

## PROGRESS IN IMPLEMENTING THE BASEL PILLAR 3 FRAMEWORK: CONSULTATIVE DOCUMENTS ON BANKS' EXPOSURES TO CRYPTO-ASSETS AND CLIMATE-RELATED FINANCIAL RISKS

The Basel Committee on Banking Supervision (BCBS) published two consultative documents on disclosures in 2023.

### Consultative document on banks' exposures to crypto-assets

In December 2022 the BCBS published the global standard on the prudential treatment of banks' exposures to crypto-assets. Subsequently, in October 2023, the Committee issued for consultation a set of templates and a standardised disclosure table to facilitate the consistency and comparability of banks' disclosures to the market of their crypto-asset exposures.

Specifically, the proposal published by the BCBS includes one qualitative table and three quantitative templates.

- **Qualitative disclosure on a bank's activities related to crypto-assets and the approach used in assessing the classification conditions (CAEA):** includes qualitative information on a bank's activities related to crypto-assets and how these activities translate into components of the bank's risk profile. Information is requested about risk management policies, along with a description of the most significant emerging risks associated with crypto-assets, and a description of the approach used in assessing the classification conditions for Group 1, which includes tokenised traditional assets (Group 1a) and stablecoins with an effective stabilisation mechanism and a regulated and supervised issuer (Group 1b).
- **Crypto-asset exposures and capital requirements (CAE1):** for each type of crypto-asset, a breakdown is requested of credit risk and market risk capital requirements and of the market value of the crypto-assets that the bank holds in custody for clients. Information is also requested about the Group 2 exposure limit (1%-2% Tier 1) and, where the authorities apply to Group 1 crypto-assets the add-on to cover possible operational weakness stemming from the infrastructure used, the banks must disclose the amount of the resulting risk-weighted assets.
- **Accounting classification of exposures to crypto-assets (CAE2):** for each type of crypto-asset, a breakdown of the exposure is requested depending on how the crypto-assets have been classified in the financial statements.

- **Liquidity requirements for exposures to crypto-assets (CAE3):** for each type of crypto-asset a breakdown of its prudential treatment is requested, according to the liquidity standards (LCR and NSFR), distinguishing between when a bank acts as an investor with crypto-asset exposures and when it acts as an issuer with a crypto-liability on its balance sheet.

Once the standard has been finalised, the definitive tables and templates will be incorporated into the Basel disclosure framework.

### Consultative document on climate-related financial risks

As part of its holistic approach to address climate-related financial risks, the BCBS published, in November 2023, a consultative document on the disclosure requirements for such risks. The consultative document includes two qualitative tables and five quantitative templates (see Figure 1). In order to incorporate a reasonable level of flexibility into a future framework, the Committee will consider which elements would be mandatory and which subject to national discretion.

The qualitative tables (CRFRA and CRFRB) incorporate aspects on governance, strategy, risk management and concentration risk in relation to climate-related financial risks. Most of these requirements are in line with the standard of the International Sustainability Standards Board (ISSB).

The quantitative templates request information about the following:

- **Exposures by sector and financed emissions (CRFR1):** the Committee's analytical reports highlighted that the economic and financial impacts of transition risks may vary depending on the sector in which an obligor is operating, as certain sectors will have greater sensitivity to the transition to a low-carbon economy. The BCBS proposes that banks disclose exposures to non-financial corporates by sector, using the Global Industry Classification Standard (GICS), as well as information about the credit quality and maturity ladder of these exposures. In addition, information is requested about greenhouse gas (GHG) financed emissions (Scopes 1, 2 and 3).

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Figure 1  
CONSULTATIVE DOCUMENT ON CLIMATE-RELATED FINANCIAL RISKS

	Qualitative tables		Quantitative tables				
	CRFRA	CRFRB	CRFR1	CRFR2	CRFR3	CRFR4	CRFR5
	Governance, strategy and risk management	Physical, transition and concentration risk	Exposures and financed emissions by sector	Exposures subject to physical risk	Energy efficiency of exposures collateralised by immovable property	Emission intensity per physical output	Facilitated emissions
<b>Scope of application</b>	To be determined following consultation	To be determined following consultation	To be determined following consultation	To be determined following consultation	Subject to national discretion	Subject to national discretion	Subject to national discretion
<b>Type of risk</b>	Physical risk	Physical risk		Physical risk			
	Transition risk	Transition risk	Transition risk		Transition risk	Transition risk	Transition risk

SOURCE: Banco de España.

- **Exposures subject to physical risk (CRFR2):** the Committee requests disclosure of exposures to non-financial corporates and exposures collateralised by immovable property subject to physical risk by geographical area. The aim is for users of Pillar 3 disclosures to better understand a bank’s risk profile based on the geographical split of its exposures.
- **Real estate exposures in the mortgage portfolio by energy efficiency level (CRFR3):** loans secured by immovable property are subject to transition risk insofar as jurisdictions implement legislation to reduce real estate emissions. The BCBS proposes that these exposures be disclosed by energy efficiency levels (for example, in kWh/m<sup>2</sup>).
- **Emission intensity per physical output (CRFR4):** physical activity emission intensity metrics could provide users of Pillar 3 disclosures with useful and comparable information about emission intensity, as opposed to only considering absolute emissions. The Committee therefore proposes a template for banks

to disclose their emission intensity metrics and their emission reduction targets. The chosen metrics must be relevant to the disclosed sector (for example, tonnes of CO<sub>2</sub> per passenger distance in the transportation sector).

- **Facilitated emissions (CRFR5):** facilitated emissions refer to those attributed to a bank providing capital markets and financial advisory services (for example, equity underwriting, securitisation, etc.) to a counterparty. The Committee requests the disclosure of emissions linked to these activities which generally generate fees, do not provide direct financing and are material for investment banks.

In short, the proposed framework is a first step towards harmonising Pillar 3 requirements for the disclosure of climate-related risks for internationally active banks. The BCBS recognises that jurisdictions’ varying degree of preparedness and the need to evolve in terms of data and methodologies means that the development of a definitive Pillar 3 framework for these risks is likely to be an iterative

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process. Moreover, the consultation notes that the Committee, based on the feedback received through this process, must decide which templates are mandatory and which subject to national discretion. The proposed

implementation date for the framework is 2026, one year after the effective date proposed by the ISSB and after the expiration of the ISSB's transitional arrangements, which include financed emissions.