EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Feedback statement

Responses to the public consultation on the draft ECB Guide on climate-related and environmental risks

November 2020

Contents

1 Introduction

1.1 Context

On 20 May 2020 the European Central Bank (ECB) launched a public consultation on the draft ECB Guide on climate-related and environmental risks. The public consultation ended on 25 September 2020.

In addition to soliciting written comments, the ECB also gave industry participants and other relevant interested parties the opportunity to ask questions and provide feedback during a public discussion with the ECB held virtually on 2 September 2020. Furthermore, the ECB hosted a Climate and Environmental Risk Webinar on 17 June 2020 and participated in numerous other related webinars hosted by external stakeholders.

Most of the comments submitted during the public hearing and/or other webinars were also reiterated in the relevant written comments. The ECB has given due consideration to all of the comments received during the consultation period.

1.2 Structure of the feedback statement

This feedback statement presents an overall assessment of the comments received during the public consultation and aims to address common issues raised. Amendments to the draft ECB Guide on climate-related and environmental risks have been made as a result of the comments received.

Chapter 2 summarises the key comments received and the resulting amendments to the draft ECB Guide. However, it only lists the most relevant and frequent groups of comments and/or proposed amendments. Further minor changes (mainly editorial) have been incorporated in the ECB Guide to clarify certain aspects that were raised during the public consultation.

1.3 Response statistics

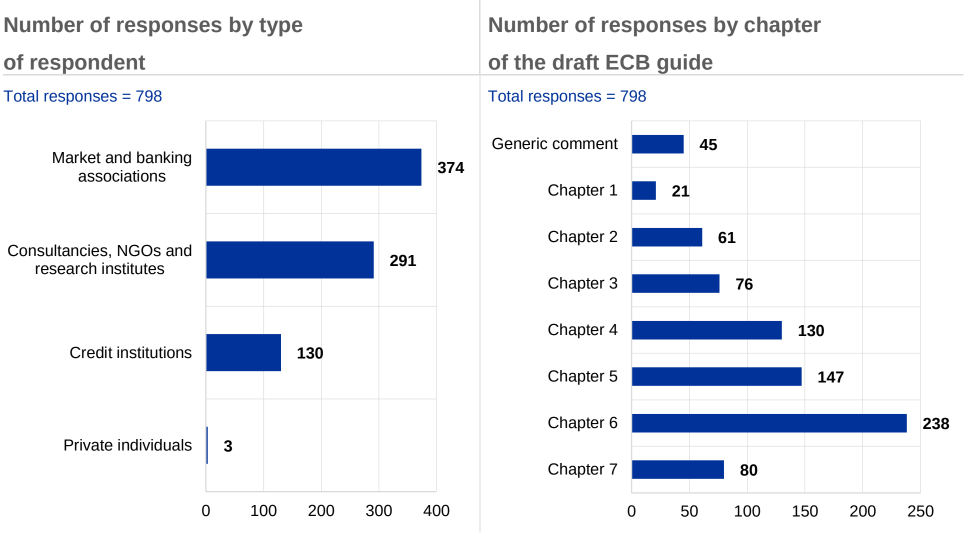
In total, 798 responses were received.[1] Contributions were submitted by 49 respondents, including eight credit institutions, 18 market and banking associations, 21 consultancies, NGOs and research institutes, and two private individuals, thus showing a broad participation of stakeholders.

Charts 1 and 2 provide a breakdown of the number of responses by type of respondent and by chapter of the draft ECB Guide.

[1] Comments received using the public consultation template are available on the ECB's website.

Chart 1

Statistics on the number of responses to the draft ECB guide



Source: Public consultation on the draft Guide on climate-related and environmental risks.

1.4 Adoption of the draft ECB Guide on climate-related and environmental risks

A complete draft proposal for the adoption of the draft ECB Guide on climate-related and environmental risks was sent by the Supervisory Board to the Governing Council of the ECB on 19 November 2020. The ECB Guide, as adopted by the Governing Council on 26 November 2020, was published on the ECB's website on 26 November 2020, together with this related feedback statement.

2 Comments on and amendments to the draft ECB Guide on climate-related and environmental risks

2.1 Generic comments

Table1

#	Topic (section)	Details	Response	Change
1	Generic	Respondent(s) stated that, besides articulating expectations related to risk management, the ECB should incentivise banks to finance more sustainable activities.	The prudential framework sets out how institutions are required to identify, monitor, mitigate and report the risks to which they are or might be exposed. Within this framework, the prudential supervisor may also assess whether banks properly manage and disclose climate-related and environmental risk where relevant from a prudential point of view. As stated by the ECB earlier this year[2], though, adequately reflecting climate-related and environmental risks in banks' balance sheets is a prerequisite not only for the sector's resilience but also for the accurate pricing of these risks, thereby contributing to an efficient and orderly transition to a low-carbon economy.	No
2	Generic	Some respondent(s) suggested that an expectation be added to the effect that institutions limit and compensate for adverse climate-related and environmental impacts. Other respondents asked for greater clarity regarding the ECB's stance on "dual materiality" (i.e. environmental and financial materiality).	The ECB's mission as prudential supervisor is to contribute towards the safety and soundness of credit institutions and the overall stability of the financial system. The ECB explains in the current draft ECB Guide how the ECB expects banks to manage and disclose risks stemming from climate changes and environmental degradation given that, in the light of Article 73 of the CRD IV, institutions' risk management frameworks should cover "all material risks they are or might be exposed to". [3] For the ECB's stance on "dual materiality", please refer to the ECB's "Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive".	No
3	Generic	Respondent(s) referred to the exacerbating nature of climate-related and environmental risks and urged the ECB to make transparent how it planned to tighten its expectations over time.	The ECB acknowledges that climate-related and environmental risks are likely to be material in the short term and are likely to exacerbate over time.[4] The ECB Guide aims to provide transparency in terms of the ECB's understanding of the sound, effective and comprehensive management of climate-related and environmental risks under the current prudential framework. As pointed out in the draft ECB Guide, the ECB has taken stock of banks' practices as regards climate-related and environmental risks' management and disclosure and is of the view that substantial progress is still required in a number of areas. Institutions are expected to adjust their practices and will be asked to inform the ECB of any divergences between their practices and those of the ECB Guide for the purposes of the supervisory	No

2 See the keynote speech by Andrea Enria, Chair of the Supervisory Board of the ECB, on "ECB Banking Supervision's approach to climate risks at the *European Central Bank Climate and Environmental Risks webinar*, June 2020; and the *ESRB report*, "Positively green: measuring climate change risks to financial stability", June 2020.

3 See the *NGFS Guide for supervisors*, May 2020, p. 12.

4 See *ECB Banking Supervision: Risk assessment for 2020*, October 2019.

#	Topic (section)	Details	Response	Change
			dialogue. The ECB will continue to update its supervisory practices, taking into account, among others, regulatory developments.	
4	Generic	Respondent(s) pointed out that data and methodological gaps to fully incorporate all of the supervisory expectations persisted, for example, in relation to the measurement of Scope 3 emissions; the setting of KPIs; the development of scenarios; risk quantification and modelling. Some respondent(s) suggested a phase-in approach by proposing a timeline, as per each expectation, or by granting institutions the possibility of determining their own order of prioritisation; other respondent(s) suggested prioritising the implementation of climate-related risk management before (expecting) the management and disclosure of environmental risks.	The ECB acknowledges that risk management and disclosure of climate-related and environmental risk practices are constantly evolving. As the ECB Guide clearly sets out the ECB's understanding of the sound, effective and comprehensive management of climate-related and environmental risks under the current prudential framework, the ECB Guide will apply as of its date of publication. It is therefore expected that institutions consider the extent to which their current management and disclosure practices for climate-related and environmental risks are sound, effective and comprehensive, taking into consideration the expectations set out in the ECB Guide, and promptly start enhancing their practices, where needed. The ECB is aware of the challenges institutions face, for instance, pertaining to data availability and the development of methodologies. Such challenges will be discussed on a case-by-case basis as part of the supervisory dialogue.	No
5	Generic	Respondent(s) pointed out that the ECB should state more clearly the non-binding nature of the ECB Guide, and given the lack of available standards, should provide a guideline as to which methods and approaches are to be considered a priority.	The legal status of the ECB Guide is described in Chapters 1 and 2. In general, the institutions are responsible for designing their business strategy and risk management frameworks with due consideration of the nature of the exposures to the risks to which that they are or might be exposed, and the drivers of these risks.[5] In this regard, we would like to reiterate that the ECB Guide is not binding for the institutions but rather it is intended to provide greater transparency as to the ECB's expectations. Moreover, the ECB points out that the ECB Guide is not prescriptive as to the methods and/or approaches that banks are expected to take. As part of the supervisory dialogue, the ECB will aim to ensure that banks' climate-related and environmental risk management and disclosure practices are prudent.	No
6	Generic	Respondent(s) pointed out that quantitative instruments to measure climate-related and environmental risks could prove insufficient for addressing the key uncertainties associated with climate change and environmental degradation and that investing several resources in developing such instruments could detract from developing more effective and immediately deployable instruments.	The supervisory expectations make it clear that institutions are expected to take a comprehensive, strategic and forward-looking approach to the management and disclosure of climate-related and environmental risks. As set out in the draft ECB Guide, institutions have a wide array of risk management instruments at their disposal and can rely on a combination of appropriately calibrated instruments, both of a qualitative and of a quantitative nature. In particular, the distinct nature of climate-related and environmental risks makes scenario analysis a particularly important tool for exploring risks across a variety of "what if" scenarios.[6] [7]	No
7	Generic	Respondent(s) asked whether non-compliance with the ECB Guide would inform next year's SREP process decisions. Other respondents suggested that, given the urgency of the matter, the ECB should step up/increase the extent to which the documentation is binding and it should encourage the ECB to work together with the European Banking Authority (EBA) to strengthen the SREP process and further enable the exercise of supervisory powers. Conversely,	The ECB notes that many institutions have acknowledged the materiality of climate-related and environmental risks to their institutions and are working on developing their risk management approach. However, the ECB observed that the assessments of materiality generally lacked depth and sophistication[8] and that many institutions still need a comprehensive risk management approach for climate-related and environmental risks.[9] Divergences between	No

5 See the *ECB Guide to the ICAAP*, November 2018, paragraph 60.

6 See the *ECB Financial Stability Review, "Climate Change and Financial Stability"*, May 2019; and the *NGFS Guide to climate scenario analysis for central banks and supervisors*, June 2020, p. 4.

7 See the *draft ECB Guide on climate-related and environmental risks*, May 2020, Chapter 3.1; and the *ECB Annual Report on supervisory activities 2019*, March 2020, Box 3.

8 See the *ECB Report on banks' ICAAP practices*, August 2020, Box 2, Chapter 2.4.2.2 and Chapter 2.4.3.

9 See the *draft ECB Guide on climate-related and environmental risks*, May 2020, Chapter 3.1; and the *ECB Report on banks' ICAAP practices*, August 2020, Box 2.

#	Topic (section)	Details	Response	Change
		some respondent(s) were of the view that the ECB should, given the lack of available standards, only issue non-binding recommendations based on the supervisory dialogue. Yet other respondent(s) stated that failure to meet the expectations should not lead to an impact on capital requirements	institutions' practices will be discussed during the supervisory dialogue on a case-by-case basis. The aim of the dialogue is to foster an understanding of the importance of adequately managing these risks. The ECB should also like to reiterate that the ECB Guide is based on the current prudential framework. While the ECB does not intend to immediately reflect divergences between the institutions' practices and the expectations set out in the ECB Guide in the institution-specific capital requirements, the ECB would like to point out that it does not exclude supervisory action being taken in individual cases, as and when appropriate. The ECB will furthermore continue to update its supervisory practices, taking into account regulatory developments.	
8	Generic	Respondent(s) requested clarification of the concept of materiality, potentially by defining a threshold. Other respondents requested clarification of the consideration of the proportionality principle in line with the EBA guidelines.	The ECB did clarify that the definitions of materiality used in the ECB Guide follow the applicable CRD and CRR provisions. As stated in the ECB Guide, it should be noted that the materiality assessment is an institution-specific assessment, which should take into account the specificities of the business model, operating environment and risk profile. Depending on the business model, operating environment and risk profile, an institution, irrespective of its size, could be concentrated in a market, sector or geographical area that is exposed to material physical and transition risks, which means that it could be extremely vulnerable to the impacts of climate change and environmental degradation. It is the responsibility of the institution to ensure that its approach remains comprehensive and proportionate to the nature, scale and complexity of its activities. Moreover, the ECB has added one expectation to Chapter 6 of the ECB Guide relating to the materiality assessment.	Yes
9	Generic	Respondent(s) pointed out that in some parts, the draft ECB Guide seemed to focus more on the transition risks and did not explicitly refer to physical risks.	All expectations in the draft ECB Guide apply to existing risks, whether driven by physical or transition risk. For instance in Chapter 4.1, several references to physical risk were introduced to ensure a balanced representation of both physical and transition risks across all of the expectations.	Yes
10	Generic	Respondent(s) pointed out that the use of risk and risk drivers was inconsistent across the draft ECB Guide and that the materiality assessment should not be expected for risk drivers.	Institutions are responsible for implementing a process for identifying all material risks, and in addition to current/existing risks, institutions are expected to consider any risks, and any concentrations within and between those risks, that may arise as a result of pursuing certain strategies or as a result of relevant changes in the operating environment. As this is an internal process, institutions are expected to comprehensively analyse the ways in which climate-related and environmental risks affect the different risk areas, including credit, operational, market and liquidity risks, as well as any other risk or sub-category of risk included in the internal risk inventory. The ECB has since clarified some of the above issues in the final ECB Guide due to be published. In particular, the ECB Guide states in Expectation 7.2 that institutions should comprehensively include (the contribution of) climate-related and environmental risks in their materiality assessments for all of their business areas in the short, medium and longer term under various scenarios.	Yes
11	Generic	Respondent(s) requested that the ECB provide some best practices regarding the appropriate methodologies for climate-related and environmental risk measurement.	The ECB acknowledges that the methodologies and processes for managing climate-related and environmental risks are rapidly evolving. In the draft ECB Guide, the ECB shared a number of practices as a source of inspiration for the credit institutions under its supervision. The ECB reiterates that the observed practices shared throughout the said Guide, merely serve as a means of illustration and are not necessarily	No

#	Topic (section)	Details	Response	Change
			replicable, nor do they necessarily meet all supervisory expectations.	
12	Generic	Respondent(s) pointed out that it might not be advisable for the supervisor to rely solely on the financial sector to develop the appropriate instruments for measuring climate-related and environmental risk. Instead, the supervisor should develop its own technical capabilities and set standards for the financial sector. Other respondent(s) pointed out that the ECB Guide should make it more explicit as to the role that supervised entities should play in terms of developing methodologies and tools to manage climate-related and environmental risks.	As stated previously, institutions are responsible for implementing a process for identifying all material risks, and in addition to current risks, institutions are expected to consider any risks, and any concentrations within and between those risks, that may arise as a result of pursuing certain strategies or as a result of relevant changes in the operating environment. The ECB is currently actively developing its approach towards integrating climate-related and environmental risks into its supervisory activities and is working closely together with the EBA, the Basel Committee on Banking Supervision (BCBS), the Network for Greening the Financial System (NGFS) and others with the aim of exchanging ideas on best practices and ensuring the consistent application of high supervisory standards.	No
13	Generic	Respondent(s) stated that the ECB deals with climate-related and environmental risks solely as micro prudential risks. However, it should be noted that individual banks that contribute to risks at the macro level might not necessarily be affected themselves, while issues of interconnectedness remain to be properly addressed in the final ECB Guide.	The ECB acknowledges that climate-related and environmental risks are of both a micro prudential and macro prudential nature. However, the ECB would like to point out that the current ECB Guide is produced by ECB Banking Supervision under a micro prudential mandate in accordance with the SSM regulation.	No
14	Scope and application (2)	Respondent(s) stated that setting expectations exclusively for the SSM banks could create an unlevel playing field within the EU, compared with non-SSM banks, which could, in turn, give rise to legal uncertainty and differing requirements across banks operating in different jurisdictions. Other respondents also stated that these expectations might further exacerbate the unlevel playing field that already existed between banks and non-banks.	The ECB is the competent authority in charge of the supervision of credit institutions established within the SSM Member States in accordance with the set-up specified in the SSM regulation. When setting its supervisory expectations, the ECB follows provisions under the applicable regulatory framework, also taking also into account wider global developments in the regulatory domain.	No
15	Generic	Respondent(s) pointed out that the different time horizons that the ECB referred to deserved further clarification.	The ECB clarified in the draft ECB Guide that its understanding of a prudent approach to managing these risks was the consideration of a longer-than-usual time horizon. The ECB values the combination of business-as-usual risk management tools together with mechanisms that allow for the management of risks driven by more structural, longer-term changes in the economy. The ECB has therefore consolidated the references to scenario analysis in several parts of the ECB Guide, for example in Chapter 4.2.	Yes
16	Generic	Respondent(s) stated that it was not, in their view, within the remit of the ECB to define Pillar III disclosure requirements and/or to duplicate internal governance requirements, as set out in the ECB guidelines.	As previously mentioned, the ECB points out that the aim of the ECB Guide is to provide greater transparency on the sound, effective and comprehensive management and disclosure of climate-related and environmental risks under the current prudential framework. As mentioned in Chapter 2, the ECB Guide does not substitute or supersede any applicable law.	No
17	Generic	Respondent(s) stated that the ECB Guide should clarify how the ECB and national competent authorities (NCAs) organised their own areas of expertise and how this would be passed down to the Joint Supervisory Teams. Moreover, the ECB should ensure that their supervisors are well-appointed/in a position to evaluate banks' practices in this regard.	The ECB follows the provisions of the applicable regulatory framework when exercising its supervisory tasks. With a view to contributing towards the safety and soundness of credit institutions and the overall stability of the financial system, the ECB adheres to high supervisory standards.	No

2.2 Comments related to the introduction (Chapter 1 of the draft ECB Guide)

Table 2

#	Topic (section)	Details	Response	Change
18	Introduction (1)	Respondent(s) pointed out that, while the draft ECB Guide dealt with both climate-related and environmental risks, the introduction of the draft ECB Guide only referred to the Paris Agreement in the context of climate change, and not any to broader developments in the environmental arena, such as the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services IPBES.	The draft ECB Guide considers both climate-related and environmental risks. The ECB regards both the Intergovernmental Panel on Climate Change (IPCC) and the IPBES as critical interfaces between science and policymaking in the field of climate change and environmental degradation. References to the IPBES and the UN Convention on Biological Diversity (CBD) have been introduced into the new version of the ECB Guide accordingly.	Yes
19	Introduction (1)	Respondent(s) stated that they saw value in the development of a unified/uniform heat map of climate-related and environmental risks at the European level to facilitate the identification of relevant physical risks by geographic area.	In principle, the ECB is supportive of (industry) initiatives to develop consistent and uniform information on climate-related and environmental risks at the European level, such as, for instance, a "base case" for weather-related heat maps across different geographic areas of Europe.[10] However, it should be noted that developing such initiatives does not fall within the remit of the ECB's mandate as prudential supervisor.	No

2.3 Comments related to scope and application (Chapter 2)

Table 3

#	Topic (section)	Details	Response	Change
20	Application to significant institutions (2.1)	Respondent(s) pointed out that the level of consolidation, for EU and non-EU banks, to which the draft ECB Guide applied should be clarified, as well as the treatment of insurance and asset management subsidiaries.	The level and scope of consolidation to which the supervisory expectations apply are in line with the underlying legal provisions of the CRR and the CRD. The ECB has clarified this in the new version of the ECB Guide.	Yes
21	Application to significant institutions (2.1)	Respondent(s) pointed out that the observed practices described in the draft ECB Guide were not supposed to be read as "supervisory rules" and therefore Joint Supervisory Teams should not expect application of such practices across the board.	As stated explicitly in the draft ECB Guide, the observed practices merely serve as an illustration and are not necessarily replicable, nor do they necessarily meet all supervisory expectations.	No
22	Application to significant institutions (2.1)	Respondent(s) pointed out that banks should be able to exercise some flexibility in terms of the different geographic areas in which they operate.	In general, the ECB would expect credit institutions to consider physical and transition risks across geographic areas in terms of them being drivers of prudential risk. Given that climate-related and environmental risks have differing levels of materiality across geographic areas, based on the individual institution's materiality assessment, institutions may differentiate the management of these risks accordingly.	No
23	Date of application (2.2)	Respondent(s) pointed out that the timelines for implementation of the ECB Guide should be aligned with, for example, those of the EBA action plan, the implementation of the EBA Guidelines on loan origination[11] and monitoring and/or the Non-Financial Reporting Directive (NFRD).	The draft ECB Guide sets out its supervisory expectations regarding the management and disclosure of climate-related and environmental risks in accordance with the existing relevant prudential framework. The ECB emphasises that all expectations set out in the draft ECB Guide are grounded in currently applicable law. The	No

10 See the *ECB Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive*, June 2020, paragraph 1.2.

11 See the *EBA Guidelines on loan origination and monitoring* (EBA/GL/2020/06), May 2020.

#	Topic (section)	Details	Response	Change
			ECB will continue to develop its supervisory approach, taking into account overall developments in the regulatory framework in this regard.	
24	Date of application (2.2)	Respondent(s) pointed out that the timelines for informing the ECB of divergences between their practices and the ECB Guide were unclear and that the wording could be interpreted as actually being a proactive reporting obligation. Other respondents requested to be given further information on the structure and timing of the supervisory dialogue.	The ECB Guide is not a legal instrument and therefore does not constitute or impose a reporting obligation on institutions. The ECB will use the expectations included in the ECB Guide as the basis for the supervisory dialogue as part of its ongoing supervision. As part of the supervisory dialogue, and as stated in the draft ECB Guide, institutions will receive a notification from their respective Joint Supervisory Team requesting them to inform the ECB of any divergences between the practices and the expectations set out in the ECB Guide.	Yes
25	Application to less significant institutions (2.3)	Respondent(s), in reference to the recommendation to NCAs to apply the ECB Guide proportionately to their supervision of less significant institutions, pointed out the need to further specify what a "proportional application" entailed with a view to safeguarding a level playing field in the euro area.	As stated in the draft ECB Guide, the ECB recommends that NCAs apply, in substance, the expectations set out in the ECB Guide to their supervision of less significant institutions, proportionately to the risk profile and business model of these institutions. The ECB is closely cooperating with the NCAs in this regard, namely with a view to ensuring a level playing field across SSM banks.	No

2.4 Comments related to climate-related and environmental risks (Chapter 3)

Table 4

#	Topic (section)	Details	Response	Change
26	Definitions (3.1)	Respondent(s) suggested including a separate category of nature-related risks, in addition to climate-related and environmental risks, given that the underlying drivers of biodiversity and ecosystem services loss are mainly triggered by land-use change and habitat destruction, which is of a very different nature and with different materiality implications for the financial sector.	Environmental risks in this ECB Guide refer to the potential effects of nature-related loss and damage on the activities carried out by financial institutions, thereby impacting prudential risk to which credit institutions are exposed. This perspective also leverages on the definitions for environmental risks of the NGFS.[12] In this respect, the list of examples provided in Chapter 3.1 of the ECB Guide now mentions land-use change and habitat destruction as drivers of prudential risk to which credit institutions might be exposed.	Yes
27	Characteristics of climate-related and environmental risks (3.2)	Respondent(s) asked for clarification regarding the interaction between climate-related risks and environmental risks.	The ECB has now included a reference to the interaction between climate-related risks and environmental risks in Chapter 3.2 of the ECB Guide.	Yes
28	Characteristics of climate-related and environmental risks (3.2)	Respondent(s) advocated much closer attention to litigation risk, as climate change litigation exposes financial institutions to several types of costs. In addition, climate change litigations give rise to reputational risk	Litigation risk is now mentioned more explicitly in Expectations 5.5 and 9.2 of the ECB Guide.	Yes
29	Characteristics of climate-related and environmental	Respondent(s) raised the need to define the relationship between the ECB's definition and that of other major institutions.	In order to ensure consistency across definitions and also to leveraging on those postulated by the NGFS[13], the ECB introduced into the original definitions of climate-related risks in Chapter 3.2 of the ECB Guide the decline in asset value in carbon-intensive sectors, as well as that of	Yes

12 See the *NGFS Guide for supervisors*, May 2020.

13 See the *NGFS Guide for supervisors*, May 2020.

#	Topic (section)	Details	Response	Change
	risks (3.2)		environmental risks to the loss of ecosystem services.	
30	Characteristics of climate-related and environmental risks (3.2)	Respondent(s) suggested revising the time horizons underlying the ECB Guide, given that the risks will only unfold over the forthcoming decades and not much sooner. Therefore, among others, the stress test time horizon should be amended.	Given the different developments in the climate-related and environmental risks and also the fact that that risks are likely to become more exacerbating in the future, the ECB invites credit institutions to determine which climate-related and environmental risks are material in the short, medium and longer term (see for example Expectation 2.1). This could then also inform and complement the scenario analysis and stress testing, as also mentioned in Section 6.5 of the draft ECB Guide.	No
31	Characteristics of climate-related and environmental risks (3.2)	Respondent(s) would like to see an explicit reference to the mining sector as one individual sector affected by climate change	The list of sectors affected by climate change in Chapter 3.2 of the ECB Guide has now been expanded to explicitly mention the mining sector.	Yes
32	Characteristics of climate-related and environmental risks (3.2)	Respondent(s) suggested a clearer reference to the concept of stranded assets resulting from transition risk when defining the characteristics of climate-related and environmental risks. In particular, its short-term impact on the short-term horizon, which is well exemplified by fossil power plants.	The ECB did include several references to stranded assets in Chapter 3.2 of the draft ECB Guide.	Yes

2.5 Comments related to supervisory expectations relating to business models and strategy (Chapter 4)

Table 5

#	Topic (section)	Details	Response	Change
33	Business environment (4.1)	Respondent(s) requested clarification of the required level of granularity when assessing the business environment (supervisory Expectation 1.1).	The ECB encourages institutions to develop granular approaches to better determine the magnitude of the risks and impact of climate change and environmental degradation on its business environment. For instance, sensitivity to the financial impact of a changing climate may need to be mapped out in a granular manner against different sectors and geographic areas.[14] The ECB thus amended Expectation 1.1 to better reflect the importance of these granular approaches.	Yes
34	Business environment (4.1)	Respondent(s) asked for clearer guidance with regard to the requirements for the business environment analysis, for example, which scientific insights are relevant for enhancing an understanding of the potential changes to the business environment going forward.	The ECB is of the view that institutions are responsible for the comprehensive analysis of what developments impact the resilience of their business model and risk profile in a forward-looking manner.[15]	No
35	Business environment (4.1)	Respondent(s) asked for clarification of the types of policies being referred to when describing "policy-driven developments" under Expectation 1.2.	The ECB has now amended the text under supervisory Expectation 1.2 so as to clarify that policy-driven developments mean public policies, such as rules, laws and regulations.	Yes
36	Business strategy (4.2)	Respondent(s) commented on the KPIs used as an example in Box 2, describing them as being not forward-looking and with only limited insight into the financial risks to banks. Other respondents have asked whether Box 2 should	The ECB has now amended Box 2 to include observed examples of KPIs that are more explicitly risk-based. However, the ECB emphasises that the observed practices shared throughout this document in the boxes merely serve as a means of illustration and are not	Yes

[14] See Chart 3.9 and Box 3 entitled "Euro area banks' sensitivity to corporate decarbonisation" in the *ECB Financial Stability Review*, May 2020; and the *NGFS Guide for supervisors*, May 2020, p. 26 and p. 28.

[15] See paragraph 30 of the *EBA Guidelines on internal governance* (EBA/GL/2017/11).

#	Topic (section)	Details	Response	Change
		be considered a best practice.	necessarily replicable, nor do they necessarily meet all supervisory expectations, as stated in Chapter 2.1 of the draft ECB Guide.	
37	Business strategy (4.2)	Respondent(s) commented on the relevance of including potential opportunities arising from shifting to a carbon-neutral economy in the business environment and strategy processes.	The ECB Guide considers climate change and environmental degradation through a risk-based lens and explains how the ECB expects banks to manage and disclose the underlying risks from a prudential point of view, as described in Chapter 2.4 of the draft ECB Guide. Referring to potential opportunities lies outside the remit of the ECB as prudential supervisor.	No
38	Business strategy (4.2)	Respondent(s) commented that Expectation 2 should make explicit that climate-related and environmental scenarios are to be developed internally by the institutions, leaving discretion to the individual bank.	The supervisory expectations do not prescribe that scenarios should be created without any support from external providers. This may, for instance, depend on the size, complexity and nature of the institution's business model, among others. The ECB simply emphasises that it expects the scenarios chosen by the credit institutions to adequately reflect their individual situation and risk profile, irrespective of whether they draw on external expertise or not.	No

2.6 Comments related to supervisory expectations relating to governance and risk appetite (Chapter 5)

Table 6

#	Topic (section)	Details	Response	Change
39	Management body (5.1)	Respondent(s) suggested mirroring the wording of Article 91 of the CRD with regards to the required level of knowledge and skills of the management body to ensure consistent implementation.	An expectation is added in Chapter 5.1 that includes a reference to Article 91 of the CRD and the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders[16].	Yes
40	Management body (5.1)	Respondent(s) asked for clarification on how the role of the management body in the management and supervisory function is defined under Expectations 3.1 and 3.2.	The ECB emphasises that the function of the management body to which each of the supervisory expectations applies is laid down in the legal provisions on which the respective expectation is grounded.[17]	No
41	Management body (5.1)	Respondent(s) suggested that climate-related and environmental risk should be assigned as a responsibility to the board as a whole, as opposed to a dedicated board member.	The EBA Guidelines on internal governance specify that the responsibilities and duties of the management body should be clearly defined and described in a written document. In particular, the chair of the management body should contribute to a clear allocation of duties between the members of the management body.[18] However, despite the allocation of individual responsibility, the management body as a whole retains ultimate responsibility for the institution.[19]	No
42	Risk appetite (5.2)	Respondent(s) suggested that setting limits on lending could have unintended negative consequences when pursued collectively by the financial sector, i.e. triggering a disorderly transition path.	The supervisory expectations state that institutions are expected to take a comprehensive, strategic and forward-looking approach to the management and disclosure of climate-related and environmental risks. While limits on lending are one of the instruments that institutions may employ, the ECB emphasises that institutions need not use this instrument in	No

16 See the *Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU* (EBA/GL/2017/12)

17 See Title II of the *EBA Guidelines on internal governance* (EBA/GL/2017/11).

18 See paragraph 38 of the *EBA Guidelines on internal governance* (EBA/GL/2017/11).

19 See paragraph 20 of *the EBA Guidelines on internal governance* (EBA/GL/2017/11).

#	Topic (section)	Details	Response	Change
			isolation. As set out in Chapter 6.2 of the draft ECB Guide, institutions have a wide array of risk management instruments at their disposal and can rely on a combination of appropriately calibrated instruments for use in an orderly manner.	
43	Risk appetite (5.2)	Respondent(s) asked for clarification on how to deal with uncertainties with regard to the development of risk metrics and limits for the risk appetite statement. These uncertainties include the lack of data availability and common taxonomies, and the cross-cutting nature of climate-related and environmental risks.	The ECB expects institutions to assign quantitative metrics to climate-related and environmental risks, but states that qualitative statements can be used as intermediate steps while the institution develops its quantitative approach. This has already been articulated explicitly in Expectation 4.2.	No
44	Risk appetite (5.2)	Respondent(s) noted that the sentence "It is also expected that risk appetite arrangements and boundaries are decided before commercial targets" in Expectation 4.2 is unclearly formulated.	The text in Expectation 4.2 has been amended so that reference is now also made to the definition of risk appetite included in the EBA Guidelines on internal governance.[20]	Yes
45	Risk appetite (5.2)	Respondent(s) suggested aligning Expectation 4.2 with EBA/GL/2017/11, as risk limits, tolerances and thresholds should only be set for material risks.	The draft ECB Guide mentions in Expectation 4.2 that, based on the EBA Guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing[21], institutions are expected to ensure that their risk strategy and risk appetite consider all the material risks to which they are or might be exposed and specify risk limits, tolerances and thresholds. In addition, it also mentions that, in line with the EBA Guidelines on internal governance, institutions should have a risk management framework in place that ensures that, when risk limits are breached, there is a defined process for escalating and addressing these, together with an appropriate follow-up procedure. With this in mind, the ECB expects institutions, also taking into account the materiality of the risks to which they are or might be exposed, to develop appropriate key risk indicators and set appropriate limits for climate-related and environmental risks in line with their regular monitoring and escalation arrangements.	No
46	Risk appetite (5.2)	Respondent(s) argued that the uncertain, but potentially catastrophic, nature of climate-related and environmental risks should be better reflected in the supervisory expectations in relation to risk awareness.	The text in Chapter 5.3 has been adapted to reflect the fact that institutions' risk awareness may also be adapted to the uncertain, but potentially significant, impact of climate-related and environmental risks.	Yes
47	Risk appetite (5.2)	Respondent(s) proposed making a more clear distinction between the risk taxonomy and the risk appetite statement in Expectation 4.1	Expectation 4.1 has been rephrased to more explicitly distinguish between the risk taxonomy and the risk appetite statement in the context of climate-related and environmental risks.	Yes
48	Organisational structure (5.3)	Respondent(s) asked for clarification on the role of the compliance function and, in particular, on the reference to liability risks in Expectation 5.5.	The reference to liability risks has been amended and reference is now made to compliance risks in Expectation 5.5. In this respect, it is specified that the compliance function should advise the management body on the measures to be taken to ensure compliance with applicable laws and should assess the possible impact of any changes in the legal or regulatory environment on the institution's activities and compliance framework. This is also in view of the fact that, as rules may change over time, institutions may increasingly face compliance-related risks, such as liability, litigation and/or reputational risks stemming from climate-related and environmental issues.	Yes
49	Organisational structure (5.3)	Respondent(s) suggested that Expectation 5.1 should be formulated in a less prescriptive manner (in line with TCFD recommendations). It	The ECB is aware of the challenges institutions face, for instance pertaining to data availability and development of methodologies in respect of	No

[20] See *the EBA Guidelines on internal governance* (EBA/GL/2017/11).

[21] See *the EBA Guidelines on the revised common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing* (EBA/GL/2018/03)

#	Topic (section)	Details	Response	Change
		should be rephrased to make it principle-based rather than prescriptive in terms of processes and working procedures, as institutions are still developing risk tools, while full organisational integration remains dependent on further progress in that regard. Other respondents expressed views against setting up a dedicated committee structure for climate-related and environmental risks.	climate-related and environmental risks.[22] The ECB reiterates that the supervisory expectations included in the ECB Guide are not binding on institutions and also serve as a basis for supervisory dialogue. Furthermore, for the ECB's view on committee structures, please refer to Expectation 5.1, which states that "Institutions may allocate such responsibilities across existing structures or, if deemed useful, may consider establishing a dedicated structure responsible for coordinating the institution's overall risk management approach to climate-related and environmental risk."	
50	Organisational structure (5.3)	Respondent(s) noted that Expectation 5.6 should be formulated in a way that does not restrict the audit function to solely performing risk management audit in the context of climate-related and environmental risks	Expectation 5.6 has been amended to omit the reference to the risk management framework as the sole objective of reviews of the audit function, in line with Article 199 of the EBA Guidelines on internal governance. The text also refers to the broader internal control framework as being within the scope of the audit function as a means of ensuring sound, effective and comprehensive risk management in the light of climate-related and environmental risks.	Yes
51	Organisational structure (5.3)	Respondent(s) noted that Expectation 5.3 refers to the need to describe roles and responsibilities in policies, while Expectations 5.4 and 5.5 do not include this. Further clarification is requested.	The ECB highlights that Expectation 5.1 clearly states that it expects the responsibilities for climate-related and environmental risks across the organisation to be documented. Therefore, the ECB does not deem it necessary to reiterate this statement in Expectation 5.3 (in addition to Expectations 5.4 and 5.5). The reference in Expectation 5.3 to the need to define the responsibilities of the first line of defence in terms of climate-related and environmental risks in policies and procedures has therefore been amended accordingly.	Yes
52	Reporting (5.4)	Respondent(s) asked for clarification on institutions' flexibility in terms of developing climate-related and environmental reports on a stand-alone basis or integrating this information in existing reporting.	The ECB has amended Expectation 6.3 in the ECB Guide to make it more explicit that climate-related and environmental risk data and analysis is expected to be integrated in the institution's existing risk reporting framework.	Yes

2.7 Comments related to supervisory expectations relating to risk management (Chapter 6)

Table7

#	Topic (section)	Details	Response	Change
53	Risk management (6)	Respondent(s) noted that the wording of Expectations 7 and 7.1, specifically with respect to prudential risk categories, could be better aligned. Expectation 7 refers to "established risk categories" while Expectation 7.1 refers to "existing risk categories".	The ECB has clarified the reference to "existing risk categories" in accordance with the definitions set out in Section 3.2.	Yes
54	Risk Management (6)	Respondent(s) noted that Expectation 7 could further clarify that identification and quantification of climate-related and environmental risks is to be considered within the existing processes for prudential risk categories, in line with the ECB definition that physical and transition risks are drivers of prudential risk.	The ECB has clarified in expectation 7 that, for the purpose of the ECB Guide, "institutions are thus expected to comprehensively analyse the ways in which climate-related and environmental risks drive the different risk areas, including liquidity, credit, operational, market and any other material risk-to-capital or any of its sub-categories, that it is or might become exposed to".	Yes
55	Risk	Respondent(s) commented on the expectation	Paragraph 2.1 of the draft ECB Guide on	Yes

22 See Box 3 of the *ECB Annual Report on supervisory activities* 2019.

#	Topic (section)	Details	Response	Change
	management framework (6.1)	for institutions to consider climate-related and environmental risks in their forward-looking capital assessment. Respondent(s) requested further clarification on the terminology, with respect to the frequency of reviews, the time horizon of the analysis and how to perform the assessment under the normative perspective.	climate-related and environmental risks states that it "should be read in conjunction with other ECB guides, and in particular the ECB Guide to the internal capital adequacy assessment process (ECB Guide to the ICAAP). With a view to providing further clarification, editorial changes have been made in paragraphs 6.1, 6.4, 6.5 and 6.6 of the document, which make further reference to the ECB Guide to the ICAAP.	
56	Credit Risk management (6.2)	Respondent(s) noted that the reference to scenario analysis and stress testing in Expectation 8.4 is unclear, particularly when referring to "characteristics likely to be targeted by transition policies", and that Expectation 11 is sufficient.	The ECB has removed the reference to scenario analysis and stress testing in Expectation 8.4. In addition, in Expectation 11 it has further elaborated on the "plausibility" of scenarios, making reference to the definition provided in the EBA Guidelines on institutions' stress testing.[23]	Yes
57	Risk management framework (6.1)	Respondent(s) highlighted that the draft ECB Guide did not sufficiently cover the role that banks can play in accompanying counterparties in adapting to and increasing resilience towards the transition.	The ECB reminds institutions that it is their responsibility, as set out in the EBA Guidelines on internal governance, to keep their risk profiles within the established limits. In doing so, the ultimate responsibility for risk assessment lies solely with the institution. Expectation 7.3 already refers to constructive dialogue with counterparties as a way of mitigating climate-related and environmental risks. In order to further clarify that institutions are free to establish the risk management and mitigation measures that best fit their risk strategy, Expectation 7.3 sets out how banks may support counterparties in mitigating the climate-related and environmental risks to which they are exposed.	Yes
58	Risk management framework (6.1)	Respondent(s) noted that the expectation to include climate-related and environmental risks in the risk management framework is only applicable in the case that such risks are assessed as material.	Climate-related and environmental risks are included in the risk management framework on the basis of the materiality assessment.	No
59	Risk management framework (6.1)	Respondent(s) noted that, when quantification methodologies are subject to further developments, institutions could be expected to make efforts to develop or apply appropriate tools and methods. Furthermore, the meaning of "active effort" could be made clearer.	The ECB Guide to the ICAAP clarifies that "risks are not expected to be excluded from the assessment, because they are difficult to quantify or the relevant data are not available".[24] In such cases, the institution is expected to determine sufficiently conservative risk figures, taking into consideration all relevant information and ensuring adequacy and consistency in its choice of risk quantification methodologies." The ECB has clarified Expectation 7.2, in particular the concept of "effort". In this respect, it is specified that institutions may develop plausible proxies and assumptions to perform an assessment of climate-related and environmental risks where quantification methodologies are under development.	Yes
60	Risk management framework (6.1)	Respondent(s) advocated recognising in the ECB Guide the existing and substantial set of tools, methods and datasets that can be used to adequately quantify climate-related and environmental risks.	The ECB acknowledges that methodologies, tools and data in this field are evolving rapidly. The draft ECB Guide already referred to the non-binding work and publications of international networks and standard-setters in this respect. A further reference has now been included in Section 6.1 to the "Overview of Environmental Risk Analysis by Financial Institutions" recently published by the NGFS.[25]	Yes
61	Credit risk management (6.2)	Respondent(s) advocated better alignment with the recently published EBA Guidelines on loan origination and monitoring, with specific reference to the application of the expectations only to subset of portfolios and/or counterparties.	The expectations of this ECB Guide are based on the prudential regulation as also further specified in various EBA guidelines. As such, the expectations cannot be considered as solely relating to the EBA Guidelines on loan origination and monitoring.[26] However, the ECB acknowledges that these EBA Guidelines are	Yes

23 See *EBA Guidelines on institutions' stress testing* (EBA/GL/2018/04)

24 See the *ECB Guide to the ICAAP*, November 2018, paragraph 74.

25 See *NGFS Overview of Environmental Risk Analysis by Financial Institutions*, Technical Report, October 2020.

26 See the *EBA Guidelines on loan origination and monitoring* (EBA/GL/2020/06).

#	Topic (section)	Details	Response	Change
			also relevant for the purposes of the ECB Guide. Consequently, the ECB Guide reflects the said EBA Guidelines in terms of sustainable lending where relevant.	
62	Credit risk management (6.2)	Respondent(s) noted that the inclusion of climate-related and environmental risks in the credit processes for entities using IRB models might not lead to significant results, as these models have a clearly defined time horizon. They recommended instead investigating how the "margin of conservatism" can be used as an effective alternative.	The ECB Guide does not prescribe any particular methodological approach for the incorporation of climate-related and environmental risk in the credit rating process. Institutions are invited to investigate the appropriate methodological approaches in view of the material risks to which the institution is exposed.	No
63	Credit risk management (6.2)	Respondent(s) noted that Expectation 8.2 could be formulated in a broader way, allowing for both the "adjustment" and the integration of new tools in the risk classification process. This approach was particularly favoured by entities using IRB models, for which the adjustment would trigger a model change request.	In accordance with Article 144(1)(a) of the CRR[27], institutions' rating systems must provide for a meaningful assessment of obligor and transaction characteristics, a meaningful differentiation of risk, and accurate and consistent quantitative estimates of risk. When institutions detect new material information to be included, such information should be embedded in their rating systems. The consideration of these risks can indeed be considered a material model change (falling under Article 2 of Annex I, Part II, Section 1 of Commission Delegated Regulation (EU) No 529/2014,[28] which refers to methodological changes).	No
64	Credit risk management (6.2)	Respondent(s) noted that the expectation to verify the information collected on climate-related and environmental risks is disproportionate.	The ECB has clarified in Section 6.1 of the ECB Guide that institutions are expected to verify the plausibility of the information provided, in line with the institutions' risk policies and procedures. Institutions are also reminded to perform reasonableness checks on quantitative information, in order to accurately and precisely convey aggregated risk data and reflect risk in an exact manner (Principle 7 of BCBS standard No 239, Principles for effective risk data aggregation and risk reporting).[29]	Yes
65	Credit risk management (6.2)	Respondent(s) noted that the expectation for institutions to include climate-related and environmental risks "at all stages" of the credit process does not consider the materiality and proportionality principles. In addition, Expectation 8.1 already embeds this concept with a reference to "all relevant stages".	The ECB has amended Expectation 8 to align its wording to Expectation 8.1, clarifying that its expectations refer to the "relevant" stages. Nonetheless, in accordance with the EBA's Guidelines on internal governance, institutions should have a holistic institution-wide risk management framework, encompassing the actual risks and future risks that the institution may be exposed to.	Yes
66	Credit risk management (6.2)	Respondent(s) argued that Expectations 8.5 and 8.6 on pricing, and particularly the examples cited in those expectations, are not balanced in terms of risk perspective, and could potentially interfere with the process of setting banks' the business strategies.	The ECB has further clarified how the examples reported in Expectations 8.5 and 8.6 are linked to risk considerations, as provided for in Article 76(3) of the CRD. For both expectations, the ECB refers to how the mitigation of climate-related and environmental risks can affect the pricing of loans. In addition, the expectations further mention how institutions can align their business strategy with respect to sustainability targets and the pricing of the related products (please also refer to comment 84).	Yes
67	Credit risk management (6.2)	Respondent(s) noted that the expectations could further elaborate on how institutions can develop a Paris Agreement-aligned business strategy.	The draft ECB Guide outlines the ECB's understanding of the sound, effective and comprehensive management of climate-related and environmental risks. The ECB takes a risk-based perspective and does not provide	No

27 See the *Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012* (OJ L 176, 27.6.2013, p.1).

28 Commission Delegated Regulation (EU) No 529/2014 of 12 March 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach and the Advanced Measurement Approach (OJ L 148, 20.5.2014, p. 36).

29 See *BCBS 239 Principles for effective risk data aggregation and risk reporting*, Bank for International Settlements, 2013.

#	Topic (section)	Details	Response	Change
			specific guidance on how to incorporate such risk considerations in the business strategy. Nevertheless, the ECB refers to alignment with the Paris Agreement in Box 4 of the draft ECB Guide, as it could contribute to managing an institution's transition risks. However, the ECB reiterates that all the observed practices in the draft ECB Guide are included by way of illustration and are not necessarily replicable; nor do they necessarily meet all supervisory expectations.	
68	Credit risk management (6.2)	Respondent(s) argued that the expectations related to the credit process could be more easily implemented by entities using IRBA models, while entities adopting the IRBF or Standard Approach would continue to rely on the existing regulation, which does not provide them the same flexibility in terms of exploring the credit drivers.	Expectation 8 is sufficiently broad to include different methodological options for the incorporation of climate-related and environmental risks in credit risk management. Institutions are expected to develop the methodological options that are most appropriate.	No
69	Credit risk management (6.2)	Respondent(s) noted that, in addition to concentration analysis, single name analysis is also a valid tool to explore climate-related and environmental risks.	Section 6.2 of the ECB Guide now makes reference to single name analysis.	Yes
70	Credit risk management (6.2)	Respondent(s) argued that the expectations on monitoring and managing credit risk could refer more explicitly to environmental risks.	Sections 6.2 and 6.3 of the ECB Guide now include further examples on environmental risks and how these can drive existing risks (e.g. reputational risks arising from operations in biodiversity hotspots).	Yes
71	Credit risk management (6.2)	Respondent(s) asked for clarification on the expectation related to the timing of the review of collateral, further specifying the type and periodicity of such reviews.	The ECB has clarified that the expectation is to be interpreted on the basis of the existing provisions of the CRR (e.g. Article 208).	Yes
72	Operational risk management (6.3)	Respondent(s) asked for clarification on the categorisation of reputational risk, which seems to fall under operational risk.	The ECB Guide makes reference to the EBA Guidelines on internal governance when stating in Expectation 9.2 that all relevant risks should be encompassed in the risk management framework of an institution, with appropriate consideration of both financial and non-financial risks, including reputational risk. The assessment of reputational risk in the context of operational risk is included in the EBA Guidelines on the SREP. An additional reference to these EBA Guidelines has been included in footnote 104 of the ECB Guide.	Yes
73	Operational risk management (6.3)	Respondent(s) asked for clarification on the meaning of "reputational risks arising from controversy in connection with their products".	In Section 6.3 of the ECB Guide, the reference to "reputational risks arising from controversy in connection with their products" has now been clarified with concrete examples, including the involvement of the institution in activities with adverse material impacts.	Yes
74	Operational risk management (6.3)	Respondent(s) argued that the draft ECB Guide could expand the expectation to include the concept of "operational resilience".	The BCBS recently launched a public consultation on the "Principles for operational resilience"[30], which are not yet finalised. While these principles do not refer to climate-related and environmental risk specifically, the definition of operational resilience covers the intended outcome of Expectation 9.1.	No
75	Market Risk management (6.4)	Respondent(s) highlighted the role of sensitivity analysis in investigating the impact of climate-related and environmental risks and recommended including a reference to it.	In line with the EBA Guidelines on institutions' stress testing, sensitivity analysis forms part of stress testing programmes. The ECB has included a reference to sensitivity analysis in Section 6.4 as a complement to stress testing.	Yes
76	Market Risk management (6.4)	Respondent(s) asked for clarification on the definition of the banking book used in the context of the expectation on market risk.	The ECB clarifies in Chapter 6.4 of the ECB Guide that the expectation covers the entire banking book, with a particular focus on credit spread risk arising from positions measured at fair value and at cost, and risk arising from equity exposures.	Yes
77	Market Risk management	Respondent(s) asked for clarification on the milder wording of the expectation on market risk	The ECB clarifies in Section 6.4 that it expects institutions to monitor on an ongoing basis the	Yes

[30] See *BCBS Principles for operational resilience*, Bank for International Settlements, August 2020.

#	Topic (section)	Details	Response	Change
	(6.4)	compared with that for the other types of risk.	effect of climate-related and environmental factors on their current market risk positions.	
78	Market Risk management (6.4)	Respondent(s) noted that the draft ECB Guide does not sufficiently cover infrastructure project finance, real estate/real estate investment trust asset classes.	The ECB reiterates that institutions are expected to use the ECB Guide, taking into account the materiality of their portfolios. There is therefore no need to make specific reference to the asset classes mentioned.	No
79	Scenario analysis and stress testing (6.5)	Respondent(s) advocated including more guidance on the development of scenarios, e.g. by making reference to specific anchor scenarios with regard to climate-related and environmental risks, such as the NGFS publications.	A reference to the scenarios developed in the NGFS publications has been included in Section 6.5 of the ECB Guide. The ECB reiterates that it is up to the institutions to develop the scenarios that are most appropriate for their business model and risk profile.	Yes
80	Scenario analysis and stress testing (6.5)	Respondent(s) asked for clarification on the scientific climate change pathways cited in the document, highlighting that a reference to transition risk was missing.	The ECB reiterates that, as part of the ICAAP, institutions are expected to conduct a tailored and in-depth review of their vulnerabilities through stress testing. In developing scenarios, the institutions are expected to embed plausible considerations on climate change pathways.	Yes
81	Scenario analysis and stress testing (6.5)	Respondent(s) asked for clarification on the meaning of "credible" scenarios.	The ECB clarified that the expectation refers to the "plausibility" of scenarios, as defined in the EBA Guidelines on institutions' stress testing.[31]	Yes
82	Scenario analysis and stress testing (6.5)	Respondent(s) argued that climate-related and environmental risks could be incorporated in the stress testing approaches of institutions rather than in the baseline and adverse scenarios.	The ECB expects institutions to holistically incorporate climate-related and environmental risks in their stress testing frameworks, as mentioned in Section 6.5. Reference is also made to Principle 7 of the ECB Guide to the ICAAP and the expectation that scenarios are part of banks' stress testing frameworks. The proposed change is therefore not deemed relevant.	No
83	Scenario analysis and stress testing (6.5)	Respondents stated that the ECB Guide to the ICAAP and this Guide are not consistent in terms of the time horizon for the ICAAP.	The ECB Guide to the ICAAP states that the capital plan is expected to comprise baseline and adverse scenarios and to cover a forward-looking horizon of at least three years and also specifies that institutions are expected to take developments beyond this minimum horizon into account in their strategic planning in a proportionate manner if they will have a material impact. In an effort to ensure alignment, the current ECB Guide includes references to these expectations in Chapters 3.2, 4.1, 4.2, 6.1 and 6.5.	No
84	Liquidity risk management (6.6)	Respondent(s) argued that the expectation on liquidity risk could also cover the progressive integration of climate-related and environmental aspects in the fund transfer pricing methodologies of the bank. According to the respondent(s), this would form the basis for differentiating between the internal transfer rate of the portfolios based on both the source of proceeds (e.g. green bonds) and the climate-related and environmental risk of borrowers.	A reference to the internal pricing methodologies has been added in Section 6.6 of the ECB Guide. Specifically, the ECB reflects how institutions are expected to integrate the specific marginal cost of funding of sustainable refinancing instruments.	Yes
85	Liquidity risk management (6.6)	Respondent(s) highlighted the potential impact of stranded assets on the net stable funding ratio and, consequently, the need to consider how to incorporate such factors into the liquidity risk scenarios of the ILAAP.	The ECB has amended the expectation in Section 6.6 to encourage banks to include such considerations in their ILAAP, considering climate-related and environmental risks under both the economic and the normative perspective.	Yes
86	Liquidity risk management (6.6)	Respondent(s) noted that physical and transition risks will have limited impact on liquidity in the short-to-medium term.	The ECB highlights that short-term impacts can arise from acute physical events or abrupt policy changes, It expects institutions to take a forward-looking approach in order to also be able to respond in a timely manner should risks suddenly materialise.	No

31 See *EBA Guidelines on institutions' stress testing* (EBA/GL/2018/04).

2.8 Comments related to supervisory expectations relating to disclosures (Chapter 7)

Table 8

#	Topic (section)	Details	Response	Change
87	Supervisory expectations related to disclosures (7)	Respondent(s) would welcome alignment between the different disclosure standards, such as the NFRD, EBA Pillar III, TCFD and others.	The ECB acknowledges the need for convergence of reporting standards related to environmental, social and governance information.[32] Moreover, the ECB is closely involved in the work of the EBA as set out in their action plan[33] and is an observer to the European Financial Reporting Advisory Group Task Force on Preparatory Work for the Elaboration of Possible EU Non-Financial Reporting Standards. Lastly, the ECB would like to point out that the supervisory expectations set out in Chapter 7 of the draft ECB Guide also take into account international best practices, notably the Recommendations of the Task Force on Climate-related Disclosures and the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information (hereinafter "the Commission's Supplement").	No
88	Supervisory expectations related to disclosures (7)	Respondent(s) pointed out that expecting institutions to disclose "as a minimum" in line with the European Commission's Supplement suggests that all 21 indicators set out in the guidelines have to be reported.	Institutions are required to comprehensively disclose their risk profile. The ECB expects institutions to publish meaningful information and key metrics on climate-related and environmental risks that they deem to be material with due regard to the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information. The wording has been amended accordingly.	Yes
89	Supervisory expectations related to disclosures (7)	Respondent(s) stated that the expectations could be deleted, as they are based on the CRR and EBA guidelines and, as such, institutions would automatically disclose the information as the risks become material.	The ECB Guide is intended to provide transparency on the ECB's understanding of the sound, effective and comprehensive management and disclosure of climate-related and environmental risks under the current prudential framework. All supervisory expectations are grounded in CRR and CRD provisions as well as relevant EBA Guidelines. It should be noted that the ECB has conducted several stock takes on banks' climate-related and environmental risk management and disclosure practices and has established that climate-related disclosures are sparse and that, generally, banks practices are not aligned with the supervisory expectations.[34]	No
90	Supervisory expectations related to disclosures (7)	Respondent(s) pointed out that the ECB should not make non-binding guidelines binding through the ECB Guide.	The ECB reminds respondents that the ECB Guide is intended to provide transparency on the ECB's understanding of the sound, effective and comprehensive management and disclosure of climate-related and environmental risks under the current prudential framework. The ECB is of the view, however, that a sound, effective and comprehensive approach for disclosing climate-related risks involves disclosing meaningful information and key metrics on climate-related and environmental risks deemed material with due regard to guidelines in the European Commission's Supplement referred to in the ECB Guide.	No
91	Disclosure policies and procedures (7.1)	Respondent(s) asked for clarification on the minimum requirements for disclosing appropriate reference methodologies, definitions and criteria.	The ECB Guide sets out supervisory expectations on the sound, effective and comprehensive management of climate-related and environmental risks. In this respect, the ECB	No

32 See also the *Eurosystem reply to the European Commission’s public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive*.

33 See the *EBA Action Plan on Sustainable Finance*, December 2019.

34 See the *ECB Report on institutions' climate-related and environmental disclosures*, November 2020.

#	Topic (section)	Details	Response	Change
			expects institutions to disclose reference methodologies, definitions and criteria associated with the figures, metrics and targets that institutions disclose. This would allow market participants to make informed assessments of the physical and transition risks the institution is exposed to. However, the ECB reiterates that it is up to the institutions to consider the level of description provided on reference methodologies, definitions and criteria to be the primary responsibility of institutions.	
92	Disclosure policies and procedures (7.1)	Respondent(s) pointed out that the ECB should make more explicit that the definition of materiality for disclosures is different from that for risks and risk drivers.	The ECB notes that the definitions of materiality are grounded in the applicable legal framework, which is referenced throughout the document.	No
93	Disclosure policies and procedures (7.1)	Respondent(s) stated that detailed guidance should be developed for the materiality assessment of climate-related information, with reference to the primary users of this information. Such detailed guidance would ensure a level playing field across banks.	The scope of disclosure requirements and the technical characteristics are described in Part Eight of the CRR, as further specified in the EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of the CRR to which the ECB Guide makes reference[35].	No
94	Disclosure policies and procedures (7.1)	Respondent(s) stated that assessing materiality on the basis of both qualitative and quantitative information is disproportionate.	The ECB is of the view that for the sound, effective and comprehensive management and disclosure of climate-related and environmental risks, a comprehensive materiality assessment is critical. As also stated in the EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of the CRR[36], the assessment of materiality should be based on qualitative and quantitative considerations.	No
95	Disclosure policies and procedures (7.1)	Respondent(s) observed that (some of) the disclosure expectations are geared towards minimising the disclosure of misleading information. In their view, this is a key process for minimising conduct risk and could therefore be made more explicit.	The ECB concurs that alignment of banks' practices to the supervisory expectations contribute to limiting reputational and liability risks related to misleading information, such as (alleged) greenwashing.	No
96	Content of climate-related and environmental disclosures (7.2)	Respondent(s) pointed out that the scope of disclosures should include disclosures related to the contribution of financial institutions to risks to the financial system or other institutions, rather than only climate-related and environmental risks to their own balance sheet.	The scope of disclosure requirements and the technical characteristics are described in Part Eight of the CRR as further specified in the EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of the CRR[37], on which the ECB's expectations are based.	No
97	Content of climate-related and environmental disclosures (7.2)	Respondent(s) pointed to the need for the ECB to incorporate a dual materiality perspective, so as to ensure disclosure of the adverse climate-related and environmental impact of banks.	With regard to the dual materiality perspective highlighted by the Commission in its Supplement on climate-related information reporting, " more clarification on the need for banks to monitor their portfolios from the angles of both the (direct) financial risk and (indirect) impact of their activities would also be justified in the light of potentially elevated transitional and reputational risks going forward. Furthermore, given the role of environmental and social safeguards in the process for identifying taxonomy-aligned activities, and with regard to the transparency requirements for financial institutions to report on their share of taxonomy-aligned activities, the ECB supports the efforts aimed at more explicitly anchoring environmental and social due diligence in the regulation. Due regard for a range of stakeholder interests may be relevant to the financial performance of companies in the long term. Proper due diligence by institutions	No

35 See *EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency* under *Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013* (EBA/GL/2014/14), December 2014.

36 See Article 12(h) of the *EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013* (EBA/GL/2014/14).

37 See *EBA Guidelines on materiality, proprietary and confidentiality and on disclosure frequency* under *Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013* (EBA/GL/2014/14), December 2014.

#	Topic (section)	Details	Response	Change
			also supports the identification of environmental and social aspects that can drive financial, liability and reputational risks."[38] The ECB expects institutions to consider such impacts in the materiality assessment as set out in Expectation 13.1.	
98	Content of climate-related and environmental disclosures (7.2)	Respondent(s) stated that, in their view, the financed emissions of an institution are not a measure of risk and should therefore be omitted from the expectations.	As stated in the relevant EBA Guidelines, the assessment of the materiality of the information should take into account the influence of the economic and political environment, the assumed level of relevance of information of users, and the relationship with recent developments in risks and disclosure needs. On that basis and also taking into account the best practices included in the Recommendations of the TFCD and the European Commission's Supplement, the ECB considers that the financed emissions of a credit institution provide insight into its exposure to climate-related transition risks,[39] which can materialise, in particular, as credit, market and operational risks (including reputational and liability risks).	No
99	Content of climate-related and environmental disclosures (7.2)	Respondent(s) pointed out that there are different methodologies for measuring, and subsequently disclosing financed emissions, and that banks should have the liberty to decide which methodology is appropriate. Other respondents asked the ECB to expect institutions to disclose their financed emissions following the example set by "PCAF banks".	The ECB does not prescribe a precise methodology for the measurement or attribution of financed emissions. The ECB only expects the reference methodologies and assumptions used to be made transparent. The ECB has observed practices of institutions disclosing their financed emissions using the PCAF methodology. It has been clarified in the ECB Guide that it does not prescribe the use of a specific methodology, and a reference has been included to acknowledge the aforementioned observation.	Yes
100	Content of climate-related and environmental disclosures (7.2)	Respondent(s) stated that institutions might not yet be in a position to disclose all the information in line with the expectations, as they depend on adequate corporate disclosures. It was suggested that the ECB Guide should qualify that the expectations apply to the extent that the information from clients is readily available.	Enhancing disclosures by corporates is necessary in order to put credit institutions in a better position to fulfil their climate-related and environmental disclosure requirements.[40] However, the ECB notes that Article 431 of the CRR establishes a legal obligation for institutions to comprehensively convey their risk profile. In the ECB Guide, the ECB sets out its expectations on sound, effective and comprehensive disclosures in view of this requirement. While acknowledging the existence of data gaps and methodological challenges, the ECB is of the view that it is not necessary to insert a caveat regarding the need to comprehensively convey the risk profile owing to the limited availability of information. Instead, divergences between banks practices and the expectations in the ECB Guide will be discussed on a case-by-case basis as part of the supervisory dialogue.	No
101	Content of climate-related and environmental disclosures (7.2)	Respondent(s) asked for a threshold to be specified for what is to be considered a large portfolio where the ECB refers to "large portfolios" with reference to the measurement of Scope 1,2 and 3 emissions.	The ECB reiterates that this sentence refers to an example. The ECB does not prescribe specific methodologies to be employed for the measurement of financed Scope 3 emissions beyond due regard to the guidance provided in the Commission's Supplement.	No
102	Content of climate-related and environmental disclosures (7.2)	Respondent(s) suggested including concrete references to existing standards for disclosure of environmental risks,, such as those of the CDP, Global Reporting Initiative, Task Force on Nature-related Financial Disclosures and others.	The ECB does not prescribe the use of particular standards for disclosure. Moreover, and although the ECB encourages institutions to closely follow their development, it notes that finalisation of the TNFD standards is not expected until the end of 2022.	No

38 See the *Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive*.

39 See the *ECB Financial Stability Review*, May 2019; the *ECB Financial Stability Review*, May 2020; and the *NGFS Guide for supervisors*, May 2020, p. 24.

40 See the *Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive*.

#	Topic (section)	Details	Response	Change
103	Content of climate-related and environmental disclosures (7.2)	Respondent(s) pointed to the need to more clearly define the weighted average carbon intensity, as the choice of the numerator has a large influence on the outcome.	The ECB Guide, like the Commission's Supplement, does not prescribe the use of a specific numerator. However, the ECB expects the reference methodologies, definitions and criteria to be disclosed to enable stakeholders to appropriately interpret the disclosed data and to comprehensively convey the institutions risk profile. This expectation has been clarified in the ECB Guide.	Yes
104	Content of climate-related and environmental disclosures (7.2)	Respondent(s) pointed out that not only the volume of exposures to particular sectors is relevant from a transition risk point of view, but also the extent to which individual firms within the sectors are aligned with transition scenarios	The ECB reiterates that the metrics stated in this part of the ECB Guide serve as examples and are by no means exhaustive.	No
105	Content of climate-related and environmental disclosures (7.2)	Respondent(s) stated that the sentence “in terms of dates and outstanding volumes by geographic area and/or other metrics and criteria with reference to the definition of the covered activity and associated targets” is too prescriptive. Respondents noted that there are different ways of meeting this expectation.	Practices other than those explicitly referenced in the ECB Guide may be sound, effective and comprehensive. The wording "and/or other metrics and criteria (...)" already makes it clear that other ways to meet the expectation can be envisioned.	No

For specific terminology please refer to the SSM glossary (available in English only).