

Pillar 3 Climate

BCBS's consultative document highlights



General overview

Disclosure requirements

Annex



1 | General overview

General aspects

In November 2023 the BCBS published its first draft on climate-related financial risk disclosure (Climate Pillar 3), to be implemented by 1 January 2026

Context

- The BCBS recognises that disclosure requirements will accelerate the availability of climate-related financial information and facilitate forward-looking risk assessments by banks, and for this reason it aims to incorporate a reasonable level of flexibility into a future framework. The BCBS has published a consultation paper on disclosure of climate-related financial risks by banks, which summarises the BCBS's work to assess the prudential rationale for potential disclosure requirements on climate risk.

Main content

Disclosure of qualitative information

The BCBS is seeking input on the disclosure of qualitative information by banks regarding their **governance, strategy, risk management and concentration risk management** in relation to climate-related financial risks.

Disclosure of quantitative information

The BCBS proposes the disclosure of a number of metrics in the form of templates, such as exposures and emissions by sector, exposures subject to physical risk by geographical area, mortgage exposures by energy efficiency level; emissions intensity per physical output and sector; and facilitated issuance related to capital markets and financial advisory activities.

Next Steps

- Comments should be submitted by 29 February 2024. The BCBS has a view to publishing a revised or final proposal in the second half of the 2024. The BCBS would welcome views on the feasibility of a potential **implementation date of 1 January 2026**, one year after the effective date proposed by the ISSB and after the expiration of the ISSB's proposed transitional arrangements.

Qualitative information on climate-related financial risks

Table CRFRA

Qualitative info. on governance, strategy and risk management

Table CRFRB

Qualitative info. on transition, physical and concentration risk management

Quantitative information on climate-related financial risks

Transition risk

Template CRFR1

Exposures and financed emissions by sector

Template CRFR3

Real estate exposures in the mortgage portfolio by energy efficiency level

Template CRFR4

Emission intensity per physical output and by sector

Template CRFR5

Facilitated emissions related to capital markets and financial advisory activities by sector

Physical risk

Template CRFR2

Exposures subject to physical risks

2 | Disclosure requirements

Table CRFRA

Long name: Qualitative information on climate-related financial risks (governance, strategy and risk management)

Purpose | Description of the bank’s **governance processes, controls and procedures** used to monitor, manage and oversee climate-related financial risks, including how these identified climate-related financial risks affect the business model, strategy and decision-making of the bank.

Scope | TBD

Content | Qualitative information

Frequency | Annual

Format | Flexible

Banks must describe:

Governance	Strategy	Risk management
<ul style="list-style-type: none"> • Governance structure responsible for oversight, including a breakdown of responsibilities as reflected in policies. • Board ensuring of appropriate skills and competencies to oversee related strategies. • Board reporting: How and how often • How climate-related financial risks are considered when overseeing the bank’s strategy, its decisions on major transactions, and its risk management processes and related policies • Management’s role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related financial risks (delegated vs supporting functions). 	<ul style="list-style-type: none"> • Climate risks that could reasonably be expected to affect prospects, explaining: <ul style="list-style-type: none"> • Nature: physical / transition risk • When: short, medium, long term • Current and anticipated effects on business model and value chain: description and concentrations • Current and anticipated effects of material climate risks on strategy and decision-making, including its climate-related transition plan. • Current and anticipated effects on financial position, financial performance and cash flows. • Climate resilience of strategy and business model to climate-related changes, developments and uncertainties. 	<ul style="list-style-type: none"> • Processes and related policies used to identify, assess, prioritise and monitor climate risks (data sources, climate scenario analysis, materiality criteria). • The extent to which and how the processes for identifying, assessing, prioritising and monitoring climate-related financial risks are integrated into and inform the overall risk management process.

2 | Disclosure requirements

Table CRFRB

Long name: Qualitative information on climate-related financial risks (transition risk, physical risk and concentration risk)

Purpose | Description of the bank’s governance processes, controls and procedures used to monitor, manage and oversee climate-related financial risks.

Scope | TBD

Content | Qualitative information

Frequency | Annual

Format | Flexible

Banks must describe:

Transition risk	Physical risk	Climate-related concentration risk
<ul style="list-style-type: none"> The extent to which financing is supporting counterparts in climate change mitigation and adaptations: types of instruments used, nature and type of projects financed as well as any other relevant information to help users understand the bank's climate risk management framework. Plans to implement financed emissions methodologies to estimate and disclose this information will be disclosed (where not yet estimated). 	<ul style="list-style-type: none"> Details of the methodology used to determine exposures subject to physical risk impacts: <ul style="list-style-type: none"> Selected climate-related chronic and acute events Criteria to determine the geographical breakdown/ granularity to assess the physical risk stemming from each climate-related event Sectoral considerations made in line with the bank’s portfolio Time horizons and scenarios Exposure subject to physical risk assignment, based on the geographical location of the activity of the counterparty 	<ul style="list-style-type: none"> Potential effects of exposures to counterparties associated with high transition or physical risks on the bank’s overall risk and financial performance; Process(es) in place to identify vulnerable concentrated exposures and assess the likelihood and effects associated with such risks; Monitoring of exposures concentrated within sectors or geolocations Effects on strategy and decision-making, including how the bank is responding to and mitigating climate-related concentration risks.

2

Disclosure requirements

Table CRFR1

Long name: Transition risk – exposures and financed emissions by sector

Purpose | Provide an overview of a banks’ **gross carrying amount by sector together with associated financed emissions, credit quality and maturity ladder**. Provide supplementary information on **off-balance** sheet items by sector.

Perimeter | Corporates and retail SMEs; loans, debt securities and equity instruments in the banking book

Accompanying narrative | Qualitative information about sectors materiality assessment; non-performing exposure criterion; finance emissions methodology and sources; any significant changes over the reporting period and the key drivers of that changes.

Scope | TBD

Content | Quantitative information

Frequency | Annual

Format | Fixed (columns) & flexible (rows)

Classification by sector according to the **Global Industry Classification Standard (GICS) with a 6 or 8-digit industry-level code**, while immaterial exposures to any sector would be aggregated as part of “other sectors” except for exposures to the 18 sub-sectors as defined by the Task Force on Climate-related Financial Disclosures (TCFD).

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o
	On-balance sheet items														Off-balance sheet items
	Gross carrying amount			Allowances		Maturity					GHG financed emissions				
	Amount	%	Of which: non-performing exposures	Total allowances	Of which: non-performing exposures	<= 5 years	> 5 <= 10 years	> 10 <= 20 years	> 20 years	Average weighted maturity	Scope 1, Scope 2 and Scope 3 (MtCO2e)	Of which: Scope 3 (MtCO2e)	GHG forecast Scope 1, 2 and 3 (MtCO2e)	GHG forecast – reference year	Amount
1	Sector														
2	Industry group														
3	Industry														
4	Sub-industry														
...	...														
	Other sectors														
TOTAL		100													

2

Disclosure requirements

Table CRFR2

Long name: Physical risk – exposures subject to physical risks

Purpose | Provide an overview of a bank’s gross carrying amount **subject to climate change physical risks** including both chronic and acute events **split by geographical region** or location subject to climate change physical risk.

Perimeter | Corporates and retail SMEs; loans, debt securities and equity instruments, as well as loans collateralised by residential or commercial immovable property in the banking book

Accompanying narrative | Details of the methodology used to determine which exposures are subject to the impact of climate change physical risk; any significant changes over the reporting period and the key drivers of that changes

Scope | TBD

Content | Quantitative information

Frequency | Annual

Format | Fixed (columns) & flexible (rows)

		a	b	c	d	e	f	g	h	i	j
		Gross carrying amount			Allowances		Maturity				
		Amount	%	Of which: non-performing exposures	Total allowances	Of which: non-performing exposures	<= 5 years	> 5 years <= 10 years	> 10 years <= 20 years	> 20 years	Average weighted maturity
1	Geographical region or location subject to climate change physical risk										
2	Of which: corporates										
3	Of which: loans collateralised with residential or commercial immovable property										
...	...										
X	Total geographical regions or locations subject to climate change physical risks										
Y	Total geographical regions or locations not subject to climate change physical risks										
Z	Total geographical regions or locations where the bank is unable to judge whether or not they are subject to climate change physical risks										
	TOTAL		100								

2

Disclosure requirements

Table CRFR3

Long name: Transition risk – real estate exposures in the mortgage portfolio by energy efficiency level

Purpose | To breakdown banks’ gross carrying amount by **level of energy efficiency** of the underlying collateral.

Perimeter | Loans collateralised by residential or immovable property, and collaterals obtained by taking possession.

Accompanying narrative | The jurisdictional coverage of the information and whether there are legal requirements to measure the energy efficiency of buildings in each of the jurisdictions in which the bank operates; available information regarding the sources used; any significant change over the reporting period and the key drivers of such changes.

Scope | Mandatory when required by CAs¹.

Content | Quantitative information

Frequency | Annual

Format | Fixed (rows) & flexible (columns)

Real estate (RE) exposures and collateral in the mortgage portfolio may be **subject to transition risk as jurisdictions implement legislation to reduce RE greenhouse gas (GHG) emissions.**

Disclosure of this metric could assist market participants in assessing the extent to which the value of the underlying collateral may be negatively affected due to high emissions linked to low energy efficiency and if mortgage-backed borrowers may be obliged to invest in their RE assets to make them less carbon-intensive or more energy efficient, depending on jurisdictional requirements.

	a	b	c	d	e	f	g	h
	Total gross carrying amount	Level of energy efficiency					Without energy efficiency measurement	
		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500		> 500
1	Loans collateralised by residential immovable property							
2	Loans collateralised by commercial immovable property							
3	Collateral obtained by taking possession: residential and commercial immovable properties							
4	Total							
5	Of which: level of energy efficiency estimated							

2

Disclosure requirements

Table CRFR4

Long name: Transition risk – emission intensity per physical output and by sector

Purpose | To provide information on institutions financed **GHG intensity emissions** per physical output for those sectors where the bank is setting forecasts based on sector-specific policies.

Perimeter | Corporates and retail SMEs

Accompanying narrative | Significant sector exclusions, plans to implement methodologies to estimate and disclose this information. For each intensity metric: i) the methodology used to attribute absolute emissions and/or emissions intensity to banks’ financing; ii) description of geographies and description of the sub-sectors; and iii) science-based benchmark considered to set forecasts. Any significant change over the reporting period and the key drivers of such changes.

Scope | Mandatory when required by CAs¹.

Content | Quantitative information

Frequency | Annual

Format | Fixed (columns) & flexible (rows)

Higher emission-intensity loan portfolio in sectors that may be exposed to transition risks, could have a higher climate-related financial risk from changes to, among other things, carbon taxes and other policies, technology and market and investor preferences or exclusions.

Physical activity emission intensity metrics could provide market participants with **useful context of emission intensity** as opposed to consideration of only absolute emissions, which may lack context based on the size of the bank’s exposures to objectively assess the financed emissions of a bank.

	Reporting year			Forward-looking information					
	a	b	c	d	e	f	g	h	i
	Gross carrying amount	GHG intensity metric per physical output – selected unit of reference	GHG intensity metric per physical output value	GHG intensity metric per physical output (year A)	GHG intensity metric per physical output value for (year A)	GHG intensity metric per physical output (year B)	GHG intensity metric per physical output – value for (year B)	PiT distance	PiT distance reference year
1	Sector								
2	Industry group								
3	Industry								
4	Sub-industry								
...	...								
	TOTAL								

2

Disclosure requirements Table CRFR5

Long name: Transition risk – facilitated emission related to capital markets and financial advisory activities by sector

Purpose | Disclose emissions facilitated by banks related to **capital markets and financial advisory activities** by sector or economic activity

Perimeter | Corporates and retail SMEs to which they are providing capital markets/ financial advisory activities such as: a) underwriting; ii) advisory; and iii) securitisation

Accompanying narrative | Qualitative information on the materiality assessment of the sector exposures, methodology and sources used for the calculation of facilitated emissions and any significant change over the reporting period and the key drivers of such changes.

Scope | Mandatory when required by CAs¹.

Content | Quantitative information

Frequency | Annual

Format | Flexible

The Partnership for Carbon Accounting Financials (PCAF) has published its **Calculation method for facilitated emissions in respect of capital markets activities in December 2023**².

The BCBS has noted the potential complexity involved in the disclosure of facilitated emissions and invites views from market participants and banks on the practicality of such disclosures and possible alternatives to capture the climate-related financial risks associated with these types of activities.

	a1	b1	c1	d1	a2	b2	c2	d2	e	f
	Capital markets/financial advisory activity 1 (eg underwriting)				Capital markets/financial advisory activity 2 ...				Total	
	Amount	GHG facilitated emissions – Scope 1, 2, 3 (MtCO2e)	GHG facilitated emissions forecast – Scope 1, 2, 3 (MtCO2e)	GHG facilitated emissions – forecast reference year	Amount	GHG facilitated emissions – Scope 1, 2, 3 (MtCO2e)	GHG facilitated emissions forecast – Scope 1, 2, 3 (MtCO2e)	GHG facilitated emissions – forecast reference year	Amount	GHG facilitated emissions – Scope 1, 2, 3 (MtCO2e)
1	Sector									
2	Industry group									
3	Industries									
4	Sub-industry									
...	...									
	Other sectors									
TOTAL										

1. Competent Authorities. National supervisors at jurisdictional level.

2. [PCAF launches a new Accounting and Reporting Standard for Capital Markets \(carbonaccountingfinancials.com\)](https://carbonaccountingfinancials.com)

A

Annex

BCBS' Pillar 3 Climate vs EBA's Pillar 3 ESG

BCBS' Pillar 3 Climate proposal is highly aligned with EBA's climate related disclosure requirements. Concentration risk qualitative information as well as facilitated emissions metrics are the main gaps between both disclosure frameworks¹

BCBS P3 Climate item	EBA P3 ESG related item	Degree of alignment ¹	
Table CRFRA. Qualitative information on climate-related financial risks (governance, strategy and risk management)	Table 1. Qualitative information on Environmental risk	●	<ul style="list-style-type: none"> EBA qualitative disclosure covers all ESG topics Same first level classification (strategy, governance, risk management) but not fully aligned at data point level
Table CRFRB. Qualitative information on climate-related financial risks (transition risk, physical risk and concentration risk).	Transition risk: templates 1, 3, 6-10 Physical risk: template 5 Concentration risk: Table 1	●	<ul style="list-style-type: none"> Qualitative information on transition risk and physical risk embedded in the narrative accompanying EBA's quantitative templates. Concentration risk partially covered by template 1 risk management disclosure requirements.
Template CRFR1. Quantitative information on transition risk (exposures and financed emissions by sector)	Template 1. Banking book- Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity	●	<ul style="list-style-type: none"> Metrics in BCBS' proposal not in EBA's disclosure: GHG forecast, off-balance Metrics in EBA's disclosure not in BCBS' proposal: impairments, environmentally sustainable (CCM exposures), EU's specific (companies excluded from EU Paris-aligned Benchmarks), Other differences: EBA leverages on FINREP perimeter (non financial corporations vs corporates and retail SME) and on NACEs for sector activities (vs GICS).
Table CRFR2. Quantitative information physical risk (exposures subject to physical risks)	Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk	●	<ul style="list-style-type: none"> Metrics in BCBS' proposal not in EBA's disclosure: details for regions not subject to physical risk and regions where the bank is unable to judge if it is exposed to physical risks Metrics in EBA's disclosure not in BCBS' proposal: impairments, exposures by sensitiveness to impact from chronic, acute or both kind of climate change events. Corporates exposure breakdown by sector Other differences: FINREP perimeter (non financial corporations vs corporates and retail SME) and on NACEs for sector activities (vs GICS).
Table CRFR3. Quantitative information on transition risks (real estate exposures in the mortgage portfolio by energy efficiency level)	Template 2: Banking book - Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral	●	<ul style="list-style-type: none"> BCBS requirements fully covered by EBA's disclosure. Metrics in EBA's disclosure not in BCBS' proposal: EPC label breakdown, EU / Non-EU area breakdown
Table CRFR4: Quantitative information on transition risk (emission intensity per physical output and by sector)	Template 3: Banking book - Climate change transition risk: Alignment metrics	●	<ul style="list-style-type: none"> EBA's disclosure specifies the benchmark scenario and year of reference, as well as the breakdown per relevant sectors
Table CRFR5: Qualitative information on transition risk (facilitated emissions related to capital markets and financial advisory activities by sector)	Not applicable	●	<ul style="list-style-type: none"> Not required by EBA.

¹ Furthermore, EBAs Pillar 3 ESG must be disclosed biannually.







International
One Firm



Multiscope
Team



Best practice
know-how



Proven
Experience



Maximum
Commitment

Cristina Modino
Partner at Management Solutions
cristina.modino@msspain.com

Marta Hierro
Partner at Management Solutions
marta.hierro@msspain.com

© Management Solutions, 2024

All rights reserved. Cannot be reproduced, distributed, publicly disclosed or transformed, whether totally or partially, free of charge or at no cost, in any way or by any means, without the express written authorization of Management Solutions.

The information contained in this publication is merely to be used as a guideline, is provided for general information purposes and is not intended to be used in lieu of consulting with our professionals. Management Solutions is not liable for any use that third parties may make of this information. The use of this material is not permitted without the express authorization of Management Solutions.

For more information please visit
www.managementsolutions.com

Or follow us at: 