World Council

March 14, 2024

Submitted electronically

Basel Committee on Banking Supervision
Centralbahnplatz 2, 4051
Basel, Switzerland

Re: Disclosure of Climate-Related Financial Risks

Dear Sir or Madam:

The World Council of Credit Unions (World Council) appreciates the opportunity to comment on the European Commission's Consultative Document on the *Disclosure of Climate-Related Financial Risks*.[1] Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 82,000 credit unions in 98 countries with USD 3.6 trillion in total assets serving 400 million physical person members.[2]

World Council supports the Basel Committee's objective to provide for the effective disclosures for climate-related financial risks, however clear guidance on a proportional and risk-based approaches is necessary not only to prevent overburdensome regulation on smaller financial institutions, but to advance the Commission's objective to bolster financial inclusion. We further ask the Commission to consider the effects that this reporting has on smaller community-based financial institutions such as credit unions and other cooperative financial institutions.

Responses to Consultation Questions (Some questions omitted based on relevancy to the organization):

Q1. What would be the benefits of a Pillar 3 disclosure framework for climate-related financial risks in terms of promoting comparability of banks' risk profiles within and across jurisdictions and promoting market discipline? What other benefits have been identified?

Benefits include fair assessment of climate-risk based on comparisons and data instead of assessments determined on a case-by-case basis. While a totality of the circumstances should be considered for each risk profile, comparable data will help supervisors provide even-handed decisions based on empirical evidence. There is a risk, however, that data from smaller financial institutions will not be maintained because of a lack of materiality when compared to SIBs.

[1] The Basel Committee's Consultative Document on, *Disclosure of Climate-Related Financial Risks*, *available at*: https://www.bis.org/bcbs/publ/d560.pdf.
[2] World Council of Credit Unions, *2022 Statistical Report* (2023), *available at*: https://www.woccu.org/documents/2022_Statistical_Report_EN.

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Q2. What are the risks of a Pillar 3 disclosure framework for climate-related financial risks not being introduced?

Risks include a lack of harmonization and unfair allocation of regulatory penalties; confusion as to how to comply and accurately report risks; and a lack of proportionality where smaller financial institutions will be subject to stringent regulations only appropriate for SIBs.

Q3. Would the Pillar 3 framework for climate-related financial risks help market participants understand the climate-related financial risk exposures of banks and how banks are managing these risks?

Omitted

Q4. Would the Pillar 3 framework for climate-related financial risks be sufficiently interoperable with the requirements of other standard-setting bodies? If not, how could this best be achieved?

Omitted

Q5. Would there be any unintended consequences of a Pillar 3 framework for climate-related financial risks? If so, how could these be overcome?

The disclosures are directed to SIBs, therefore smaller financial institutions such as credit unions may not provide sufficient data to cultivate a suitable approach for smaller financial institutions to adhere to when reporting. Clear guidance on proportionality is necessary not only to avoid overburdensome reporting requirements but also to procure useful data that identifies climate-related risks that are unique to smaller financial institutions.

Additionally, credit unions globally operate with a defined field of membership. Their area of service may be based on geography but is often defined by a common bond such as a common employer or association. This unique structure and service area must also be acknowledged to avoid inaccurate comparisons within specific jurisdictions.

Q6. What are your views on potentially extending a Pillar 3 framework for climate-related financial risks to the trading book?

Omitted

Q7. What are your views on the proposed methodology of allocating exposures to sectors and geographical locations subject to climate-related financial risks?

Geographical locations are imperative when assessing risk, however, if the disclosures do not comprehensively address smaller communities within a geographical location, there is a risk that certain climate issues or benefits within an underserved community will be overlooked and therefore may have a discriminatory or disparate impact. The importance of this is more substantial in addressing climate issues than investor awareness, however, investment opportunities could be lost based on discriminatory reporting.

A mandate for proportionally tailored regulations should include specific direction for national

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governments to adapt disclosure requirements for non-profit financial cooperatives to ensure locally based service providers are not forced to liquidate due to new or modified regulatory burdens. Specifically, regulations related to reporting third-party emissions and other requirements where data is not readily available to credit unions.

Q8. What are your views on which elements should be made subject to national discretion and which should be mandatory? Why?

Proportional application of the disclosure requirements should be mandatory. Without a mandate, national-level regulators will continue to gold plate requirements to the detriment of smaller financial institutions.

Q9. What are your views on whether potential legal risks for banks could emanate from, or be mitigated by, their disclosures as proposed in this consultation, and why?

Certain reporting requirements could bring legal risks to light and subject a financial institution to litigation and enforcement matters. While climate-related risks should be reported, some financial institutions may be hesitant to disclose risks that could expose them to litigation. We do not have a solution at this time for these potential reporting gaps.

Q10. Would the qualitative and quantitative requirements under consideration need to be assured in order to be meaningful? If so, what challenges are foreseen? 5.2 Qualitative disclosure requirements

Omitted

Q11. What are the benefits of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements?

Benefits include the potential for data to shape more succinct and effective disclosures; and provide insight in to climate/environmental behavior in order to benefit improved strategies to impact climate change.

Q12. Should the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements be on a mandatory basis to facilitate comparability across banks?

Sometimes. Qualitative analysis can be inconsistent and subjective. It should be required only when quantitative data is not comprehensive and/or does not accurately detail or portray what is factual.

Q13. to Q15. **Omitted**

Q16. What are your views on the relevance of the proposed qualitative Pillar 3 climate-related financial risk disclosure requirements to understand climate-related financial risks to which banks are exposed?

While qualitative data may provide wholistic view of climate-related financial risks within a financial institution, it increases the probability of inaccurate reporting, re-direction for factual or

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data driven evidence, and subjective and inconsistent reporting.

Q17. to Q24. **Omitted**

Q25. What are your views on the availability and quality of data required for these metrics, including by sector, activity, region or obligor?

We ask that the Committee consider the ability of smaller financial institutions to procure requested data. Many credit unions do not have the capital reserves, technology or staff to collect data that oftentimes does not have a substantial impact on the credit union but may be required to report.

Q26. to Q30. **Omitted**

Q31. Would there be any limitations in terms of comparability of information if national supervisors at a jurisdictional level determined the geographical region or location subject to climate change physical risk? How could those be overcome?

There is the potential for biased reporting if national supervisors determined geographical region or location, although they are best equipped to define territorial boundaries. National-level regulators should be required to submit geographical parameters for approval by a higher authority, only after all territories have had an opportunity to publicly review and provide feedback on any geographical map submitted for review. In general, geographical boundaries set by national supervisors should not be relied upon unless verified.

Q32. to Q44. **Omitted**

Q45. In relation to the disclosure of exposures subject to physical risk, would it be meaningful for assessing banks' climate-related concentration risk if these exposures were divided into six or seven broadly defined hazards, eg heat stress, floods, droughts, storms, wildfires etc?

There are a myriad of climate-related risks, and it may be difficult to limit them to six categories. It may be easier to set thresholds, i.e. materiality, or define which exposures <u>are not</u> relevant. If a limited number of risk categories are, in fact, outlined, these categories should be widely researched, defined, and consultation with environmental experts should be enlisted.

Q46. to Q54. **Omitted**

World Council appreciates the opportunity to comment on the Basel Committee's Consultative Document on the *Disclosure of Climate-Related Financial Risks*. Please do not hesitate to contact me should you have any questions regarding our comments.

Sincerely,

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