promoting market discipline through disclosure requirements for banks). See also our response to question 15.
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?	This will be key –it is important to align: - firstly, so that banks don't have multiple frameworks to follow and systems to develop; - secondly for the output to be useful for banks, market counterparts, investors, supervisors and all bank stakeholders to be able to properly understand the impact of climate. The proposals are wider and much more granular than some other climate frameworks; for example, the proposed Pillar 3 framework requires disclosure for 18 sectors regardless of materiality. We suggest that this is too many sectors and that selection of sectors should consider the relevance of a sector to a financial institution, alignment with mandatory sectors already nominated by other initiatives and the value that the disclosures relating to these sectors will add. Underlying customer profiles can vary materially from the industries in which they operate and there are local considerations on the physical risk front to consider. From an investor perspective, it would be much more beneficial to have more detailed insight into the material sectors. This is preferable from a disclosure preparation perspective as well. There must be some consideration to cost/benefit and value delivered from reporting.

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		We also recommend piloting the framework to ensure that the disclosures are practical, meaningful, and interoperable with requirements of other standard setting bodies such as ISSB.
5	Would there be any unintended consequences of a Pillar 3 framework for climate-related financial risks? If so, how could these be overcome?	Some banks may need additional support/staff/resources/changes to their internal systems. Again, standardisation with other frameworks should help with this. Extensive use of non-standardised proxies where data is not available could lead to non-comparable/meaningless and potentially misleading information (see also our response to question 21). For the use of proxies, it will be key to have a set of guiding principles. Stakeholders may also get confused about the content of disclosures if the Pillar 3 framework duplicates the content of other reporting and disclosure frameworks. See also the second paragraph of our response to question 4.
6	What are your views on potentially extending a Pillar 3 framework for climate-related financial risks to the trading book?	-
7	What are your views on the proposed methodology of allocating exposures to sectors and geographical locations subject to climate-related financial risks?	We think it is too early to do this. The more the data is “sliced up”, the greater the risk of errors and of less material data being provided. See also our response to question 28.
8	What are your views on which elements should be made subject to national discretion and which should be mandatory? Why?	Although content and format should be standardised on a global level, there should be national discretion over how much is adopted, timelines, priorities and specific focus, as national regulators are best positioned to determine what their local markets can do. However, it is important that any national discretion still allows for comparability across the market. Where certain disclosures are not made because they are not required by national regulators, this should be made clear (and the templates should provide for this). See also our responses to questions 12, 18, 52 and 53.

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9	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?	Our concern is that the proposed forecasts **may give rise to liability for misleading and deceptive disclosures**. For investors, the greatest value is receiving a detailed description of the underlying assumptions and methodologies used. Forecasts should not be part of the disclosure requirements, especially as they are not traditionally part of Pillar 3. Further, forward-looking statements such as a bank's transition plans do not provide a lot of added value and should remain proprietary information of the bank. There should be a "safe harbour" to exclude these types of forward-looking statements from legal requirements to encourage good faith disclosure without fear of litigation, at least for the next few years until data is more readily available. Otherwise, banks are being asked to unfairly take on legal risk. In addition, we think that there is some confusion between the concept of "forecasts" and "scenarios". Banks are not producing climate-related forecasts, rather they are using scenario analysis in order to understand risk, including a range of possible future outcomes. A requirement to provide "forecasts" may unintentionally mislead investors and other stakeholders. Forecasts are typically trying to more accurately estimate a future event like annual financial performance. This is not the case with scenario analysis, which often explores less probable and more catastrophic events to understand vulnerability and resilience. See also our response to question 37.
10	Would the qualitative and quantitative requirements under consideration need to be assured in order to be meaningful? If so, what challenges are foreseen?	From an investor perspective, any figures given should ideally be audited (at least the historical quantitative information). Climate and other types of sustainability related data should be integrated in the "normal" (financial) reporting instead of being reported separately and it is therefore important that these types of data become mainstream so are audited in line with other types of data. However, it is noted that this may not be practical at present, as auditors need to get up to speed on knowledge and resources and can presently only give limited assurances. Anything provided needs to be useful and worthwhile. Further, the "safe harbour" mentioned in our response to question 9 is necessary, at least for the next few years until data is more readily available.

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		More generally, consideration should be given to whether all information needs to be assured and whether different levels of assurance might be appropriate for different types of data and disclosure. For example, given the uncertainty inherent in scenario analysis, and the sometimes-significant estimates required when data is 'patchy', it does not seem reasonable to subject this to 'reasonable level' assurance. Careful consideration needs to be given to cost versus the benefit in relation to the coverage of any mandatory assurance.
Qualitative disclosure requirements		
11	What are the benefits of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements?	For banks: to have a framework for providing investors and other stakeholders with this information (complementing what is already required by ISSB, Pillar 2, local authorities, and other voluntary initiatives). For investors and other stakeholders: to be able to more easily compare banks across the market, given standardised templates.
12	Should the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?	Yes, but only to the extent that (i) the information does not duplicate any other mandatory reporting requirements (i.e., it fills a gap) and (ii) the relevant information is actually available. Needs to be on a best-efforts basis – banks should share whatever information they can and explain any shortcomings. See also our responses to questions 8, 52 and 53.
13	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?	For banks (i.e., the "preparers") Resources and systems: e.g., some smaller banks may not have capacity/a big enough team to deal with these requirements, and even for larger banks, cost and benefits needs to be compared if information requested is duplicative and creates additional work for disclosure with no additional value. A clear focus on addressing gaps in other standardised disclosures such as those required by the ISSB will reduce some of these challenges and ensure incorporation of climate risk within the Pillar 3 framework supports Pillar 3 objectives. Further, there is a risk of misinterpretation of qualitative disclosures where they are not read in conjunction with financial disclosures. This increases the potential for litigation risk,

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		potentially increasing the cost and complexity of preparing disclosures and could also result in banks replicating financial disclosures in Pillar 3. We recommend that the focus of qualitative disclosures is to complement quantitative disclosures to provide the most value. This may be overcome through the use of indices/reference tables. See also our responses to question 9 re litigation risk and 37 re forecasts. <u>For investors and other stakeholders (i.e., the “users”)</u> The biggest challenge is how to compare the information across banks if methods deviate between them. Accompanying narratives are therefore crucial in understanding the methodology used to determine the exposures subject to the impact of climate risks.
14	What additional qualitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?	-
15	How could the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements be enhanced or modified to provide more meaningful and comparable information?	They should be aligned to, and not duplicate, other relevant standards and industry initiatives and should also be focused on key gaps in information required to support Pillar 3 objectives. Qualitative disclosures should complement quantitative Pillar 3 disclosures and financial reporting frameworks (mandatory and voluntary), allowing sufficient flexibility to look through to financial reporting to avoid potential duplication of disclosures (e.g., through using indices/reference tables). Allowing banks to submit the information that they do have and explain what is missing, rather than waiting (potentially many months) for the complete picture. This is absolutely key and applies to a number of the questions. We should not let **perfect** be the enemy of the **good**. See also our response to question 13.
16	What are your views on the relevance of the proposed qualitative Pillar 3 climate-related financial risk	The truly qualitative information (e.g. a description of a bank’s risk management, organisation, processes etc.) can be duplicative as this is required in mandatory disclosures like ISSB and Pillar 2. Qualitative information of this nature can be useful if specific to banks,

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	disclosure requirements to understand climate-related financial risks to which banks are exposed?	e.g., climate risk mitigation approaches of their credit portfolios. However, there remains a concern amongst banks that they do not currently have the capabilities to provide this information. Again, banks should be able to submit what they can (and explain what is missing).
Quantitative disclosure requirements		
General		
17	What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?	Creating a master template to align existing disclosure requirements will benefit all market participants by: (i) increasing comparability; and (ii) reducing workload/ resource requirement, provided that the information provided fills a gap in the current reporting regimes and will help to fulfil Pillar 3 objectives. However, it should be noted that given the current challenges with data quality and availability etc., it will take time for disclosures and metrics to mature and provide these benefits. Care will need to be taken in interpreting disclosures. Banks are already providing exposure by sector and financed emissions data. Exposures subject to physical risk require additional investor and system changes in most banks to be able to report on this frequently, rather and in a standard manner, than as part of scenario analysis exercises. This requires geospatial capability which is only recently becoming an area of focus for system investment – this change to systems and access to quality data to enable reporting will take a number of years.
18	Should the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?	Yes, but only to the extent that (i) it doesn't duplicate other mandatory reporting requirements and create a high-cost reporting burden with little additional value add and (ii) data is available to the banks. Needs to be on a best-efforts basis with appropriate phasing to be considered. Banks should share whatever information they can and explain any shortcomings. See also our responses to questions 8, 52 and 53.

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19	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?	<u>Preparers (banks)</u> - Lack of readily available or reliable data and lack of operational systems/team capacity in some banks. A "best efforts" basis approach would allow banks to provide what they can now, with the rest to follow once data is available. - It is also difficult to separate out the extent to which climate drivers alone are contributing to climate risk. Climate vulnerability analysis to date suggests that it may be a combination of factors that cause credit risk rather than climate drivers alone e.g. extreme weather events causing damage, under insurance and loss of employment may lead to credit risk, whereas if employment remains and the damage is covered by insurance, then the risk of default may be low. <u>Users (investors and other stakeholders)</u> - The prevalence of non-standardised proxies where data is not readily available, which affects comparability of disclosed information. To address this, BCBS should consider providing methodology standards to derive proxies to alleviate the issue. See also the second paragraph of our response to question 4 and our response to question 21.
20	What additional quantitative Pillar 3 climate-related financial risk disclosure requirements should the Committee consider?	-
21	How could the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements be enhanced or modified to provide more meaningful and comparable information?	Consider use of proxies – this in itself needs to be standardised – can get very different results depending on what is used and does not result in a useful comparison across banks. However, proxies often have to be at a national level to support accurate reporting and to be context relevant, therefore, they may not be able to fully standardised and may need to provide guidance rather than prescription – some proxies may not be available across all countries. But proxies are better than nothing, as although they may not always reflect the risks well, they show how a bank is taking action in terms of measuring and managing risks. In addition, they provide relevant information to determine potential relationships and trends.

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		However, proxies should be updated as new data becomes available. Impacts timing of reporting. Guidance on the use of proxies would be very helpful as it increases comparability. See also the second paragraph of our response to question 4 and our response to question 23 (you need more than just the numbers).
22	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?	For CPM functions, this information is key to investors and other stakeholders as it allows them to form a view on climate related risk and to identify where this is concentrated in the portfolio. Quantitative disclosure should be able to be for a more focused set of material sectors (by quantity of emissions) in aggregate or due to being high emitting sectors.
23	What are your views on the calculations required to disclose the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements?	From an investor's perspective, it is not helpful to only look at the numbers as they don't tell the whole story. Need to understand the wider picture – e.g., actions/targets/progress – what is being done to improve any negative data? In addition, there are limitations on the ability of banks to perform these calculations at present (for example financed and/or facilitated emissions presented in template CRFR5). In terms of specific feedback on the tables: **Table: CRFR1** This will only give an example of inherent risk of a sector; it will not provide any information about how well the companies in a bank's portfolio may be managing their emissions and associated transition risk. **Table: CRFR2** This again potentially focuses on inherent risk and not residual risk based on how a bank's customers are adapting and building resilience to climate risk. All areas are subject to climate risk, it is not clear at what geographical level or location data is to be provided. If banks have small numbers of customers in a portfolio, the geolocation data may not be able to be

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		provided if it would identify customers e.g., small holders – as this may be a breach of privacy laws. See also our response to question 13.
	Transition risk: exposures and financed emissions by sector	
24	Would exposures and financed emissions by sector be a useful metric for assessing banks' exposure to transition risk?	The metric is useful but (i) it is duplicative as it is already covered by mandatory Scope 3 reporting aligned to the TCFD, the GHG Protocol and other initiatives like the NZBA and (ii) data can be particularly challenging here. Feedback from our members indicates that financed emissions is the most used indicator of exposure to transition risk (but note the limitations re calculations outlined in our response to question 23).
25	What are your views on the availability and quality of data required for these metrics, including by sector, activity, region or obligor?	See response to question 24 above. Further: - the more the data is broken down into different categories, the greater the risk of errors and data gaps; - The data itself can be hard to access and often requires use of national or state level proxies and assumptions; - there are many data gaps that still need to be address at a national or sub-national level; and - proxies can lead to misleading and erroneous results.
26	What key challenges would exist for preparers to disclose these metrics, including by sector, activity, region, or obligor? How could these be overcome?	Lack of data. Lack of operational systems/team capacity in certain banks. "Best effort" basis approach would allow banks to provide what they can now, with the rest to follow once data is in place/systems are operational. See also our response to question 25 above.

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27	What additional transition risk disclosure requirements should the Committee consider?	-
28	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?	-
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?	Yes, this is important. However, it is duplicative as it is required under implementation of ISSB requirements at a national level.
	Physical risk: exposures subject to climate change physical risks	
30	Would exposures subject to climate change physical risks be a useful metric for assessing banks' exposure to physical risk?	Useful guideline but not the whole picture. All exposures will be subject to some degree of potential or inherent physical risk, it is missing information which would show the residual climate risk after customers have taken action to mitigate or adapt to physical climate risk. This type of public disclosure may also have some unintended consequences and cause shifts in property valuations and market preference towards some regions. This type of disclosure would need a lot of context so as to ensure stakeholder do not misinterpret the information, or rely on its accuracy in an inappropriate way. This information is usually generated by scenario analysis – which does not give a forecast or accurate answer, but information on possible, often worst case, risk drivers, so mitigation actions can be taken by banks and others to minimise their risk exposure through customers.
31	Would there be any limitations in terms of comparability of information if national supervisors at a jurisdictional level determined the geographical region	Need consistency across what needs to be disclosed at a geographical level to ensure that the information is consistent, comparable, and useful. However, there will be variations in comparability due to differences in banks' portfolios. Due to the local nature of physical risk, this needs to be determined at a national or sub-national level.

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	or location subject to climate change physical risk? How could those be overcome?	
32	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?	-
33	What additional physical risk disclosure requirements should the Committee consider?	-
	Bank-specific metrics for quantitative climate disclosures	
34	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?	-
35	What challenges would exist for preparers or users of these disclosures? How could these be overcome?	Standardisation is still a challenge. Global reports could help to overcome this and would be a simple way to align with other frameworks, although from a practical perspective if the bulk of a bank's portfolio is in one or two jurisdictions, a global report may lead to greater estimates and inaccuracies in reporting. Banks should be able to develop their reporting whist taking into account national level requirements and context. Availability of data and information versus urgency – could be managed with a phase in approach and best-efforts basis (comply or explain, and explain any shortcomings) AI/availability of systems
36	What additional bank-specific disclosure requirements in respect of banks' exposure to climate-related financial risks should the Committee consider?	-

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	Forecasts	
37	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?	Forecasts are not always available and there is still an issue with the quality and availability of data – see also our answer to question 21 re proxies. Stress scenarios are the purpose of Pillar 2 and expected (base) transition plan are expected to be reported in ISSB, and so forecasts should not be part of Pillar 3. Instead, banks should set their risk appetite and disclose whether they are within such appetite to give comfort that risks are being properly managed. Further, there is some confusion in the proposals around **forecasts v targets**. Forecasts set expectations and as discussed above, should not be disclosed. Targets, on the other hand, are clear markers of what is trying to be achieved and can be disclosed. This differentiation should be clarified. Banks are not forecasting climate risk; they are using scenario analysis to understand possible future outcomes arising from climate risk, usually in worst case scenarios. This should not be called forecasting, which will mislead stakeholders who are using the information as they are used to financial forecasting, which is usually expected to be predictive of a result. Climate scenarios are not the same. Decarbonisation pathways are also not forecasts, they are back cast pathways based on a series of actions/technology solutions to achieve a particular outcome (e.g.net zero). These are usually used for target setting; again this is a targeted ambition, not a forecast. See also our response to question 9. We therefore think that references to “forecasts” should be removed. The forecast terminology should be replaced with information on target setting to achieve decarbonisation or use of scenario analysis to understand climate risk.
38	Would the proposed forecast information be a useful metric for assessing banks’ exposure to climate-related financial risks?	As discussed in our response to question 37, we think the use of the word “forecast” is misleading.
39	What type of forecasts would be most useful for assessing banks’ exposure to climate-related financial risks?	See our responses to questions 37 and 38.

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40	What challenges would exist for preparers or users of Pillar 3 disclosures in relation to potential forecast information? How could these be overcome?	See our responses to questions 26 and 37and 38 above. In addition, scenario analysis is currently mainly performed to inform banks' internal strategy and risk assessment processes. Data availability, quality, and proxies as well as methodology and modelling are still developing and are continuously improving, so deemed too early for disclosure. However, given the nature of scenario analysis is to understand potential risks in certain circumstances, valuable learning can be gained for internal risk management purposes, even though the data is not necessarily 'accurate'.
41	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?	See our answer to questions 37 and 38. Investors and other stakeholders are interested to see whether a bank is performing scenario analysis (noting that this is different to forecasts) to estimate potential climate related impacts on its lending portfolio. Scenario analysis is a useful technique for understanding climate-related risks/vulnerability.
	Concentration risk	
42	What are your views on the usefulness of 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?	Concentration and risk mitigation topics are the most important aspects for CPM (although it is noted that mitigating climate related concentration risk is not the only mitigant of climate related credit risk more broadly). At a transaction level, review of clients' transition plans is useful, but this is often internal confidential information. On a portfolio level, it is useful to understand the policies that are in place, the banks' own transition plans and customer selection (many banks are doing this already through existing boundaries within their firm). "Material" needs to be defined. It might be more realistic for banks to consider and disclose particular sensitivities rather than specific concentration, at least initially.
43	What are your views on complementing quantitative disclosure of risk concentrations with qualitative	The most complete information package is the most helpful. As discussed above, looking at the numbers in isolation is of limited use, so complementing this with the qualitative

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	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?	disclosure (and in particular, how this informs strategies, policies and processes to mitigate and manage the risk) is key. It will be important to ensure that stakeholders do not misread or misuse quantitative information; this will include providing limitations on use and disclaimers. Detailed explanations of risk management approaches are given in Banks' Pillar 3 reports and climate risk should be included alongside these. Again, it might be more realistic for banks to consider and disclose particular sensitivities rather than specific concentration, at least initially. As we have emphasised throughout our responses, the disclosures should also only be provided only where filling a gap in disclosures required by ISSB and other reporting frameworks.
44	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?	See our responses to question 13, 19, 26 and 35. The same challenges are applicable here.
45	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?	It could be useful to divide the exposures given the different risk characteristics of these hazards and the time horizon over which these occur, but we also note that the more the data is broken down into more granular categories, the greater the risk of errors and data gaps. We recommend this is considered in future phases, or that it should be complied with now on a best-efforts basis.
46	What additional bank-specific disclosure elements on climate-related concentration risk should the Committee consider?	Investor members have noted that it is useful to know a bank's share of lending exposure to obligors with a poor transition risk rating (for banks that make use of a transition readiness score). Some banks also use a climate risk score for their clients which cover both transition and physical risk and investors find that these scores generally give good insights. However, it is noted that each bank has its own inhouse assessment tool and so such scores are not necessarily comparable. This might therefore be better as a future inclusion, if it is proven to

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		be useful for determining capital adequacy and is not otherwise disclosed under other reporting frameworks.
	Templates	
47	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 glossary section is useful. If not including 100% of exposures, it would be useful to have this (so the share of the total book it covers for that sector) clearly visible in the tables. We also suggest removing: - all forecasts from the templates - non-disclosing assets and allowances - CRFR3, CRFR4 and CRFR5, as these are too specific and not applicable across all jurisdictions. This presents the risk of "over disclosing" and therefore opening up the risk of liability (see also our response to question 9). Consider replacing maturity with average length of loan/exposure. In addition, **climate risk is a risk driver of financial risk**, not a risk in itself (as discussed in the EBA report on the role of environmental and social risks in the prudential framework (EBA/REP/2023/34, October 2023)). The templates therefore need to look at climate risk as the driver. Finally, the piloting phase will be key. It should include investors, regulatory and/or supervisory authorities as well as banks to make sure that the disclosed data meets the additional information needs of the users, who should critically consider whether they have what is actually needed, as information should not be asked for without a clear use case. There should also be some sort of impact assessment or cost-benefit analysis.
48	Would the potential structure and design of the templates pose any challenges for preparers or users	The templates need to allow banks to report even if they are not 100% ready (whilst explaining the limitations). A piloting/testing phase will be key.

No.	Consultation question	IACPM Response
	of Pillar 3 climate-related financial risk disclosure requirements? How could those be overcome?	
Quantitative disclosure requirements subject to jurisdictional discretion		
49	What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion?	Jurisdictional discretion is key in determining timelines, priorities and specific focus.
50	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?	-
51	What are your views on the feasibility, meaningfulness and practicality of banks' disclosure of facilitated emissions?	-
Effective date		
52	What are your views on the feasibility of the potential effective date of the Pillar 3 climate-related disclosure requirements?	Need to allow time for testing and possibly for national discretion re implementation (see our response to question 8). Needs to be adopted gradually – banks should identify which parts they can easily comply with and which they need more time for. But should report what they can asap – some disclosures are better than none.
53	Would any transitional arrangements be required? If so, for which elements and why?	A transition period is key for the reasons discussed above.

No.	Consultation question	IACPM Response
Liquidity risk		
54	What are your views on the Committee exploring disclosure requirements for the impacts of climate-related financial risks on deposits/funding and liabilities?	Climate is clearly important more broadly for CPM, as it can have an impact on the ability of a bank to protect its portfolio. However, this should be considered in the context of the banking book (funding and protection) rather than the trading book. Of particular importance to CPM in this context is the exposure to a roll-over risk of existing protections and released capital, and to counterparty risk on unfunded protections which can exacerbate if – for climate reasons – the market doesn't want to provide funding or investors (as protection sellers) anymore.