30 April 2024

To
Chief General Manager
Reserve Bank of India

Re: ASIFMA Response to Draft RBI Disclosure Framework on Climate-related Financial Risks, 2024

Dear Sir/Madam,

The Asia Securities Industry and Financial Markets Association ("ASIFMA")[1] on behalf of its members, appreciates the opportunity to provide feedback on the Draft Guidelines on Disclosure Frameworks on Climate-related Financial Risks, 2024[2].

We commend and support RBI's continued commitment to policy development for climate-related financial risks for banks and efforts in the domain of sustainable finance. As we embark on this journey, ASIFMA and its member banks are happy to support RBI in the development of a climate risk management framework. We would like to note however, that in the experience of many of our bank members, climate risk management has been an iterative process of improvement, with models and related methodologies and data a continuous work in progress, and best practice continuously evolving. We therefore would like to encourage RBI to take a similar approach to implementation of its disclosure framework, taking a proportional approach and noting that climate risk management is often inherently cross border or global in nature and in cause and effect and accordingly requiring a consistent approach across jurisdictions.

We note that RBI's proposed climate risk disclosure framework leverages the Basel Committee on Banking Supervision (BCBS) proposed Pillar 3 climate risk disclosure framework.[3] The Global Financial Markets

[1] ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law firms and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative, competitive and efficient Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the Global Financial Markets Association ("GFMA") alliance with the Securities Industry and Financial Markets Association ("SIFMA") in the United States and the Association for Financial Markets in Europe ("AFME"), ASIFMA also provides insights on global best practices and standards to benefit the region.

[2] Climate risk management and Disclosures (rbi.org.in)

[3] BCBS Consultation: Disclosure of climate-related financial risks (Nov. 29, 2023), *available at* https://www.bis.org/bcbs/publ/d560.htm.

Association (GFMA), of which ASIFMA is a member[4], submitted a response[5] to the BCBS proposal providing significant industry feedback, including raising significant industry concerns that the BCBS proposed framework did not accurately reflect banks' financial risk exposure and that the proposed framework was inconsistent with the *BCBS Principles on Effective Management and Supervision of Climate-related Financial Risks*[6], which treat climate risk as a driver of the traditional financial risk types rather than its own standalone risk type.

In light of the detailed industry feedback provided on the BCBS consultation, we request that RBI considers industry feedback on the BCBS consultation and wait to see whether BCBS re-proposes the Pillar 3 climate risk disclosure consultation. Otherwise, if BCBS re-proposes and takes a different approach, the final RBI framework could be significantly out of step with the final BCBS standards. Consistent with the feedback provided on the BCBS consultation, we provide the below suggestions as RBI is considering the adoption of a Pillar 3 climate risk disclosure framework:

- Clarify on the objective of the disclosure. It is not clear if the purpose of the disclosures is to (1) import the International Sustainability Standards Board (ISSB) corporate disclosure standard into Pillar 3 prudential disclosure, or (2) meet Pillar 3 prudential objectives of fostering market discipline through public disclosures about banks' capital structure, capital adequacy, and risk management. We have concerns that the proposed disclosure meets neither the objectives of corporate disclosure nor of Pillar 3 prudential disclosure

- Clarify if the disclosure made under its proposed framework is only required to the extent it meets a materiality threshold.

- Treatment of climate risk as a standalone risk type. The structure of the proposed framework treats climate risk as a standalone risk type, which is inconsistent with the RBI Discussion Paper on Climate Risk and Sustainable Finance and the BCBS Principles on Effective Management and Supervision of Climate-related Financial Risk, which appropriately recognize climate-related financial risk as a driver of traditional risk types rather than a standalone risk type.

- Express recognition that international banks may apply a group/parent entity framework around climate risk management and disclosures where these are aligned to relevant international standards.

- Consider that financed emissions do not equate to transition risk exposure, and the proposed disclosure of financed emissions inaccurately characterizes financed emissions as a meaningful

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[4] The e Global Financial Markets Association (GFMA) brings together three of the world's leading capital markets trade associations to provide a forum for the largest globally active financial and capital market participants to develop standards to improve the coherence and interaction of cross-border financial regulation. We aim to improve the functioning of global capital markets to support global economic growth and to support lending and to serve clients in those jurisdictions they want to do business. The Association for Financial Markets in Europe (AFME) in London, Brussels and Frankfurt, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and Singapore, and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA.

[5] GFMA response to BCBS Consultation on disclosure of climate-related financial risks (Mar. 14, 2024), *available at* https://www.gfma.org/wp-content/uploads/2024/03/bcbs-climate-disclosure-consultation-gfma-response10278632476.9.pdf.

[6] BCBS Principles on Effective Management and Supervision of Climate-related Financial Risks (June 2022), *available at* https://www.bis.org/bcbs/publ/d532.pdf.

indicator of banks' financial risk exposures, which risks being misleading to users of this disclosure.

- Clarity on disclosures for climate related risks in investment portfolios
- Propose removing references to 'climate-related issues', which is unclear, overly broad, and inconsistent with both ISSB corporate disclosure as well as Pillar 3's focus on financial risk.
- Reconsider definition of physical risks
- Propose to allow more time to prepare and filing of climate related disclosure instead of same timeline as financial reports

The following key points are enumerated below:

1. **Clarification on Disclosure Objectives**

We request the RBI to clarify the purpose and objective of the disclosure framework. RBI's proposed framework appears to have merged aspects of corporate disclosure with Pillar 3, by importing corporate disclosures (ISSB requirements) into prudential disclosure context (BCBS Pillar 3). This approach presents significant operational challenges for the banks and will result in neither meeting the objectives of corporate disclosure nor of Pillar 3 prudential disclosure. It would further not be meaningful to the users of the disclosure.

Corporate and prudential disclosures serve distinct purposes: corporate disclosures aim to provide investors with comprehensive, decision-useful information, while Pillar 3 disclosures are specifically tailored to assess financial institutions' capital adequacy and risk exposures.

The RBI guidance includes several examples where it is unclear whether the guidance is intended for a corporate disclosure purpose or Pillar 3 prudential purposes. For example, RBI's proposed disclosure of a bank's business strategy with respect to climate belong in broader corporate disclosure requirements. Further the thematic pillar on "Strategy" references to opportunities, which is not relevant in a prudential or a bank's risk management context. While such disclosures may be appropriate in general corporate disclosures, it is not clear how certain proposed elements would be useful for market discipline, as stated in Pillar 3 objectives and in the RBI's proposed framework.

On the other hand, the framework also makes specific reference to the proposed disclosures being reflective of banks' climate-related financial risks and notes that they will facilitate market discipline, which is the primary objective of Pillar 3 disclosures. This overlap between corporate and prudential disclosure intentions creates confusion and challenges in distinguishing the specific aims of the RBI draft framework, ultimately complicating the effective application of the disclosure framework.

The RBI's current draft, which incorporates ISSB standards—typically used for corporate reporting—into the prudential context of Pillar 3, creates significant ambiguity about its intended purpose. It is unclear whether the RBI is attempting to fulfil the role of corporate disclosure or meet the stringent requirements of prudential oversight. This confusion highlights a fundamental problem: ISSB standards, which are designed to inform investment decisions, are inherently unsuitable for the precise, focused needs of prudential reporting. As a result, the RBI's approach risks producing disclosures that fail to adequately serve either function, lacking both the targeted clarity essential for prudential oversight and the broad relevance desired for corporate disclosure.

As such, we request that RBI clarify its purpose and objective in the following manner:

If the proposed disclosures are intended as a corporate disclosure framework, we encourage RBI to adopt IFRS S2 with the necessary reporting principles, including financial materiality, that guide the selection and presentation of disclosed information and are tailored to the needs of investors, as well as reliefs, from IFRS S1; similar to other jurisdictions such as Malaysia and Australia[7]

This will guide the selection and presentation of disclosed information that are tailored to the needs of investors. Most investor members require information on the full spectrum of material sustainability issues facing preparers in order to make decisions in the best interest of end investors. Without materiality the disclosures will be too prescriptive, create fragmentation challenges and differ from the intention of the ISSB framework. RBI should also consider aligning with SEBI's corporate disclosure requirements, which will help FIs leverage information already collected as well as those who are providing data upstream and along the value chain to the FIs who are doing the reporting. In addition, ASIFMA encourages coordination among Indian stakeholders for consistency and smooth functioning of disclosure frameworks.

If the proposed disclosure framework is intended for a prudential or Pillar 3 purpose, we request RBI to align the framework with the primary objectives of Pillar 3 disclosure and needs to be reproposed to account for the ongoing work at the Basel Committee on Banking Supervision (BCBS) Pillar 3 climate risk disclosure framework[8]. Therefore, we suggest RBI to wait for the final BCBS Pillar 3 to be released in order to re-evaluate its proposed disclosure framework and align with the final output of the BCBS.

It is worth noting that the BCBS faced similar challenges when incorporating ISSB standards into its proposed Pillar 3 climate risk disclosure framework and received significant industry feedback. The objectives of Pillar 3 prudential disclosures are much narrower than those of general corporate disclosure – such as the ISSB standards. As such, the BCBS' approach to Pillar 3 climate risk disclosure by importing the content of the IFRS S2 corporate climate disclosure standard into the Pillar 3 prudential context would effectively divorce the substance of the disclosure from the IFRS reporting principles outlined in IFRS S1—including the principle of financial materiality, which is specifically tailored to the corporate reporting context rather than the prudential context. ISSB has stated that the general reporting principles in IFRS S1 are essential for the application of IFRS S2. Further, proposed detailed qualitative disclosures, particularly those regarding a bank's climate strategy, are concerning in the context of Pillar 3.

In addition, as part of clarifying the objective of the framework, we encourage RBI to strike several provisions of the guidance which would either not be material under a corporate disclosure framework or be far too detailed for public disclosure under a Pillar 3 framework. For example, members note there are requirements under the 'Risk Management' Section that go beyond existing industry frameworks for

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[7] https://treasury.gov.au/sites/default/files/2024-01/c2024-466491-policy-state.pdf
[8] https://www.bis.org/bcbs/publ/d560.htm

example: '*Methodologies employed to understand the impact of climate-related risk drivers on the operational risk'.* We encourage RBI to focus on and consider information that is material and either meets the objective of corporate or prudential disclosure (depending on RBI's intention for the disclosure framework).

In the first instance we would suggest RBI consider an initial corporate disclosure requirement for banks to publish disclosures that are TCFD-aligned or ISSB aligned. The ISSB requirements are designed to represent a more granular and standardised set of disclosures that banks can transition to from an initial set of TCFD requirements. Accordingly Indian banks that are less familiar with ISSB requirements may wish to adopt TCFD aligned disclosures as an interim step while international banks are already looking to establish ISSB aligned disclosures at the global level. The IFRS website itself clarifies that a company that applies IFRS Sustainability Disclosure Standards will meet the TCFD recommendations (and more). Therefore, a company does not need to apply the TCFD recommendations in addition to IFRS Sustainability Disclosure Standards. The IFRS also provide a comparison table of IFRS S2 and TCFD to demonstrate this[9].

Disclosure requirements in Singapore and Hong Kong have also initially looks at TCFD aligned disclosures (see paragraph 5.2 of the MAS Environmental Risk Management Guidelines[10]and paragraph 6.2 of the HKMA Supervisory Policy Manual on Climate Risk Management[11].) While Singapore and Hong Kong are progressing with ISSB aligned disclosures for listed entities it is expected that ISSB aligned disclosures will in due course be applied to banks.

2. **Clarify that the disclosure made under its proposed framework is only required to the extent it meets a materiality threshold**

We request that RBI considers implementing a materiality threshold for entities covered under the framework to guide the identification and disclosure of climate-related information. This approach would allow regulated entities to focus their disclosures more effectively and enhance comparability among users. This would also reduce compliance burdens as banks would otherwise be required to disclose extensive information that is not material, increasing cost with little additional benefit to disclosure users.

Disclosures should be based on materiality, whether in a corporate or prudential context, and not automatically assumed to be necessary regardless of a materiality assessment. Introducing a materiality threshold would direct disclosures towards specific objectives. In the context of RBI's climate disclosure framework, this would mean narrowing the scope of reportable information to support either investor decision-making (in corporate disclosures) or market discipline (in prudential disclosures). Without such a threshold, disclosures across companies would lack comparability, undermining goals related to investor transparency and market discipline.

If the RBI decides that it is pursuing a corporate disclosure approach in accordance with the ISSB, then it should also apply the reporting principles outlined under S1, that includes financial materiality. These reporting principles are essential for operationalizing the standards effectively and guide the presentation

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9 See here: https://www.ifrs.org/content/dam/ifrs/supporting-implementation/ifrs-s2/ifrs-s2-comparison-tcfd-july2023.pdf
10 https://www.mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management
11 https://www.hkma.gov.hk/media/chi/doc/key-functions/banking-stability/supervisory-policy-manual/GS-1.pdf

and reporting of information to align with IFRS financial reporting norms. Without these principles, the resulting disclosures may not be comparable or useful to investors, failing to meet the intended objectives of transparency and informed investor decision making.

If RBI determines not to import the ISSB corporate disclosure standard in its entirety (including the ISSB S1 financial reporting principles), it is necessary to apply a materiality threshold for any remaining Pillar 3 disclosure throughout the framework (including for high-emissions sector disclosure) in order to make disclosures meaningful.

However, at this point there is no common methodology to assess materiality in the context of climate-related exposures, and where materiality assessments have been carried out (e.g., under ECB / SSM guidelines in the EU), the assessments are not always based on quantitative information and include a vast array of assumptions. The RBI should not seek to import a materiality threshold based on accountancy standards for producing financial statements, given the objectives of Pillar 3 disclosure are much narrower than those of general corporate disclosure, but rather should allow banks to assess materiality themselves in the context of their business.

In either instance, RBI must both clarify the proposed objective for its disclosure requirement and that a materiality assessment guides the disclosed information.

3. Treatment of climate risks as a standalone risk type

The proposed disclosure includes broad references to "transition risk" and "physical risk" that appear to treat climate risk as a standalone risk type, which is inconsistent with the RBI Discussion Paper on Climate Risk and Sustainable Finance and the BCBS Principles on Effective Management and Supervision of Climate-related Financial Risk, which describes climate risk as a driver of traditional financial risks (and not as a standalone type of financial risk).

4. Express recognition that that international banks may apply a group/parent entity framework around climate risk disclosures.

Some of our member banks are already subject to climate related disclosure standards as per existing listing rules and/ or supervisory guidelines on climate risk management effective in their home jurisdiction. This includes, for instance, the disclosure requirements set by the UK Prudential Regulation Authority or Financial Conduct Authority as applicable or the supervisory guidelines published by the Monetary Authority of Singapore (MAS) or European Banking Authority (EBA) and have been disclosing the climate related financial risks as per the home country guidance. Currently the frameworks for disclosing management of climate risks within the Indian branches and subsidiaries of these banks are also aligned to the overall group framework.

To ensure consistency across the group entity, we request RBI to consider allowing foreign banks to follow the group/parent entity framework around climate risk disclosures as appropriate, or at the level of the hosted subsidiary as needed via their Group reporting framework. Group/parent entity disclosure of qualitative information will provide more meaningful insights on group's climate strategies and climate risk management frameworks to which India operations should also be aligned to. This will enable consistency of implementation and also avoid undue efforts for compliance. This approach has been followed in several jurisdictions when setting local climate disclosure requirements, such as the MAS Environmental Risk Management Guidelines[12] or the HKMA Climate Risk Management GS-1[13]. More critically, the process by which foreign banks are implementing their own net zero commitments is by nature consolidated. Indeed, most banks have taken the approach of setting interim GHG emission targets and transition pathway toward net zero at the sectoral level, starting with high emitting sectors (e.g., oil and gas; transportation; cement and steel; shipping; etc). The actual GHG emissions of those sectors are then monitored at the sectoral-portfolio level against interim targets. It would therefore be misleading and have potential unintended consequences if local disclosures requirements where not calibrated and designed to provide appropriate flexibility within that context.

5. **Proposed disclosure of financed emissions inaccurately characterizes financed emissions as a meaningful indicator of banks' financial risk exposures, which can be misleading to users of the disclosure.**

Financed emissions are not an accurate indicator of credit risk exposure driven by transition risk. Under the current proposed framework, RBI requires regulated entities to provide extensive financed emissions disclosure, which, under a Pillar 3 disclosure context, are not relevant for market assessment of a bank's capital adequacy and material risk exposure.

RBI appears to assume that sector-level financed emissions are a proxy for a bank's credit risk exposure. However, the financed emissions of a bank's lending portfolio do not have a relationship to probability of default and do not indicate increased credit risk exposure. Effectively, absolute emissions metrics are often simply a crude indicator of the size of a firm's business and the sector in which it operates. At the client level, a high-emitting client's business model may be subject to transition risk over time, but that client's business risk does not necessarily translate into material credit risk exposure to a bank that finances that client. A higher-emitting client may present very little credit risk if material transition risk to that client's business model is unlikely to materialize over the time horizon of the loan in a way that would impair that client's ability to repay the loan—i.e., a bank does not have 5-year credit risk on a 1 year loan. Similarly, a higher-emitting client may have a transition pathway towards a lower-carbon business model, resulting in a diminishing credit risk profile which would not be revealed by disclosure of a snapshot of financed emissions alone.

Industry offered similar feedback in its response to the BCBS's proposed climate risk disclosure framework. As such, we request that RBI further consider reproposing its climate disclosure framework in line with the final BCBS Pillar 3 climate risk disclosure framework.

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[12] https://www.mas.gov.sg/regulation/guidelines/guidelines-on-environmental-risk-management

[13] https://www.hkma.gov.hk/media/chi/doc/key-functions/banking-stability/supervisory-policy-manual/GS-1.pdf

6. Clarity on disclosures for climate related risks in investment portfolios

With respect to enhanced disclosures around targets and metrics, the absolute gross financed emissions, disaggregated by Scope 1, Scope 2 and Scope 3 greenhouse gas needs to be disclosed for each industry and by each asset class (Page 10), however it has not been clarified if these asset classes should also cover the investment portfolio held by the bank.

7. Propose removing references to 'climate-related issues', which is unclear, overly broad, and inconsistent with both ISSB corporate disclosure as well as Pillar 3's focus on financial risk

We note there are references to 'climate-related issues' which are not clearly defined. We propose that the RBI remove references to 'climate-related issues.' This is not a defined term and is not consistent with the ISSB climate disclosure standard or with the focus of Pillar 3 on financial risks.

8. Re-consideration of the definition of Physical Risk

The definition of "Physical Risk" as provided in the draft disclosures includes a reference to "Indirect effects of climate change such as loss of ecosystem". We would like to request RBI to critically reconsider the inclusion of nature and bio-diversity-related aspects within the definition of "Physical Risks" at this point in time, given the challenges in availability of reliable data and standards and no alignment on methodology for measurement, assessment, impact or risks on nature and biodiversity-related aspects. In this respect, RBI should consider applying additional nature and bio-diversity related considerations at a later stage when there is a global consensus.

9. Propose to allow more time to prepare and filing of climate related disclosure instead of same timeline as financial reports.

The requirement for the climate-related financial disclosures to be included and disclosed as part of the RE's financial results/ statements (assumed annually) on RE's website may not be aligned to how individual in-scope regulated entities (RE) apply their yearly cycle of disclosures etc. Climate-related financial disclosure can be separate from the the annual set of financial results and statements. We propose to allow more time in the initial years of adoption for banks to have more flexibility to prepare and file climate related disclosure, for example an additional 3-6 months from the existing proposed reporting and filing timelines for financial reports. Staggered reporting and filing deadline can offer delivery reliability and can avoid overburdening the REs, thus, creating an opportunity for senior management to focus on climate disclosures after annual reports are filed rather than adding to the capacity crunch that may typically occur during approval of financial statements.

Our response has been drafted with the support of our professional firm member EY India, based on feedback from the wider ASIFMA membership. We thank RBI for the opportunity to provide feedback and for considering our comments. We would look forward to receiving your clarifications/ comments on the afore-mentioned key points and are fully committed to provide our support to RBI.

We would be happy to conduct knowledge sharing sessions around the four thematic areas of governance, strategy, risk management, metrics and targets for financial entities to enhance their understanding and support the implementation.

Should you have any questions, please do not hesitate to contact me Diana Parusheva (dparusheva@asifma.org), Managing Director, Head of Public Policy and Sustainable Finance at ASIFMA.

Yours faithfully

Diana Parusheva-Lowery
Managing Director, Head of Policy and
Sustainable Finance at Asia Securities Industry
and Financial Markets Association (ASIFMA)
F: +852 9822 2340
DParusheva@asifma.org