

ECON report on Basel III implementation must deal with climate-related financial risks properly

17 January 2023

Dear Members of the ECON Committee,

We are writing to you to urge you to take credible action to tackle climate-related financial risks in the reviews of the Capital Requirements Regulation and Capital Requirements Directive and to fully implement the Basel III provisions in order to safeguard the stability of the EU financial system.

Amendments have been tabled across different political groups to address the climate risk exposures that we know pose a significant risk to financial stability - fossil fuel exposures. **No European bank with sound risk management practices in place should be considering providing finance to exploration of new fossil fuel reserves.**

The scientific evidence and advice is clear that these **fossil fuel exposures are not compatible with the international climate commitments that EU countries have made** and the **European Climate Law** that you voted for. This means that these exposures will lose their value - or keep contributing to climate change and potentially cause major disruptions to the economy and financial system. **Leaving this risk unchecked means exposing citizens and taxpayers to the potential fall-out.**

The key proposal currently on the table to deal with these exposures is a 1250% credit risk weight for new fossil fuel exploration and expansion projects. **This 'one-for-one' capital rule means that these exposures would be financed out of banks' own funds (equity), with the bank assuming all of the risk associated with it.**

Whilst this would be a new capital requirement on paper, it should not ever result in the need for any sound European bank to actually raise capital. It would provide a safety net against any potential reckless risk-takers, who are willing to disregard EU climate commitments and a huge level of transition and physical risk. It would also level the playing field for banks that intend to implement ambitious and credible net-zero pledges and stop financing new fossil fuel projects.

Other important proposals to ensure that climate-related financial risks are considered holistically in the prudential rules include requirements on climate transition plans and targets, which are consistent and complementary to the sustainability requirements in existing EU legislation. However, these measures alone will fall short of protecting taxpayers.

European citizens deserve certainty that climate risk exposures are being dealt with.

The solution is on your desk and needs your support ahead of the vote on the ECON report on the 24th January.

Yours sincerely,

The signatories of our joint letter:

