March 14th 2024.

To: Basel Committee on Banking Supervision /Bank of International Settlements

Re: Consultative Document – Disclosure of climate-related financial risks

We welcome the opportunity to comment on and present proposals of improvement to the draft framework for climate disclosures of banks, in a very summarized and objective way, hoping they are carefully analysed and considered.

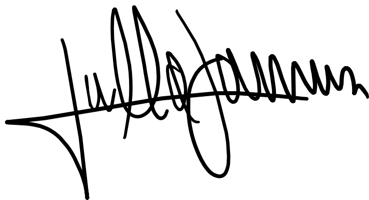
Just a short introduction before we present our suggestions: the Association Soluções Inclusivas Sustentáveis (SIS – Sustainable Inclusive Solutions, in English) is a Brazilian-based non-profit organisation focused on strengthening the connections between Sustainability and Finance, with a deep expertise on ESG financial regulations and voluntary standards at global-level, as well as best market practices. Since 2017, its seed-organisation, a small consultancy founded also by me, has been contributing to public consultations of financial regulators, including in the European Union, USA, Brazil, China, Chile and India. We have also been delivering training to financial regulators and financial institutions and providing consulting services to organisations such as the Taskforce on Nature-related Financial Disclosures (TNFD), the IFC-hosted Sustainable Banking and Finance Network, the German international cooperation agency GIZ, the World Wildlife Fund (WWF), Principles for Responsible Investment (PRI), the Chain Reaction Research, and others. Previous to that, I have developed a broad and deep research on ESG finance including financial regulations and market best practices at global level from 2014 to 2016, and have worked as Legal Counsel at the Brazilian Central Bank, who is also the national banking regulator, from 2007 to 2016. My PhD research (mostly developed in the USA) was focused on consensus-building on public policies disputes and I have also delivered dozens of trainings and acted in real conflicts on the field in Brazil. I have several scientific publications on both knowledge fields and have been talking in many relevant multistakeholder Sustainable Finance forums.

SIS is a member of the Laboratory for Financial Innovation (LAB – www.labinovacaofinanceira.com), the main Sustainable Finance multistakeholder forum in

Brazil, of Coalition Brazil Climate, Forests and Agriculture (http://coalizaobr.com.br/), of the TNFD Forum (website: tnfd.global) and of the Climate Observatory ("Observatório do Clima" in Portuguese – oc.eco.br), a coalition of more than 110 civil society organisations active in Brazil. SIS has currently three workstreams: a) advocacy on ESG financial regulations (banking, insurance, pensions and capital markets); b) ranking of Brazilian financial institutions on their ESG policies and actions; c) contributions to a Brazilian Green Taxonomy (classification system of economic activities according to their environmental, social and climate impacts) – as such, we have been able to write a bill (proposal of law) to the Brazilian Parliament that brings the principles of this Taxonomy (PL 2838/2022). As most of the economic activities that cause climate change (or can contribute to mitigation and adaptation) are financed through lending and/or investments and many times use insurance, we believe that our mission can have a relevant impact on climate change mitigation and adaptation.

Should you have any queries concerning the suggestions, or wish to discuss them in further detail, please contact via e-mail at: luciane.moessa@sis.org.br.

Yours sincerely,



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I – Positive changes in the proposed disclosures framework

Considering the magnitude of climate risks, which are actually not relevant only for financial institutions individually, but can be considered systemic risks [1], and the fact that most regulators still do not require their disclosure by banks and most banks do not make disclosures with sufficient clarity on this regard in a voluntary manner, any sort of disclosures represent a progress compared to the current reality.

However, we believe that there are key points that are missing in the proposed framework, so we present our proposals of additional disclosures and their rationale.

II – Suggestions for each of the tables

CRFRA – Qualitative information on climate-related financial risks (governance, strategy and risk management)

1. Governance

The table addresses the assignment of roles and responsibilities, competencies and board supervision role. All these topics are relevant, but implementation of climate risk management requires also quantitative data, such as the proportionality between the size and budget of the technical team in charge of it and the characteristics of the banks' portfolios (considering the financed industries, the location and size of the financed companies).

Moreover, regarding the "skills and competencies", it is quite common that they exist only at technical level, but not at superior decision-making level, which hinders real integration of climate issues in the banks' strategies, so we suggest that item "b" is split into: "superior decision-making bodies" and "technical implementation bodies".

Another key issue that is not addressed is if climate risk management does include the whole lending and investments portfolios or only financial transaction above a certain threshold (which prevents management at aggregate level), so we suggest that this topic is included as well. Finally, to make sure that the topic is really relevant for the banks strategies, they must disclose if there is (and, if yes what is the weight) integration of climate targets achievement in compensation schemes (the performance-based part) of decision-makers.

2. Strategy

The items proposed are certainly relevant, but we consider that a more direct and effective approach (able to capture also the impacts of companies' activities at portfolio level)

[1] See, for example, the paper "Climate-related systemic risks and macroprudential policy", published by Council of Economic Policies at: https://www.cepweb.org/climate-related-systemic-risks-and-macroprudential-policy/

would be to ask if the banks have a system in place to identify and mitigate all the positive and negative climate impacts of financed companies, including industry-specific KPIs and location information (including value-chain, where relevant). It is essential to acknowledge that negative impacts go way beyond GHG emissions, since what causes climate change is the proportion of GHG emissions versus CO_2 capture (provided by several natural assets, comprising clean oceans, forests, mangroves, wetlands and so on): the final concentration of GHG in the atmosphere is what matters. These KPIs should include, hence, type and source of GHG emissions, energy mix, energy efficiency, water efficiency (this one refers to climate change adaptation) and impacts on terrestrial and marine ecosystems (because they sequester carbon and also provide resilience against climate change). It is impossible for banks to mitigate climate risks if they do not understand where do they come from and this requires understanding sector and location specific risk, not only to manage the so-called "climate physical risks", that refer to effects of climate change (therefore, adaptation), but also to the root cause of climate change, encompassing how financed activities contribute (or not) to mitigate climate change.

Table CRFRB – Qualitative information on climate-related financial risks (transition risk, physical risk and concentration risk)

1. Transition risk

Information on types of instruments used, nature and type of projects financed is not enough. This information should be accompanied with financial values and percentage of the whole portfolio.

2. Physical risk

Besides disclosing the process to identify physical risks, banks should be required to disclose their strategies to mitigate such risks.

3. Concentration risk

The proposal is sufficient as it is.

Template CRFR1: Transition risk – exposures and financed emissions by sector

GHG emissions should include impacts of companies' activities in natural ecosystems that capture carbon. Therefore, when there are such impacts, GHG emissions calculation should be increased by the quantity of carbon that was not captured due to the companies' activities.

Template CRFR2: Physical risk – exposures subject to physical risks

The template should require also information on mitigation measures.

Template CRFR3: Transition risk – real estate exposures in the mortgage portfolio by energy efficiency level

No comments

Template CRFR4: Transition risk – emission intensity per physical output and by sector

GHG intensity should include impacts of companies' activities in natural ecosystems that capture carbon. Therefore, when there are such impacts, GHG intensity calculation should consider the quantity of carbon that was not captured due to the companies' activities.

III – Additional suggestions

3.1. Further disclosures

In order to enhance credibility and allow investors, supervisors, clients and other stakeholders to have more clarity on climate risk level, banks should disclose, for the whole portfolios (loans and investments):

a) sectors + operational locations of financed companies (including value chain location, where relevant);
b) aggregated information on climate risk performance of the financed companies, based on the assessment made according to sector KPIs (comprising mitigation and adaptation to climate change) and location – percentage of high climate risk companies, percentage of medium climate risk and low climate risk.

3.2. Possibility of integrated approach

BCBS principles should leave national regulators/supervisors free to adopt an integrated approach, comprising climate, other environmental risks and social risks, where appropriate. There are several interconnections and potential synergies when an integrated approach is adopted and, for developing countries and emerging economies, other environmental risks (such as pollution and nature degradation) and social risks (many of them exacerbated by climate risks) are as relevant as climate risks.

Actually, there are risks that one objective harms the other(s) when an integrated approach is not adopted and, furthermore, there are risks of missed synergies.

We suggest as reference for this argument two sources exploring climate and biodiversity, and a third exploring a bit the intersections between climate and social issues (at this moment, a lot of discussions are taking place globally regarding "just transition", due to the relevance of social aspects to many countries):

- IPCC and IPBES joint report: *Biodiversity and Climate Change* (2021) [2]
- UNEP/Cambridge World Conservation and Monitoring Center (WCMC) study: *Strengthening synergies: how action to achieve post-2020 global biodiversity conservation targets can contribute to mitigating climate change* (2020) [3]

The 6th Assessment Report of IPCC (2021) [4] already addressed in its item C.5 the importance of social issues in the climate transition.

3.3. Investment banking

Considering investment banking activities are a relevant source of funding for many companies and have an immense potential to leverage a sound climate risk management for the companies that are investment banks' customers, the framework should include the need of banks to disclose how they integrate climate risk management into investment banking (identification, mitigation and assessment of risks), as well as the sectors (industries) of the customers.

[2] Available at: https://files.ipbes.net/ipbes-web-prod-public-files/2021-06/20210609_workshop_report_embargo_3pm_CEST_10_june_0.pdf

[3] Available at: https://wedocs.unep.org/bitstream/handle/20.500.11822/34342/StreSyn.pdf?sequence=1&isAllowed=y

[4] Available at: https://report.ipcc.ch/ar6syr/pdf/IPCC_AR6_SYR_SPM.pdf