March 14, 2024

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

Re: Comments on the Disclosure of Climate-Related Financial Risks

We, the undersigned groups, strongly support the Basel Committee on Banking Supervision's efforts, reflected in the consultation paper *Disclosure of climate-related financial risks*, to enhance disclosure of bank approaches and exposures to climate risks. This information is critically important for investors, banks and other financial institutions, regulators, and the broader public.

Of particular importance is information related to financed emissions, transition plans, and forecasts. The proposal includes key measures to support disclosure of information related to these concerns, but it should be strengthened by including measures that (1) ensure an accounting and disclosure of financed emissions associated with a bank's financial intermediaries, and (2) better reveal the extent to which bank plans for net zero emissions are credible.

The proposal accurately reflects that financed emissions are a useful proxy for transition risks, but should include additional measures to ensure a full accounting of these risks.

The proposal accurately reflects that disclosure of a bank's financed emissions—the greenhouse gas emissions associated with its loans and investments—would help market participants understand a bank's exposure to climate-related transition risks. Fossil fuel company borrowers, in particular, are facing significant changes in policy, technology and consumer demand as the shift to renewable energy rapidly progresses. As demand for fossil fuels decreases, fossil fuel companies' abilities to repay debts or offer returns on equity investments will likely be severely compromised.

A growing body of research underscores the significant risk related to loans and investments in fossil assets. One study indicates, for example, that under plausible changes in expectations about the effects of climate policy, global stranded assets for the upstream oil and gas sector alone translate to major losses of more than US$1 trillion for investors in advanced economies. Other research indicates that, to allow for only a 50 percent probability of limiting warning to 1.5 °C, nearly 60 percent of oil and fossil methane gas, and 90 percent of coal, must remain unextracted. Oil and gas production must decline globally by 3 percent each year until 2050.

Market participants have a right to know about a bank's financed emissions; this information will incrementally improve their ability to predict risks faced by bank borrowers and, in turn, banks.

Some banks argue that their financed emissions are not useful proxies for their transition risks because they can pivot away from these risks, i.e., they can implement risk management measures when transition risks become too significant for them.

This argument, however, ignores the reality that planned risk mitigation strategies can rely on assumptions that aren't always well founded. These include, for example, assumptions about how quickly the transition is occurring—and, in turn, when the bank needs to dispose of these assets—as well as assumptions about the availability of purchasers for these assets when the bank decides to make this pivot. The uncertainty related to such assumptions, and the potential impacts, are just too significant. A precautionary approach mandates against such reliance.

If a bank is confident its risk mitigation measures will significantly minimize or negate its exposure to transition risks, i.e., if a bank believes its capacity to absorb losses or dispose of fossil assets will inevitably succeed in minimizing or mitigating this exposure, the bank should be willing to allow market participants to know both its financed emissions and its plans to address risks related to these emissions.

Financed emissions information can also help market participants evaluate the extent to which banks are meeting their own stated commitments, and attendant regulator expectations. In the US, for example, this information will help market participants and regulators evaluate the extent to which banks are ensuring that their internal strategies are consistent with their public commitments, as reflected in the recently adopted Principles for Climate-Related Financial Risk Management, as well as the Principles for Effective Management and Supervision of Climate-Related Financial Risks. The information will also otherwise enhance the accountability of banks for the effective implementation of these principles.

While the current requirement to disclose financed emissions is useful, it should be strengthened to ensure that all relevant financed emissions are disclosed. For example, the proposal should ensure that all bank financing occurring through financial intermediaries is included in calculations of a bank's financed emissions. A recent article describes how current classifications of financial exposures by sectoral codes enable the potential concealment of this financial intermediation and related financed emissions. As scrutiny of bank targets and commitments intensifies, banks could be incentivized to increase intermediation to hide their financed emissions if these financed emissions are not already attributed to the bank.

The proposal correctly mandates disclosure of a bank's strategy for reducing and mitigating its climate-related risks, but it should, additionally, assist market participants in evaluating the extent to which the strategy is credible and addresses immediate and downstream risks.

The proposal currently mandates disclosure of a bank's strategy for reducing and mitigating the risks to which it is exposed. This mandate would include a need to disclose a bank's transition plan—a document that "lays out a bank's forecasts and actions for its transition towards a lower carbon economy"—but only if such a plan and forecasts exist.

This provision critically recognizes that a bank's forecasts, including its forecasts for reducing greenhouse gas emissions, should include several key components, including how forecasts will be achieved and forecast objectives, among other important information. More specifically, for example, the proposal correctly indicates that market participants need to know if a bank's "emissions forecasts" will be achieved through carbon offsets or through emission reductions within the bank's value chain. As an increasing number of analyses confirm, carbon offsets are not meeting key criteria—including additionality and permanence—needed to establish their credibility. Market participants must also know if the emissions reduction forecast objective is to conform to science-based initiatives, or only to mitigate a bank's own risks.

While the proposal's attention to net-zero transition plans and forecasts for reducing emissions is welcome, its failure to mandate that all banks disclose transition plans and forecasts, and to describe the elements of a credible net-zero transition plan, creates perverse incentives for banks to avoid creating credible transition plans and forecasts. It also leaves the Basel Committee on Banking Supervision falling short of meeting its mandate to protect financial stability.

The US Treasury Department, in its Principles for Net-Zero Financing &and Investment (herein US Treasury Principles), detailed what a credible approach to net-zero emissions entails as it recognized that climate change is threatening significant harms to the economy. These Principles state, "credible commitments [to net-zero] should be consistent with the goal of reaching net zero no later than 2050 and include credible short- and medium-term targets in line with limiting the increase in the global average temperature to 1.5°C," and credible declarations "should be accompanied or followed by the development and execution of a net-zero transition plan."

Climate-related threats to the economy acknowledged in the US Treasury Principles document are increasingly recognized as threats to financial stability. The US Financial Stability Oversight Council recently expressed concern, for example, that physical risks created through greenhouse gas emissions are driving an insurance protection gap that is significantly impacting homeowners and threatening significant harm to lenders, economies, interconnected entities, and the financial system.

It's clear that impacts to banks could occur not only through transition risks, but also through a financial crisis spurred by physical risks facilitated through continued financed emissions that are currently far in excess of levels that would provide virtually any chance of maintaining global financial and economic stability. The proposal must acknowledge physical risk-driven financial stability threats and require banks to disclose how they're both transitioning from their financed emissions and building capacity to respond to potential downstream impacts from these financial stability threats.

We thank you for the opportunity to comment on this important proposal.

Public Citizen

The Sunrise Project
Americans for Financial Reform Education Fund
Sierra Club
Global Witness
The People's Justice Council
Alabama Interfaith Power & Light
Regenerating Paradise
Climate Organizing Hub
Revolving Door Project
Carrizo/Comecrudo Nation of Texas
Ekō
Institute for Agriculture and Trade Policy
MARBE S.A., Costa Rica
350MA
Center for Environmental Research and Agriculture Innovations
The Center for Social Sustainable Systems
AnsvarligFremtid
Climate Stick Project
Fair Finance Guide - Sweden
Stand.earth
350 Humboldt
Texas Campaign for the Environment
Louisiana Bucket Brigade
Clean Energy Action
Empower Our Future
CO Democratic Party - Energy and Environment Initiative
Zero Hour
350 Mass
350 Colorado
350 Mass-North Shore
7 Directions of Service
Indigenous Environmental Network
Climate Bonds Initiative
Interfaith Center on Corporate Responsibility (ICCR)
The Phoenix Group
THIS! Is What We Did
Rise Economy (formerly California Reinvestment Coalition)