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Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

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Re: Basel Committee consultation on the principles for the effective management and supervision of climate-related financial risks

We support the ongoing efforts of banks and regulators to ensure proper identification, understanding, management, and supervision of risks originating from climate-related factors. This work will be critical to support the broader transformation of the global economy to net zero as substantial investments e.g. in new technologies and other solutions, require financing.

We support efforts to determine the best ways of integrating governance of climate-related financial risks into existing risk management frameworks and structures, where applicable. Where material risks exist, we believe that banks are positioned to determine how best to address them in line with their own business strategy and risk appetite. The role of supervisors should be to ensure that such risks are considered by institutions – and are adequately identified, understood, and managed. We believe that a **principles-based approach** is appropriate, as climate risk management is an emerging and rapidly evolving discipline where maturation and growth in expertise is ongoing.

With the view to achieving a harmonized approach to climate-related financial risks at the global level, national/regional regulatory authorities should respect the principles of the Basel Committee. However, several authorities around the globe have already issued their supervisory expectations for climate-related risk management by banks. We therefore support **flexibility for supervisors to adopt the principles** in a manner that is suitable to the state of development of banks in their jurisdiction. The Basel Committee should also be fully aware of discussions and developments in each jurisdiction and consider them in developing the final principles. While we welcome harmonization efforts at global level, **the current flexibility regulators and supervisors are providing in terms of methodologies as well as proportionality needs to be maintained over time,** given the large-scale investments and time required for the development of methodologies and internal systems.

We appreciate the Committee highlighting that the proposed principles were drafted in a way to accommodate a diverse range of banking systems and are intended to be applied on a proportionate basis depending on the size, complexity, business model, geographical location and risk profile of the bank or banking sector. Therefore, recognizing that the Basel Committee's focus is internationally active banks, we believe proportionality is an important principle for any climate framework. When assessing whether or not a proportionate treatment should be applied to an internationally active bank, it is important that this assessment not

only be guided by size, but also that factors such as business models and geographical location/presence are taken into consideration.

There is also a need to be aware of implications for those countries that are not members of the Basel Committee. In particular, there is a need to establish **mechanisms to support banks in developing countries to effectively manage climate-related risks** – where arguably the risks will be more pronounced earlier, impacting more vulnerable communities.
Global harmonization and streamlining is in particular essential for reporting and disclosure requirements to **avoid multiple reporting obligations**. Also reporting a similar but slightly different information given the diverging regulatory request and definitions may not only be burdensome but also confusing for the market. Reporting requests must be streamlined among supervisors for which harmonization and alignment of data definitions is needed, ideally at a global level.

Banks' shifting of resources towards a low-carbon economy and engagement with customers is key in financing the transition. While banks are fully aware of their responsibilities and are committed to play their role, it is not realistic to expect financial services to make this shift in the absence of a major change in the incentives of the underlying economy. The climate objectives must be transposed in the industrial policies and relevant national legal frameworks. We therefore welcome that the Basel Committee's **focus is on the risks associated with climate change, rather than the banks' action to tackle climate change**. Banks should not be put in the position of being the primary enforcers of climate policy, neither should prudential framework be used as a substitute for direct mechanisms such as taxes or industrial measures. Bank supervisors have a valuable role to ensure that risks stemming from climate change are considered by the financial institutions – including effective identification, understanding, and management.

From a model perspective, we would like to underline the mismatch in the time horizon between models widely used in the market on the one hand, and long-term climate risk scenarios on the other hand, which cover a time horizon of 30 years. Current risk measurement models are not developed for such a long-time horizon. Moreover, the underlying capital planning is not designed for capital decisions over a period of 30 years due to the fact that uncertainty increases based on accumulating assumptions. We suggest that the BCBS provides more detail on the time-horizons it considers 'relevant' given the challenges with data access, skills, and methodologies to understand the expected impact, taking in particular into consideration the interrelation between physical risks and transition risks respective evolutions (according to climate policies, technology, investor and consumer behavior, etc.) and the non-linear (incremental) nature of physical risks over time in particular

We agree that any Pillar 2 capital should be determined with risk sensitive metrics. At this stage, however, the relationship between risk drivers and actual risk levels on capital has not been established. In this context, work is also ongoing on the part of regulatory authorities of BCBS jurisdictions, which in our view should inform the BCBS work.

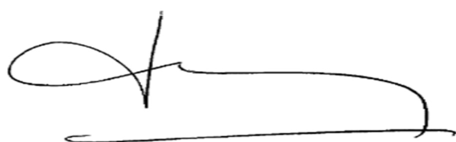
As long as data, methodologies, and results of scenario analysis exercises are not stabilised, these exercises should not imply any quantitative impact on the capital requirement of the entities, and qualitative impacts in the supervisory review process should be restricted to very limited cases. Climate-related scenario analysis should also be kept separate from regulatory stress testing, due also in part to the assumptions required and consideration of long timeframes – well beyond traditional parameters of stress testing.

There are still many uncertainties as to the evolution of climate change (speed, magnitude, non-linearity) and physical and transition risk drivers (e.g. climate policies, technology, investor and consumer behavior, etc.). Coupled with the lack of reliable statistical data elements, whether internal or from regulated and audited external data providers, this makes

the capital impact assessment difficult at this stage. Scenario analyses are also still in a pilot stage and will become more sophisticated over time. Forward looking methodologies for climate risks have so far mainly been applied in an exploratory manner. While some assumptions and simplifications are needed so that the exercises are feasible given the current limitations regarding data and methodologies, the framework and results may be unrealistic, and special care must be taken when analysing the results. The still experimental nature of these methodologies must be acknowledged and they should not be applied without greater development and certainty as to their efficacy.

Generally, we consider that some of the principles do not sufficiently recognise the iterative and progressive developing nature of climate risk impact assessments. We would suggest accounting for this along the lines of our suggestions for principle 5. Given the current lack of available quality data, harmonized definitions, and forward-looking risk methodologies to assess the impact of climate-related risks on existing risk categories, we believe it is necessary to underline the **need for a phase-in approach** for banks. Moreover, it should also be recognized that some sectors have better data than others that may be more readily available to banks. Consequently, a phase-in approach starting with certain sectors could already help to make progress.

Kind regards,



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General comments

- We believe that a principles-based approach is appropriate as climate risk management is an emerging and rapidly evolving discipline where maturation and growth in expertise is ongoing. We support flexibility for supervisors to adopt the principles in a manner that is suitable to the state of development of banks in their jurisdiction (a localised nuanced approach is suggested).

- Banks' shifting of resources towards a low-carbon economy and engagement with customers is key in financing the transition. While banks are fully aware of their responsibilities and are committed to play their role, it is not realistic to expect financial services to make this shift in the absence of a major change in the incentives of the underlying economy. The climate objectives must be transposed in the industrial policies and relevant national legal frameworks. We welcome that the Basel Committee's focus is on the risks associated with climate change, rather than the banks' action to tackle climate change. Banks should not be put in the position of being the primary enforcers of climate policy, neither should prudential framework be used as a substitute for direct mechanisms such as taxes or industrial measures. We see that supervisors have a valuable role to ensure should be ensuring that risks stemming from climate change are considered by the financial institutions – including effective identification, understanding, and management.

- We indeed support the ongoing efforts of banks and regulators to ensure proper identification, understanding management and supervision of risk stemming from climate related factors. Banks have an inherent interest in measuring and managing risks properly as risk management and risk redistribution is core to banking. We support integrating governance of climate-related financial risks into existing risk management frameworks and structures, where applicable. Management, transformation and absorption of financial risks will be fundamental in the transformation of the global economy to net zero as substantial investments e.g. in new technologies and other solutions require financing. Where material risks exist, it is for institutions to determine how best to cover or mitigate them in line with their own business strategy and risk appetite. The role of supervisors should be to ensure that such risks are considered by the institutions – and are adequately identified, understood, and managed.

- We appreciate the Committee highlighting that the proposed principles were drafted in a way to accommodate a diverse range of banking systems and are intended to be applied on a proportionate basis depending on the size, complexity, and risk profile of the bank or banking sector. Therefore, recognizing that the Basel Committee's focus is internationally active banks, we believe proportionality is an important principle for any climate framework. When assessing whether or not a proportionate treatment should be applied to an internationally active bank, it is important that this assessment not only guided by size, but also that factors such as business models and geographical location/presence are taken into consideration.

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• With the view to achieve harmonization of the approach to climate related financial risk at global level, the national/regional regulatory authorities should respect the principles of the Basel Committee. However, several authorities around the globe have already issued their supervisory expectations for climate-related risk management by banks. This requires that the Basel Committee be fully aware of the discussions and developments in each jurisdiction and takes them into account in developing the final principles. While we welcome harmonization efforts at global level, the current flexibility regulators and supervisors are providing in terms of methodologies as well as proportionality needs to be maintained over time given the large-scale investments required for the development of methodologies and internal systems. • There is also a need to be aware of implications for those countries that are not members of the Basel Committee. In particular, there is a need to establish mechanisms to support banks in developing countries to effectively manage climate-related risks – where arguably the risks will be more pronounced earlier, impacting more vulnerable communities. • Global harmonization and streamlining is in particular essential for reporting and disclosures requirements requirement to avoid multiple reporting obligations. Also reporting a similar but slightly different information given the diverging regulatory request and definitions may not only be burdensome but also confusing for the market. Reporting requests must be streamlined among supervisors for which harmonization and alignment of data definitions is needed, ideally at a global level. • From a model perspective, we want to underline the mismatch of time horizon of the models widely applied in the market on the one hand, and long-term climate risk scenarios on the other hand, which cover a time horizon of 30 years. Current risk measure models are not developed for such long-time horizon. Moreover, the underlying capital planning likewise cannot be designed to take capital decisions in 30 years due to the fact that uncertainty increases based on accumulating assumptions. BCBS should provide more detail on the time-horizons it considers 'relevant' given the challenges with data access, skills and methodologies to understand the expected impact, taking in particular into consideration the interrelation between physical risks and transition risks respective evolutions (according to climate policies, technology, investor and consumer behavior, etc.) and the non-linear (incremental) nature of physical risks over time in particular • We agree that any Pillar 2 capital should be determined with risk sensitive metrics. At this stage however, the relationship between risk drivers and actual risk levels on capital has not been established yet. In this context, work is also ongoing in the regulatory authorities of the BCBS jurisdictions, which in our view should feed into the BCBS work. There are still many uncertainties as to the evolution of climate change (speed, magnitude, non-linearity) and physical and transition risk drivers (e.g. climate policies, technology, investor and consumer behavior, etc.). Coupled with lack of reliable statistical data elements, whether internal or from regulated and audited external data providers, this makes the capital impact

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assessment difficult at this stage. Scenario analyses are also still in a pilot stage and will become more sophisticated over time. Stress testing methodologies for climate risks have so far mainly been applied in an exploratory manner. While some assumptions and simplifications are needed so that the exercises are doable given the current limitations regarding data and methodologies , the framework and its results might be unrealistic, and special care must be taken when analysing the results.

Therefore, as long as data, methodologies and results of scenario analysis exercises are not stabilised, these exercises should not imply any quantitative impact on the capital requirement of the entities, and qualitative impacts in the supervisory review process should be restricted to very limited cases (for example, where it is unequivocal that a bank has not started to set up the governance and internal processes to integrate and account for climate-related financial risks). Climate-related scenario analysis should also be kept separate from regulatory stress testing due also in part to the assumptions required and consideration of long timeframes – well beyond traditional parameters of stress testing.

- Concerning the impact of climate risk drivers on the liquidity of a bank, we believe that given that the climate risk drivers are expected to materialise over a long time horizon, they do not have a meaningful impact on the liquidity of banks in the short term.

- Given the current lack of available quality data, harmonized definitions and forward-looking risk methodologies to assess the impact of climate-related risk on existing risk categories we believe it is necessary to underline the need for a phase-in approach for banks . Moreover, it should also be considered that some sectors have better data than others. Consequently, a phase-in approach starting with certain sectors could already help to make progress[1]

- Generally, we consider that some of the principles do not sufficiently recognise the iterative and progressive developing nature of climate risk impact assessments. We would suggest accounting for this along the lines of our suggestions for principle 5.

I. Introduction (p. 5 – 6)

[1] For example, according to the 2021 TCFD status report (p33), the 'materials & buildings' sector is one of the leaders in TCFD disclosures

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II. Principles for the management of climate-related financial risks (p. 6 - 11)

Corporate Governance (p. 6 – 7)

Principle 1: Banks should develop and implement a sound process for understanding and assessing the potential impact of climate-related risk drivers on their businesses and on the environments in which they operate. Banks should consider material climate-related financial risks that could manifest over various time horizons and incorporate these risks into their overall business strategies and risk management frameworks. [Reference principles: BCP 14, SRP 30, Corporate governance principles for banks]

- First of all, we would like to remark that the integration of climate-related risk drivers into banks operations is an iterative process. The skill sets of existing bank roles needs to be built out. Roles that are impacted include: Treasury, Stress Testing, all Risk roles, finance roles, product owners. Additionally, customer facing staff will require training so that they can identify and record climate related risk information at the point of origination. Finally, many banks’ core banking systems are not structured to hold climate related risk data. This will require a significant systems upgrade. In sum, all of this points to a process which will take time to bed-down.
- We believe that BCBS principles should carefully distinguish the roles and responsibilities assigned to the board from those assigned to the Senior management. In particular, we believe it would be useful to clarify the following sentence in paragraph 12 ‘*The board and senior management should be involved in all relevant stages of the process’ by adding in the end ‘according to their respective roles’*. In this context, it would also be important to clarify whether or not there is a difference with respect to the level of training and education that is required between the board and senior management.

- Also, as acknowledged by the Basel Committee, climate risk is not a new, standalone category of risk. All climate risk factors can positively or negatively impact the current risk categories. We believe the text should be clarified accordingly to avoid possible misinterpretations: *“...assessing the potential positive or negative impact of climate-related factors and incorporate these factors into their overall business strategies and risk management frameworks”*

- In line with our general comments, we request clarification of the “various time horizons” that banks should consider for material climate-related financial risks manifestation according to this principle

Additional considerations:

- We request consistency across different regulatory bodies on their approach to what is considered material.

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Principle 2: The board and senior management should clearly assign climate-related responsibilities to members and committees and exercise effective oversight of climate-related financial risks. The board and senior management should identify responsibilities for climate-related risk management throughout the organisational structure. [Reference principles: BCP 14, SRP 30, Corporate governance principles for banks]
• Generally, we agree that there should be clear allocation of responsibilities and the relevant staff should be adequately trained. We request further clarity on the BCBS’s expectations for boards and senior management, although we believe that boards and senior management should have the flexibility to determine which bodies should be responsible for the oversight of climate-related financial risks. Flexibility should also be extended to how the mandate of the persons and committees should be modified to consider climate-related financial risks. • To ensure clarity, we believe that the BCBS principles should carefully distinguish the roles and responsibilities assigned to the board from those assigned to the Senior management. In particular, we suggest the following wording change in Principle 2 itself to avoid any ambiguity: *‘According to their respective roles, the board or the senior management should identify responsibilities for climate-related risk management throughout the organizational structure.’* • Moreover, we understand that Principle 2 (at high level and under paragraph 13) would require the assignment of climate-related responsibility specific committees. In our view, this would go counter to the general principle of collective responsibility of the board and conflict with the provisions of some national laws. To address this issue, we suggest amending the wording of the consultative document so that these responsibilities can be assigned to the board and committees, in line with the solution defined, for example, by ECB in its expectations for Eurozone banks. Thus, we would suggest rephrasing the principle to ensure that it remains sufficiently flexible to also accommodate the principle of collective responsibility (in jurisdictions where this applies).
Principle 3: Banks should adopt appropriate policies, procedures and controls to be implemented across the entire organisation to ensure effective management of climate-related financial risks. [Reference principles: BCP 14, SRP 30, Corporate governance principles for banks]
We support this principle. We believe that climate-related risks are transverse risks. We would also suggest that regulators and supervisors can continue providing flexibility in terms of methodologies, as well as proportionality, over time given the large-scale investments required for the development of methodologies and internal systems.

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Internal control framework (p. 7 – 8)
Principle 4: Banks should incorporate climate-related financial risks into their internal control frameworks across the three lines of defence to ensure sound, comprehensive and effective identification, measurement and mitigation of material climate-related financial risks. [Reference principles: BCP 26, SRP 20, SRP 30]
Paragraphs #18, 19 – We suggest expanding the current focus to cover ongoing monitoring and engagement with clients in addition to the onboarding/credit review stage. In order for banks to effectively measure and manage climate-related financial risks (i.e., physical & transition risks), they need to work closely with their clients to support their client's low-carbon transition plans.
Capital and liquidity adequacy (p. 8)
Principle 5: Banks should identify and quantify climate-related financial risks and incorporate those assessed as material over relevant time horizons into their internal capital and liquidity adequacy assessment processes. [Reference principles: BCP 15, BCP 24, SRP 20, SRP 30]
• Care needs to be taken as the nature of scenario analysis is forward looking over a significantly long duration that capital calibration will be complex and difficult to achieve. Central banks and prudential regulators should recognise this complexity and rather than imposing capital obligation, work collaboratively and flexibly to fine tune processes before imposing obligations. • Whereas we support the need for identification and quantification of climate-related financial risks and their inclusion into banks' capital and liquidity adequacy frameworks, we welcome the acknowledgement under paragraph 23 that the 'probable' inclusion into ICAAPs and ILAAP should be 'iterative and progressive'/ We believe that both paragraph 21 on ICAAP provisions and paragraph 22 on ILAAP provisions should be made consistent with the idea of a gradual inclusion and thus, we suggest adding 'iteratively and progressively' to qualify the inclusion in both processes ('Banks should include iteratively and progressively climate-related financial risks…'). The rationale behind this is that at this stage, the precise relationship between risk drivers and actual risk levels on capital and liquidity cannot be precisely quantified at it lacks: (i) the required methodologies which are still work in progress: methods for integrating climate-related and environmental risk drivers should be defined and implemented by banks as deemed adequate for internal economic risks monitoring and decision-making purposes.

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(ii) the required available and reliable statistical data elements, whether internal or from regulated and audited external data providers

Moreover, there are still a lot of uncertainties as to the evolution of climate changes (speed, magnitude, non-linearity) and physical and transition risk drivers (e.g. climate policies, technology, investor and consumer behaviour, etc.), as summarised by BCBS in the section 2 of its April 2021 report (*Climate-related risk drivers and their transmission channels*) which make the capital and liquidity impact difficult to assess at this stage.

Finally, in terms of scope, we believe that since climate risk drivers are expected to materialise over a long-term time horizon, they do not have a meaningful impact on the liquidity of banks in the short term.

- With reference to paragraph 23 we suggest complementing the wording with the following: "Finally, it is expected that national competent authorities, implementing the proportionality criteria, will define a framework of standardized climate scenario models and simplified methodologies to assess climate-related risks (e.g. for ICAAP-ILAAP purposes), that could be more easily applied by smaller banks with non-material exposures to climate-related risks, as long as those do not significantly impair the quality level of risk assessments.

Risk management process (p. 8 – 9)

Principle 6: Banks should identify, monitor and manage all climate-related financial risks that could materially impair their financial condition, including their capital resources and liquidity positions. Banks should ensure that their risk appetite and risk management frameworks consider all material climate-related financial risks to which they are exposed and establish a reliable approach to identifying, measuring, monitoring and managing those risks. [Reference principles: BCP 15, SRP 30]

- Paragraph 25 state that "*Banks should regularly carry out a comprehensive assessment of climate-related financial risks and set clear definitions and thresholds for materiality, bearing in mind that a bank's risk management framework should enable it to recognise all material risks with an integrated firm-wide perspective on risk.*"
    - We understand that the objective of this process is to ensure that a regular review of climate-related financial risks is performed by each bank to identify those that are material at firm level and that this should be done under a formalised harmonised framework that includes clear definitions and materiality thresholds

  However, we consider that this review should be performed consistently with banks' own internal processes (e.g. internal stress testing)

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Hence, we propose the following wording to replace the above sentence:

"*Banks should regularly carry out an assessment of their climate-related financial risks according to their internal processes, after having set clear definitions and thresholds for materiality, bearing in mind that a bank's risk management framework should enable it to recognise all material risks with an integrated firm-wide perspective on risk.*"

- We agree the use of "where appropriate" and "where possible" in the guidance provided in paragraphs 26 and 27. The risk management frameworks should be flexible enough to consider future developments in view of the uncertainties related to the environment.
- Paragraph #26 – "Where appropriate, banks should consider risk mitigation measures such as establishing internal limits for the various types of material climate-related financial risks to which they are exposed, e.g., in their credit, market, liquidity and operational risk profiles." There are various risk mitigation measures and establishing limits directly for these risks may not be the most relevant example for individual banks. Suggest removing 'such as establishing internal limits' so that the language is not as prescriptive or suggest changing the language to 'such as but not limited to'. Flexibility should be allowed to entities on whether, how and to which extent they incorporate them as it is not clear, for instance, the usefulness to set climate risk limits for market and liquidity scenarios
- With reference to paragraph 27, we request clarification of the phrase '*may not yet be apparent*' in '*banks should monitor future developments and seek to understand and, where possible, manage the impact of climate-related risk drivers on other material risks that may not yet be apparent'*, that we see as equivocal as risks need first to be identified to be managed; otherwise the scope of this impact would be unclear and too broadly defined.

  Therefore, we suggest replacing the above sentence by the following: '*banks should monitor future developments and seek to understand and, where possible, manage the potential impact of climate-related risk drivers on other material risks which have been identified but have not materialised yet.*
- Supervisors should provide guidance on how banks should reflect climate-related risks in their risk appetites to ensure consistency across jurisdictions. We suggest the BCBS consider this area for further guidance as well. Furthermore, supervisors should recognize existing data gaps and that this is an evolving space (i.e., lack of standards, methodologies, etc.).

Management monitoring and reporting (p. 9)

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Principle 7: Risk data aggregation capabilities and internal risk reporting practices should account for climate-related financial risks. Banks should seek to ensure that their internal reporting systems are capable of monitoring material climate-related financial risks and producing timely information to ensure effective board and senior management decision-making. [Reference principles: BCP 15, SRP 30, Principles for effective risk data aggregation and risk reporting]
• As noted for principle 1, systems changes may be required to "ensure… internal reporting systems are capable of monitoring…" Such changes are complex and need to be retrofitted to banks core systems. This will take time and significant resources. Regulators need to recognise this complexity. • With no common definitions or agreed upon standards aggregation of data is not yet possible in all jurisdictions. Individual bank efforts must be further developed and used to further the development of jurisdictional standards.
Comprehensive management of credit risk (p. 9 – 10)
Principle 8: Banks should understand the impact of climate-related risk drivers on their credit risk profiles and ensure credit risk management systems and processes consider material climate-related financial risks. [Reference principles: BCP 17, BCP 19, SRP 20, Principles for the management of credit risk]
• Principles 8-11 describe the comprehensive management of credit, market, liquidity, operational and other risks, and outline prescriptive expectations with regard to identification, management and mitigation of climate related financial risks within these risk categories. To avoid confusion, we recommend that the BCBS broaden the language of the Consultation to reflect that the integration process is iterative, and that banks should be embedding climate-related financial risks where possible over a sufficient time frame. For this reason we suggest limiting further commentary on principles 8-11. We leave the following comments for discussion with the exception of the last bullet on Principle 10. • With reference to paragraph 33 we suggest adding the following sentence: "*Banks should also identify, measure, evaluate, monitor, report and manage the concentrations within and between risk types associated with climate-related financial risks.* Supervisors have to take into consideration the geographical areas and economic sectors constraints of less significant intermediaries, especially the ones with a local customer base" • Paragraph #33 – "Banks should also identify, measure, evaluate, monitor, report and manage the concentrations within and between risk types associated with climate-related financial risks. For example, banks could use metrics or heatmaps to assess and monitor concentration of exposure to geographies and sectors with higher climate-related risk." We suggest clarifying the meaning of ''the concentrations between risk types. Does it mean for example the interaction between credit risk and insurance risk, or does it mean borrower's exposure to physical risk vs. transition risk, or something else?

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• Paragraph #34 - "Banks should consider a range of risk mitigation options to control or minimize material climate-related credit risks. These options may include adjusting credit underwriting criteria, deploying targeted client engagement, or imposing loan limitations or restrictions such as shorter-tenor lending, lower loan-to-value limits or discounted asset valuations." Instead of implying the responsibility resides with credit underwriters, we suggest changing the wording from "adjusting credit underwriting criteria" to "additional due diligence of borrowers".
Comprehensive management of market, liquidity, operational and other risks (p. 10 - 11)
Principle 9: Banks should understand the impact of climate-related risk drivers on their market risk positions and ensure that market risk management systems and processes consider material climate-related financial risks. [Reference principles: BCP 22]
We note that market prices are reflective off all existing perceived risks including climate-related risks to supply and demand. As such, isolating climate-related risk drivers for market risk will be operationally challenging. More directly, market sentiment and impacts are naturally included as volatility and idiosyncratic pricing behaviours find their way into VaR and Stress modelling. Supervisors should provide guidance on narratives to use in assessing market risk for climate related risk drivers to ensure consistency across the industry. We also caution that proprietary considerations should be taken into account in any guidance to ensure banks trading desks strategies are not revealed thereby placing them at a disadvantage.
Principle 10: Banks should understand the impact of climate-related risk drivers on their liquidity risk profiles and ensure that liquidity risk management systems and processes consider material climate-related financial risks. [Reference principles: BCP 24, Principles for sound liquidity risk management and supervision]
• We would like to highlight that liquidity risk timeframes are even shorter term than credit/market risk. There is an even greater disconnect with the longer time horizons of climate-related risks. We believe it will be even more difficult to integrate climate-related risks into liquidity risk frameworks. Banks should be given enough time to build the capabilities to understand the impact of climate-related risks drivers on their liquidity risk profiles. We support a phased-in approach given the evolving nature of climate risk management. • The proposed language that banks 'should understand' ' and 'ensure' might be too definitive in relation to banks' ability to provide conclusive identification of these risk drivers in risk systems and processes. We believe this could be adjusted to say 'banks should reflect the potential of climate related risk drivers to invoke or enhance the potential for liquidity challenges in the parametrization and monitoring efforts, and where deemed material, implement controls"

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Principle 11: Banks should understand the impact of climate-related risk drivers on their operational risk and ensure that risk management systems and processes consider material climate-related risks. Banks should also understand the impact of climate-related risk drivers on other risks6 and put in place adequate measures to account for these risks where material. This includes climate-related risk drivers that might lead to increasing strategic, reputational, and regulatory compliance risk, as well as liability costs associated with climate-sensitive investments and businesses. [Reference principles: BCP 25, Principles for the sound management of operational risk, Principles for operational resilience, SRP 20, SRP 30]
• The challenge is parsing out what portion is specifically related only to climate-related risks. We think Basel guidance on effective risk management principles for operational risk are more than sufficient to capture any operational risk concerns on climate-related risks and more detailed guidance is not needed. We suggest banks be provided flexibility on how to capture climate-related risks under their existing operational risk frameworks.
Scenario Analysis (p. 11)
Principle 12: Where appropriate, banks should make use of scenario analysis, including stress testing, to assess the resilience of their business models and strategies to a range of plausible climate-related pathways and determine the impact of climate-related risk drivers on their overall risk profile. These analyses should consider physical and transition risks as drivers of credit, market, operational and liquidity risks over a range of relevant time horizons. [Reference principles: BCP 15, Stress testing principles]
• First of all, we would suggest updating the wording to only refer to scenario analysis • Recommend that this principle acknowledges the forward looking, long duration aspect of such scenario testing. Also, that such methodology necessarily comes with a reduced level of confidence regarding the accuracy of the results. • Under various other principles, there is recognition of the continued evolution of the maturity of data and methodologies and that this will be an iterative process. Given the impacts of those uncertainties for scenario analysis, we propose reinforcing that message here as well to set expectations for banks and supervisors. • A phased approach is noted as practices evolve and "where appropriate". • Stress testing methodologies for climate risks have so far mainly been applied in an exploratory manner for the climate-related risks only. We understand that some assumptions and simplifications are needed so that the exercises are doable given the limitation in the data and methodologies to date. At this stage climate stress tests should be conceived as learning exercises with no impact on capital, given the foundations are not in place.

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III. Principles for the supervision of climate-related financial risks (p. 12 - 14)
Prudential regulatory and supervisory requirements for banks (p. 12 - 13)
Principle 13: Supervisors should determine that banks’ incorporation of material climate-related financial risks into their business strategies, corporate governance and internal control frameworks is sound and comprehensive. [Reference principles: BCP 9, BCP 14, BCP 26, SRP 20]
• Supervisors should share insights they gain from other supervisors and from across the industry. • Supervisors should temper expectations with on-going industry discussions and appreciation for the challenges. Figuring out what is ideal vs. what the industry can actually do currently, in the near short term, and further in long term capabilities. Guidelines/ requirements and associated implementation plans should consider this and ensure reasonable timelines with an understanding of banks’ existing capabilities.
Principle 14: Supervisors should determine that banks can adequately identify, monitor and manage all material climate-related financial risks as part of their assessments of banks’ risk appetite and risk management frameworks. [Reference principles: BCP 15, SRP 20, SRP 30]
• See comments on Principle #13. • Appreciating that this is a new risk driver with new untested methods. Will require time for entities to get across this. A collaborative approach to developing the processes should be considered.
Principle 15: Supervisors should determine that banks comprehensively identify and assess the impact of climate-related risk drivers on their risk profile and ensure that material climate-related financial risks are adequately considered in their management of credit, market, liquidity, operational, and other types of risk. Supervisors should determine that, where appropriate, banks apply climate scenario analysis. [Reference principles: BCP 17–25, Principles for sound liquidity risk management and supervision, Principles for the sound management of operational risk, Principles for operational resilience]
• Please see the comments on principle 13
Responsibilities, powers and functions of supervisors (p. 13 - 14)

IBFed Members' Comments and Requests for Clarification
Principle 16: In conducting supervisory assessments of supervised banks' management of climate-related financial risks, supervisors should utilise an appropriate range of techniques and tools and adopt adequate follow-up measures in case of material misalignment with supervisory expectations. [Reference principles: BCP 8, BCP 9, SRP 10, SRP 20]
• What is the purpose of the supervisory assessments? At this stage, the supervision should focus on whether banks have commenced action and understanding the frameworks under which banks are assessing climate risk as opposed to the outcomes and data derived. • Paragraph 56 of the principle states that collaboration between home and host supervisors should be fostered by enhancing the information sharing framework. We do support the sentence and we consider that the Supervisory College is the appropriate forum to be used for information sharing between supervisors. • We suggest the BCBS clarify what "appropriate" is understood/would be expected to mean, including among other things, that the "range of techniques and tools" would be within the purview of the supervisors' authority. We are concerned that the use of "appropriate" could be used as a springboard to express concerns/objections about the timing/scope which would leave banks unable to gauge supervisory expectations.
Principle 17: Supervisors should ensure that they have adequate resources and capacity to effectively assess supervised banks' management of climate-related financial risks. [Reference principles: BCP 9]
• While we acknowledge and support the objective to develop the supervisory tools to effectively assess banks' climate risk management, we would also like to highlight that banks and supervisors are following a close and almost parallel learning curve on climate-related risks, building a set up with appropriate expertise and resources. The risk set ups within banks are still in a ramp up phase: a balance between inspections, which might be, at this stage, less relevant, and reporting on the roll out of these set-ups has to be set. Conducting stress tests or participating in consultation are time-demanding and banks need to dedicate sufficient resources to the building of their risk framework. This makes it necessary to strike the right balance to make the best use of banks' capacities. We consider it important to adopt a pragmatic approach in this intermediate stage to ensure a meaningful use of supervisors' and banks' resources. • Paragraph 59 - For common data gaps identified, we suggest that supervisors consider collecting additional information from regulated banks in a standardized reporting format to help provide direction and improve comparability. • We suggest that supervisors seek feedback from their supervised banks to help identify gaps in resources, talent, and capabilities they may not be aware of.

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Principle 18: Supervisors should consider using climate-related risk scenario analysis, including stress testing, to identify relevant risk factors, size portfolio exposures, identify data gaps and inform the adequacy of risk management approaches. Where appropriate, supervisors should consider disclosing the findings of these exercises. [Reference principles: Stress testing principles]
• We agree that capital should be determined with risk sensitive metrics. However, for quantifying the climate-related risk, the scenario analyses are still in piloting phase and will become more sophisticated by repeated exercise over time. Stress testing methodologies for climate risks have so far mainly been applied in an exploratory manner. We understand that some assumptions and simplifications are needed so that the exercises are doable given the limitation in the data and methodologies to date. But as a consequence of these limitations, the framework and its results might be unrealistic, and special care has to be taken when analysing the results. These observations are also relevant for principles 13-15. • Therefore, until data, methodologies and results of regulatory stress testing practices are stabilised, these exercises should not imply any quantitative impact on the capital requirement of the entities. Qualitative impacts in the supervisory review process should be reserved for very limited cases (for example, where it is unequivocal that a bank has not started to set up the governance and internal processes to integrate and account for climate-related financial risks). Climate-related scenario analysis should also be kept separate from regulatory stress testing. Moreover, we caution against any regulatory capital add-on on the most carbon intensive sectors (penalizing factors), without a prior sound risk analysis performed according to the usual Basel standards. • It should be ensured that supervisors also bear in mind the climate related risk scenario analysis conducted by banks under principle 12 and ensure that synergy effects can be leveraged in order to ensure an efficient use of resources • Should regulators decide there is a public need to be transparent and disclose the findings of scenario analysis, we recommend that the disclosures be done in agreement with participating banks and in line with existing confidentiality obligations and established disclosure practices. In addition, regulators should ensure that results are aggregated at the industry level and anonymized for disclosures
IV. Questions on the proposed principles (p. 14)
Q1. Has the Committee appropriately captured the necessary requirements for the effective management of climate-related financial risks and the related supervision? Are there any aspects that the Committee could consider further or that would benefit from additional guidance from the Committee?

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Q2. Do you have any comments on the individual principles and supporting commentary? **(Note:** Members may wish to refer to any comments under the respective Principles above)
Q3. How could the transmission of environmental risks to banks' risk profiles be taken into account when considering the potential application of these principles to broader environmental risks in the future? Which key aspects should be considered?
• At this stage, capturing the impact of environmental risks other than climate risks on other existing risk categories is challenging due to the lack of data, methodology and academic research. A first step could consist in a qualitative approach, based, for example, on exclusion policies or processes to identify the most sensitive transactions according to internal assessments or on standards that are progressively established by international bodies and/or the industry.