ASSOCIATION DES BANQUIERS CANADIENS
CANADIAN BANKERS ASSOCIATION

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Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

Dear Basel Committee members:

Re: CBA[1] Comments on BCBS Consultative Document Disclosure of climate-related financial risks

Thank you for the opportunity to provide comments on the BCBS's consultative document *Disclosure of climate-related financial risks* ("consultative document"). We understand that the Committee is publishing this consultative document to seek the views of stakeholders on the outcome of its initial work and its preliminary proposal for bank-specific Pillar 3 disclosure requirements that would complement the International Sustainability Standards Board (ISSB) framework and provide a common disclosure baseline for internationally active banks. In this letter, we highlight our key issues in relation to the consultation questions posed by the Committee. As such, we have not provided individual responses to the consultation questions and templates in the consultative document, as we believe our comments contained herein address them.

In general, we do not support a separate Pillar 3 disclosure framework for climate-related financial risks. In our view, the Committee's proposed disclosures extend beyond the scope of Pillar 3 as a vehicle for market discipline and lack sufficient connection to Pillar 3 objectives. We note that the ISSB is already undertaking efforts to harmonize with other standard setters and regulators around their IFRS S2 Climate-related Disclosures standard and jurisdictional regulators and supervisors are already on a journey to incorporate IFRS S2 into their own requirements. If the BCBS decides to proceed with its own Pillar 3 disclosure framework for climate-related financial risks, we offer these suggestions:

- Removal of Forecasts in Templates CRFR1, CRFR4, and CRFR5.
- Removal of Templates CRFR3, CRFR4, and CRFR5 (Quantitative disclosure requirements).
- Removal of Tables CRFRA and CRFRB (Qualitative disclosure requirements).
- Do not include impaired loans and allowances & maturity profile metric in Templates CRFR1 and CRFR2.
- Align with the ISSB, including on the definition of materiality & other terminology.
- Align the scope of financed emissions requirements with existing PCAF methodology.
- Allow banks to use a materiality threshold when determining which sectors to include for financed emissions calculations and disclosure.

[1] The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals. www.cba.ca

- Disclosure of facilitated emissions should not be required at this time.
- No disclosure of competitive, sensitive, and/or proprietary information.
- Include safe harbour protections in coordination with IOSCO/securities regulators.
- Provide for jurisdictional discretion in key areas including timing, industry classifications, format and location, and implementation date of the disclosures.
- Report at consolidated level for both physical risk and transition risk (e.g., GHG emissions).
- Underscore the importance of proportionality.
- Do not explore climate liquidity disclosures for a Pillar 3 climate framework.
- Do not include trading book risks at this time for a Pillar 3 climate framework.

The rationale for these suggestions is articulated by theme, as follows:

Exceeding scope of Pillar 3 disclosures

Pillar 3 disclosures aim to promote transparency and market discipline and enable market participants to access key information relating to a bank's regulatory capital and risk exposures to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital[2]. The Pillar 3 Framework aims to address the problems identified through the financial crisis and to improve comparability and consistency of financial regulatory disclosures through more standardized formats between banks and across jurisdictions[3]. We are concerned that some of the proposed disclosure requirements in the consultative document extend beyond the intent and aim of Pillar 3 disclosures, as shown, for instance, by the proposals on forecasts and quantitative disclosures:

- **Forecasts:** We are concerned that the Committee is contemplating disclosure of forward-looking information by way of forecasts in Templates CRFR1, CRFR4, and CRFR5. This is not typical of standard Basel Pillar 3 regulatory disclosure requirements if the intent is to require actual forecasts as opposed to targets as discussed under "Terminology" below. Forecasts by their nature are dependent on many inputs and assumptions which can change materially over years. In addition, a widely accepted methodology for GHG emissions forecasting does not currently exist, which will further reduce comparability across banks. Given that banks are in the early stages of data aggregation for climate risk exposures, we also stress that the ability to forecast metrics out three to five years is operationally challenging and may not produce decision-useful information within the Pillar 3 context. Due to such factors, we also emphasize that disclosure of forecasts carries liability risk for banks. For these reasons, we recommend removal of forecasts from Templates CRFR1, CRFR4, and CRFR5. While the Committee notes that disclosure of forward-looking forecasts would not be compulsory and would only be required in instances where banks have established such forecasts, we are concerned about potential future implications of introducing forecasts into the Pillar 3 framework.

- **Quantitative disclosure requirements:** Furthermore, we are also concerned about other examples where the Committee is venturing into domains outside the scope of Pillar 3

[2] Basel Committee on Banking Supervision, The Basel Framework, DIS10.1, https://www.bis.org/basel_framework/chapter/DIS/10.htm
[3] OSFI Pillar 3 Disclosure Guideline for Domestic Systemically Important Banks (D-SIBs) - Guideline (2024): Pillar 3 Disclosure Guideline for Domestic Systemically Important Banks (D-SIBs) - Guideline (2024) - Office of the Superintendent of Financial Institutions (osfi-bsif.gc.ca)

disclosures such as energy efficiency levels of real estate exposures in the mortgage portfolio (Template CRFR3); emission intensity per physical output and by sector (Template CRFR4); and facilitated emissions related to capital markets and financial advisory activities by sector (Template CRFR5). Such areas are not directly related to regulatory capital and risk exposures and thus we do not believe they should be considered within the Pillar 3 framework.

We note that while the BCBS proposal contains a rationale section, this section is largely focused on how climate-related risks can affect both banks and the banking system—not on how each of the proposed qualitative and quantitative disclosures would achieve Pillar 3 objectives[4].

We strongly recommend that any further proposals and final requirements for the disclosure of climate-related financial risks be narrowly tailored to reflect the Pillar 3 objective of providing market participants with key information necessary to understand a bank's risk exposures and overall adequacy of its regulatory capital. We caution against overly cumbersome disclosure requirements that exacerbate concerns related to information overload and cause undue burden to preparers dealing with an increasingly complex and evolving financial reporting environment. As such, we request the removal of these disclosure requirements.

Harmonization

Standardization: We appreciate that the BCBS has been coordinating with other international bodies and standard setters, including the ISSB, as it explores use of Pillar 3 of the Basel Framework to promote a common disclosure baseline for climate-related financial risks across internationally active banks. Driving towards a single set of uniform disclosure standards will enhance the comparability of disclosures both within and across jurisdictions and support the investment and decision-making needs of various stakeholders.

However, we would like to raise a general concern about the value of an additional set of disclosure requirements from the BCBS, noting that the ISSB already drives consistency and comparability across industries and countries and that jurisdictional regulators and supervisors are already on a journey to incorporate IFRS S2 into their own requirements. We suggest that it may be more relevant for the BCBS to follow the ISSB and continue to promote harmonization and consistency in adoption across jurisdictions.

Qualitative disclosure requirements: We note that the BCBS's proposed qualitative disclosure requirements (Tables CRFRA and CRFRB) are substantively aligned to the ISSB. Where there are differences, we believe they will over-complicate disclosure requirements for preparers and cause confusion for users. To reduce redundancy and complexity, we suggest removal of the qualitative disclosure requirements in Table CRFRA and Table CRFRB.

Terminology: We would also ask the BCBS to align both the requirements and terminology in its framework for management of climate-related financial risks with that of the ISSB. For example:

- We note that BCBS uses the term "climate related financial risks" throughout its framework, while

[4] The only relevant rationale provided in the rationale section is that "[t]he existing Pillar 3 framework does not provide distinct or comparable information as to how climate risk drivers could impact a bank or the banking sector" (see p. 3).

the ISSB uses the terms “climate-related risks” or “sustainability-related risks”.

- The BCBS framework uses "forecasts" while the ISSB uses the term "targets" as highlighted above. We seek clarification on whether these terms have the same intended meaning.
- We are seeking a common definition for concentration risk to limit a large degree of variability in disclosures.

Data / Methodology Challenges

The Pillar 3 disclosure requirements may be reliant on data that is limited/inadequate or based on nascent methodologies. Data availability/ timing /disclosure maturity may also vary by jurisdiction (e.g., the energy efficiency statistics for EU mortgages is more advanced than North America). These limitations can result in unreliable disclosures that provide limited decision-useful information to the market.

We would also highlight that financed emissions data will likely be volatile for several years. The lack of consistent and comprehensive counterparty reporting on emissions and energy data leads to low/poor data quality scores, especially for small to medium-sized counterparties. Reliance on proxies, estimates, and third-party data will result in low data quality scores and may lead to errors and volatility in financed emissions. This will remain a challenge until climate-related disclosures, including GHG emissions, are mandated by regulators for sectors in the real economy. In Canada, the timing and scope of disclosure requirements for non-financial institutions remains unknown.

We would also like to highlight that currently GHG emissions data becomes available on a 1-2 year lag. Therefore, aligning GHG emissions reporting periods with financial reporting periods will not be feasible in the foreseeable future.

We also recommend that the BCBS align the scope of its financed emissions requirements (e.g., required asset classes) in Template CRFR1 (and other tables that reference financed emissions) with existing PCAF methodology to avoid divergence in approaches. Further, we believe that disclosure of facilitated emissions should not be required at this time and strongly recommend that the BCBS remove proposed template CRFR5 for facilitated emissions, as the PCAF methodology for facilitated emissions has only recently been developed and there is no market consensus on its use, it has not yet been sufficiently tested by banks to see how well it works, and it is still unfamiliar to other market participants. If mandated, we request that the BCBS provide banks with additional time to phase-in the granular level of data as banks will require time to implement the guidance.

Materiality & Granularity of Requirements

We are concerned by the quantity and granularity of disclosure requirements that may not be material for all banks and we believe that it is important for the BCBS to consider the potential unintended consequences — especially where it is not clear that each of the proposed disclosure requirements is conducive to advancing Pillar 3 objectives.

If the BCBS requires immaterial disclosures, especially in cases where development and market testing of methodologies/approaches has not yet taken place, this could result in increases in the volume of disclosures which are not comparable or decision useful for stakeholders. The benefits of such disclosures should be weighed against the potential costs.

As such, we recommend the following:

- We recommend against including the tables and templates in the consultation for public disclosures.
- We request that the BCBS align with the ISSB on its definition of materiality which is based on IFRS Accounting Standards—that is, information is material if omitting, obscuring, or misstating it could be reasonably expected to influence investor decisions.
- We are supportive of the focus of the BCBS proposal on Scope 3 Financed Emissions, rather than Scope 1 & 2 as the latter are generally immaterial for the Financial Sector. However, we are concerned with the BCBS's proposal for disclosure of exposures to the 18 sub-sectors as defined by the TCFD, regardless of materiality (Template CRFR1). Generating data on all 18 sub-sectors at this level of granularity and coverage would be a significant work effort and may involve system builds along with related governance infrastructure and will ultimately consume resources with the required specialized expertise. We request BCBS to allow banks to use a materiality threshold for disclosures.
- We find the requirement for forecasted emissions disclosure to be very granular. Generating data at this level of granularity and coverage would be a significant work effort and may involve system builds along with related governance infrastructure and would ultimately take resources with the required specialized expertise, which are limited, away from broader climate-related capabilities and activities (e.g., decarbonization/transition efforts).

Irrespective of materiality, we also do not support disclosure of competitive, sensitive, and/or proprietary information with respect to climate-related financial risks. The request for disclosure of any obligor level information & maturity profile may be considered commercially sensitive, and banks should not be required to disclose commercially sensitive material.

Safe harbour

We strongly encourage the BCBS to work with IOSCO and jurisdictional regulators to further consider climate-related safe harbour protections, in addition to the safe harbour for forward looking statements, as it would be beneficial in encouraging robust climate-related disclosures, even in cases where methodologies are less clear, and data is imperfect. Entities will be required to balance the request for useful, transparent disclosure against the fact that methodologies and data continue to evolve, and so additional safe harbour protection may be beneficial to entities and encourage more transparency and decision-useful disclosures.

In relation to climate-related safe harbours, we would highlight that they should cover (1) a longer forward period than traditional safe harbours for forward-looking information (FLI), especially given the potential requirement for forecasts proposed by the BCBS (see the section above on Forecasts for more details), and (2) also cover historical periods, given the issues around data and methodologies.

Jurisdictional discretion

We appreciate that the Committee will consider which elements of its Pillar 3 framework would be mandatory and which would be subject to national discretion. We believe the BCBS should provide regulators with broad discretion over the implementation of Pillar 3 disclosures on climate-related financial risks in their respective jurisdictions. It is important to recognize that different jurisdictions and

financial institutions around the world are at varying levels of maturity and readiness in relation to such disclosures. Political realities may also need to be taken into account. Regulators have in-depth knowledge of their markets and financial institutions. They are best placed to determine which requirements should be implemented and the appropriate timeline/transition arrangements. Most regulators, including the Office of the Superintendent of Financial Institutions (OSFI), are converging towards the ISSB standards and are best placed to articulate requirements for banks within their jurisdiction. Local regulators may have already commenced work on climate-related financial risk disclosures in their jurisdiction and this needs to be considered and any issues addressed in an appropriate manner in the context of any new global requirements. This will help to avoid confusion for users and undue cost/burden on financial institutions. We therefore stress the need for jurisdictional discretion within a BCBS framework.

Timing of Climate-Related Disclosures: We request that the BCBS allow jurisdictional regulators to determine the appropriate timeframe for climate-related financial risk disclosures (e.g., OSFI is allowing climate-related disclosures to be published 180 days after year-end). We would like to highlight that the collection of energy consumption and financed emissions data, the calculation of financed emissions, and the process of securing external verification takes several months after banks' fiscal year-ends to complete, whereas Canadian banks often publish their annual financial statements within four to six weeks of their year-end. We believe that such a lag will not materially affect the decision-usefulness of the disclosure as climate-related impacts from emissions will take longer to manifest and therefore are not as time sensitive as financial measures. This will also help improve the quality and reliability of the disclosure.

Definition of Geographic Area: We would like to highlight potentially significant variation in interpretation (Template CRFR2), especially in terms of the materiality of chronic (and to a lesser extent acute) physical risk to a given corporate exposure. Additionally, we note there would be data challenges to assess exposure to physical risk based on the location of the activities of the counterparty, noting that many borrowers have activities in multiple locations. This level of granular disclosure would create a new operational burden for banks that have already allocated resources towards compliance with ISSB and similar requirements. If this disclosure is to be required, in order to achieve comparability/standardization of BCBS standards across banks, we recommend that the BCBS or supervisors agree on what areas are subject to higher climate risk, with disclosures by these regions.

Industry Classifications: In Canada, most of the Canadian banks apply NAICS & SIC codes for regulatory disclosures, with various versions used. While there are some merits to GICS, we believe the industry classification codes and versions should be left to the discretion of the local jurisdiction as there would be divergent practices globally. We would request that sectoral reporting be consistent with existing financial reporting.

Format and location: We support the BCBS allowing flexibility on the format (i.e., certain information in the proposed Pillar 3 Tables/Templates is denoted as flexible) and location of the Pillar 3 disclosures, similar to the existing Pillar 3 requirements. We believe that entities should work with their local regulators to determine the appropriate location.

Implementation date: We appreciate that the Committee is considering the timing of implementation of the ISSB standards in relation to its proposed Pillar 3 framework. We note that there is a prescribed implementation date of January 1, 2026, following 1 year after the implementation of IFRS S2. However,

given that in Canada there is no finalized implementation date for IFRS S2 or S1, we propose that the implementation date of the Pillar 3 disclosures be at the discretion of the local jurisdiction with consideration of each jurisdiction's ISSB implementation date and that a longer gap is allowed after the local implementation of the ISSB standards – specifically, two years rather than one year.

Scope of reporting

We propose to report at the consolidated level for both physical risk and transition risk (e.g., GHG emissions). Disclosure requirements for individual subsidiaries could provide an incomplete, and perhaps misleading, picture of the risks in the wider group. Moreover, banks neither measure nor manage climate-related risks and strategy at this level. To date, climate-related disclosures at the subsidiary level have provided limited benefit to market participants.

Proportionality

While the BCBS framework is targeted at internationally active banks, it is possible that regulators may choose to pursue broader adoption within their jurisdiction. We recommend that the BCBS underscore the importance of proportionality that is consistent with the material differences in scale, resources, and capabilities that exist across different sizes of banks.

We stress that any final Pillar 3 disclosure requirements must be based on a realistic understanding of banks' current capabilities and the availability of the necessary data and metrics (e.g., Scope 3 GHG emissions). We are concerned as many of the proposed Pillar 3 disclosure requirements assume a level of precision in climate-related financial data that does not yet exist.

Comments on Specific Measures/Metrics

Financed emissions: Financed emissions disclosures can be a helpful tool for market participants to compare banks potential climate-related exposures. However, the inclusion of these disclosures within the Pillar 3 framework would be premature given the reliance on methodologies and data elements with many assumptions (e.g., emission factors) that are nascent. We would caution investors against the over-reliance on financed emissions data at this point for decision-making purposes.

In addition, we would highlight the nuance that is lost by classifying all companies a certain way within a transition sensitive sector. On one hand, banks may have counterparties that are advancing rapidly and seizing the opportunities in their sectors that the low carbon transition affords, and therefore are set to benefit from the transition. On the other hand, other counterparties may not be transitioning at all and therefore may face much greater transition related exposures.

Allowances and Maturity: While banks already disclose impaired loans and allowances by sector, if presented in the proposed templates (Templates CRFR1 and CRFR2), the implication is that these allowances are related to climate, which is misleading. Most allowances are due to a myriad of other factors, and there is no current accounting standard that provides guidance to attribute allowances specifically to climate risk drivers. Banks do currently provide gross credit risk disclosures with a sector breakdown, which permit users to assess concentration risks.

We also suggest removal of the maturity profile metric. Most loans are designed to be rolled over at

maturity, and this creates a false expectation that maturity is an automatic exit point (versus the reality that most loans are renewed or restructured, rather than paid out). Also, at this level of granularity, disclosures start to become commercially sensitive.

Liquidity Risk: We do not believe the Committee should explore climate liquidity disclosures for a Pillar 3 framework. While there are many factors that can affect a bank's liquidity sensitivity to external events, including those driven by climate, any attempted disclosure of climate information in isolation, would likely be insufficient or not comprehensive for the wide range of implications and timing of such events, and could be misleading in their ultimate implications for a bank. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) and Enhanced Disclosure Task Force (EDTF) disclosures are the standardised approach to assessing a bank's liquidity resilience for any idiosyncratic or systemic instigating liquidity challenges based on the history of client actions under systemic crises or reactions to individual bank failures.

We also believe that climate-related deposits and funding disclosure on its own could create confusion and unintended consequences to a normally functioning bank's liquidity access prior to any realised climate related impacts, possibly destabilising liquidity in banking systems and making them prone to speculation. For instance, a bank with a large mix of depositors in a region who may need their funds as a result of climate driven events, does not preclude that bank from adjusting its funding sources or recapturing the lost deposits through its other clients in the same region in order to support its assets. However, disclosure of clients by location or industry could lead investors and depositors to speculate on the bank's funding stability and create a problem where none had existed prior to disclosure. The prevailing understanding of where banks operate should sufficiently inform investors.

Market Risk: Given the short-term nature of the trading book, the disclosures may result in inconclusive and volatile output over time. We do not believe climate-related disclosures should include trading book risks at this time.

Thank you in advance for considering our comments. We would be pleased to discuss our submission at your convenience.

Sincerely,

Cc: Ken Leung, Managing Director, Accounting Policy Division, OSFI
Kathy Huynh, Director, Accounting Policy Division, OSFI
Stephane Tardif, Managing Director, Climate Risk Hub, OSFI
Javinder Sidhu, Director, Data and Analytics Insights, Climate Risk Hub, OSFI