

October 6, 2023

Secretariat of the Basel Committee on Banking Supervision  
Bank for International Settlements  
CH-4002 Basel, Switzerland



Japanese Bankers Association

## **JBA comments on the BCBS Consultative Document: “Core principles for effective banking supervision”**

Dear Basel Committee members:

The Japanese Bankers Association<sup>1</sup> (JBA) appreciates the opportunity to provide our comments on the Basel Committee on Banking Supervision’s (BCBS) Consultative Document: “*Core principles for effective banking supervision*” released on July 6, 2023.

The JBA supports the BCBS's efforts to revise the Core principles for effective banking supervision in response to recent developments. The JBA regards the response to climate change as a key issue. However, in the current stage of discussions, we believe that the following comments should be taken into consideration.

We hope that our comments will contribute to further discussions at the BCBS.

### **Forward-looking view**

Regarding 40.19 (1) and footnote [15], we agree that a forward-looking view on "climate-related financial risks" is important, but as the need for a forward-looking view has not been discussed for all "emerging risks," the areas that will be included need to be clarified. Additionally, there is a need for clarification regarding whether an assessment of the materiality of these risks in the traditional risk measurement period is required, or if the response needs to take into account cases where the materiality of climate-related financial risks exceeds the traditional risk management measurement period.

### **Supervisory reporting**

Concerning 40.24 (1), the term "and information that enables the evaluation of the significance of climate-related financial risks and emerging risks to banks," should not be included. Since there is no globally established methodology for assessing climate-related financial risks and the practice is still developing, it is questionable whether such information would be useful for supervisory purposes because the granularity and content of such information varies from bank to bank. Therefore, it is necessary to wait for the establishment of a globally uniform methodology and the development of practice.

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<sup>1</sup> The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of October 1, 2023, JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 76 Associate Members (banks & bank holding companies), 50 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 244 members.

## Scenario analysis

Regarding 40.34 (2) and footnote [31], it is premature to incorporate scenario analysis into the risk management process as a universally applicable criterion since the practice is evolving as described in 02.18. Specific methods and data necessary for conducting scenario analysis have not yet been established. The pilot exercise with Japanese authorities is also positioned as an attempt to continuously improve analysis methods. It is necessary to continue discussions with authorities about preconditions such as data and model validity, as well as methods of utilisation.

## Time horizon

Regarding the 40.19 (1) and footnote [15], and 40.34 (5) and footnote [32], the current quantification method on climate-related financial risks estimates the cumulative amount of risk on a long-term time horizon, making it difficult to properly measure the probability of risk on a short-term time horizon. In the absence of an established quantification method, it is premature to incorporate climate-related financial risks into the assessment of capital and liquidity adequacy as a universally applicable criterion. The time horizon for capital and liquidity adequacy is understood to be in the short-term scenario, while the manifestation of climate-related risks primarily occurs on a comparatively long-term horizon and discussion of the possibility of short-term horizon is still developing. Considering that the Network for Greening the Financial System (NGFS) has started analysing short-term climate scenarios, it is necessary to first clarify global standards under the continuous discussion of methods among authorities and financial institutions.

If this revision is made, the assumed time horizon (e.g., 1-3 years, next 10 years) should be clarified taking into account the diverse risk profiles of each financial institution.

As tools for quantifying medium to long-term risks are still in the development stage due to limitations in data and methodology, we believe that introducing supervisory approaches that could affect capital should be considered cautiously.

## The term “emerging risks”

There is no definition of emerging risks, so we believe it would be better to define which risk it refers to. We believe that effective risk management can be achieved by clarifying the definition of emerging risks.

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We thank again the BCBS for the opportunity to comment on the Consultative Document and hope our comments will contribute to further consideration in the BCBS.

Yours faithfully,

Japanese Bankers Association