



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

Guide on the management and disclosure of climate-related and environmental risks

Institution/Company

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General comments

Template for comments

Guide on the management and disclosure of climate-related and environmental risks

Please enter all your feedback in this list.

When entering feedback, please make sure that:

- each comment deals with a single issue only;
- you indicate the relevant article/chapter/paragraph, where appropriate;
- you indicate whether your comment is a proposed amendment, clarification or deletion.

Deadline: 31 May 2020

ID	Chapter	Paragraph	Expectation or box number	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data
1	Chapter 2	2.1		6	Amendment	The last paragraph should conclude: " Significant institutions are expected to use the guide on a consolidated basis only."	The first gap analysis to be provided to the JSTs should be required on a consolidated basis only. In addition, ESG policies, governance, metrics, reportings are defined at Group level.	ROYERE, Catherine	Publish

2	Chapter 2	2.2		6	Amendment	<p>The last paragraph should be amended as following: " As part of the supervisory dialogue, as from end-2020, significant institutions will be asked to inform the ECB of any divergences of their practices from the supervisory expectations described in this guide, on a best effort basis and well documented own phase in and priorities in terms of risk categories, risk typology and scope of clients."</p>	<p>We believe that the sequencing should be clarified and realistic. Given the guide is under consultation until sep 25th, that the final guide is expected for end 2020, the ECB should not require significant institutions to report potential gaps at the same time. We recommend that the ECB should allow banks to build their own roadmap to perform this gap analysis on a best effort basis, with their own phase-in and priorities in terms of:</p> <ul style="list-style-type: none"> - Risks category: We would recommend focusing first on climate risks which are more matured than the others, followed then by biodiversity and other environmental risks. <input type="checkbox"/> Risk typology: we believe that it is not realistic for banks to address initially all the different aspects (credit, operational, market and liquidity risks.) Each bank should be allowed to explain the prioritization it has retained. <input type="checkbox"/> Scope of clients - (large corporates, SMEs, retail and financial institutions) . Same comment as above. Banks will not be able to implement all ECB's expectations at the same time all the more that data availability differs from one client segment to the others. Although banks ultimate goal is to cover the full scope of client segments, each bank will need time and adopt a sequencing on the implementation based on its own calendar and constraints. <p>This roadmap may be required from 2021 supervisory dialogue, together with initial gap analysis on the priority items, with the consolidated gap analysis spreading over a period of time to be agreed.</p>	ROYERE, Catherine	Publish
3	Chapter 3	3.1		10	Clarification	<p>Art 3.1 refers to climate and environmental risks but the definition outlined is somewhat different from the usual definition provided by the TCFD. It seems to encompass in the physical risks the impacts on the environment. The ECB should therefore clarify if the impacts on the environment might not only come from climate change. The proposed definition is circular and needs to be further detailed.</p>	<p>We believe that a clarification is needed to avoid confusion and determine which are the risk factors of which risks as the proposed definition seems to be circular.</p>	ROYERE, Catherine	Publish
4	Chapter 3	3:2		10	Clarification	<p>While the definition refers to climate risks, in this article they are presented as risk drivers. We believe that ECB should clarify and ensure consistency throughout the guide considering them as risk drivers of existing risks.</p>	<p>Clarification should be brought regarding the qualification as « risk type » or « risk driver » as the consequences are different for Banks in their treatment</p>	ROYERE, Catherine	Publish

5	Chapter 4	4.2	Expectation 2.1	17	Clarification	<p>We believe some clarifications should be provided on the potential use of different scenario analysis depending on the maturity:</p> <p>"Institutions are expected to determine which climate-related and environmental risks are material in the short, medium and long term with regard to their business strategy, for example by using (stress) scenario analyses"</p>	<p>We believe that scenario analysis (stress) is an adequate tool to measure materiality of climate-related and environmental risk impact on strategy. In the steering horizon of the Bank (short to medium term) it is already embedded in the current risk monitoring framework.</p> <p>In the long term horizon, the current framework is not mature and long term analysis scenario should be used on a best effort basis, using for example regulatory pilot exercises (such as EBA, ACPR, Bank of England), which at this stage remain our priority, or qualitative assessment while Banks/regulators/supervisors build together a complementary framework.</p>	ROYERE, Catherine	Publish
6	Chapter 4	4.2	Expectation 2.2	18	Amendment	<p>Need to specify that the KPIs are in house as following:</p> <p>"The implementation of the institution's business strategy is expected to reflect material climate-related and environmental risks, for example by setting and monitoring in house key performance indicators (KPIs) that are cascaded down to individual business lines and portfolios."</p>	<p>We believe that these KPIs should be home made, as the business strategies depend only on the bank choices.</p>	ROYERE, Catherine	Publish
7	Chapter 5	5.1	Expectation 3.1	19	Amendment	<p>We propose to amend the expectation as following:</p> <p>"To explicitly allocate roles and responsibilities to the management body and/or its sub-committees or any other person within the organizational structure of the institution for climate-related and environmental risks"</p>	<p>As a collective body, responsibilities cannot be allocated to one specific member of the management body (it is contrary to the collegiality principle). Moreover, responsibility for climate-related risks could be allocated to key function holders (cf expectations 5.4, 5.5, 5.6)</p>	ROYERE, Catherine	Publish
8	Chapter 5	5.1	Expectation 3.2	20	Amendment	<p>We propose to amend the expectation as following:</p> <p>"the management body is expected to review main policies directly and materially affected by climate-related and environmental risks, including the (credit) policies for each sector and product, on a regular basis"</p>	<p>This expectation should be limited to main policies directly and materially affected by climate-related and environmental risks</p>	ROYERE, Catherine	Publish
9	Chapter 5	5.1	Expectation 3.3	21	Amendment	<p>Need to specify that the KPIs are in house :</p> <p>"In order to promote an effective oversight function and informed decision-making the management body in its management function is encouraged to set key in house performance indicators (KPIs) and key risk indicators (KRIs)...monitor and scrutinise the targets"</p> <p>In addition, we propose to amend the following paragraph, by deleting "The management body in its supervisory function is expected to monitor and scrutinise the targets and any developments in those KPIs and KRIs" and by replacing by "The management body in its supervisory function is expected to review the main outcomes of those KPIs and KRIs as part of the risk oversight via risk reporting provided to the Risk committee, where established." [please refer to 5.4 – Reporting]"</p>	<p>We believe that these KPIs should be home made, as the business strategies depend only on the bank choices.</p> <p>In addition, these KPIs and KRIs set by the management body in its management function should not be scrutinized by the management body in the supervisory function. The later could be informed by the management body in its management function of the main outcomes of these KPIs and KRIs</p>	ROYERE, Catherine	Publish

10	Chapter 5	5.2	Expectation 4.3	23	Amendment	We propose to amend the expectation as following: "To encourage behaviour consistent with their climate-related and environmental (risk) approach, institutions that have climate-related and environmental objectives could consider implementing a variable remuneration component linked to the successful achievement of those objectives for senior management accountable for these objectives. Where the financial impacts of climate-related and environmental risks are difficult to quantify, the management body can consider incorporating appropriate qualitative criteria into the remuneration policy."	We believe that such expectation as currently worded will cover bank staffs who are not involved in ESG strategy. We propose to amend such expectation by restricting its scope to Senior Management individuals that are responsible for the definition and the implementation of the bank's strategy on climate and environmental risks	ROYERE, Catherine	Publish
11	Chapter 5	5.4	Expectation 6.1	26	Amendment	Amendment on expectation 6.1: "To integrate the data governance for climate-related and environmental risks in the existing data framework (incl. risk data reporting governance, IT infrastructure, risk data aggregation capabilities and reporting procedures...)"	For consistency and efficiency sake, we propose to integrate data governance into the existing framework.	ROYERE, Catherine	Publish
12	Chapter 5	5.4	Expectation 6.2	26	Amendment	ECB should take into account in this expectation the financial stakes, the evolving nature of the needs, the different regulatory requirements still under discussions, the different legal environments in which banks run their activities....and recognize it will take time. That's why we propose the following rewording of the expectation 6.2: "To consider adapting their IT systems via a long term project to systematically collect and aggregate the necessary data in order to assess their exposures to these risks, in a best effort basis in a fast evolving regulatory and market environment"	ECB needs to bear in mind that this will represent a huge challenge – a long term project, that requires previously designing both a robust and detailed roadmap and a flexible enough IT architecture to be able to evolve in function of the regulation or other externalities. In the short term, banks should not be requested to develop industrialized system at a point where data requirements and methodologies are still being elaborated. Consequently, ECB expectations should be compatible with "pilot" IT developments, covering initially limited scopes in terms of risk types and portfolios. □	ROYERE, Catherine	Publish
13	Chapter 5	5.4	Expectation 6.4	27	Clarification	"To generate aggregated and up-to-date climate-related and environmental risks data in a timely manner during both normal operations and times of stress (incl. broad range of on-demand and ad hoc reporting requests, including requests during stress/crisis situations, requests related to changing internal needs and requests to meet supervisory queries...)"	It is not realistic to expect that banks would focus, in a largely manual way on ESG risks, during a financial or economic crisis, where all resources need to be focused on the management of the overall risks.	ROYERE, Catherine	Publish
14	Chapter 6	6.1	Expectation 7	28	Clarification	Expectations 7 and 7.1 seem contradictory. Expectation 7: "to incorporate climate-related and environmental risks as drivers of established risk categories into their existing risk management framework...to identify and quantify these risks within their overall process of ensuring capital adequacy."	Cf. our comments on expectation 3.2 As stated in the general characteristics above, from a prudential perspective, climate related & environmental risks should be treated as risk drivers and not as separate risks per se. □	ROYERE, Catherine	Publish
15	Chapter 6	6.1	Expectation 7.1	28	Clarification	Expectations 7 and 7.1 seem contradictory. Expectation 7.1: "to have a holistic and well-documented view of the impact of climate-related and environmental risks on existing risk categories...For organisational or analytical purposes, institutions may choose to treat climate-related and environmental risks as a stand-alone risk type"	Cf. our comments on expectation 3.2 As stated in the general characteristics above, from a prudential perspective, climate related & environmental risks should be treated as risk drivers and not as separate risks per se.	ROYERE, Catherine	Publish
16	Chapter 6	6.2	Expectation 8	31	Amendment	We propose the following rewording of expectation 8: "To consider climate-related and environmental risks of the credit-granting process and to monitor the risks in their portfolios »"	We consider that 'at all stages' is excessive. Recommendation 8.1 with 'all relevant stages' is more appropriate.	ROYERE, Catherine	Publish

17	Chapter 6	6.2	Expectation 8.5	33	Deletion	We propose to delete the expectation 8.5 : "Loan pricing frameworks are expected to reflect their credit risk appetite and business strategy with regard to climate-related and environmental factors"	As long as no clear link has been evidenced between the risk profile of the counterparty and the credit worthiness of the counterparty, it is premature to price loans taking into account the customer credit risk appetite and business strategy with regard to climate-related and environmental factors.	ROYERE, Catherine	Publish
18	Chapter 6	6.2	Expectation 8.6	34	Deletion	We propose to delete the expectation 8.6: "To reflect the different costs driven by climate-related and environmental risks in loan pricing"	As long as no clear link has been evidenced between the risk profile of the counterparty and the credit worthiness of the counterparty, it is premature to price loans taking into account the customer credit risk appetite and business strategy with regard to climate-related and environmental factors.	ROYERE, Catherine	Publish
19	Chapter 6	6.4	Expectation 10	36	Clarification	ECB should clarify that the priority is no in delivering a set of computations assuming specific carbon trajectories over a long time horizon but to develop knowledge in this area. "To monitor on an ongoing basis the effect of climate-related and environmental factors on their current market risk positions and future investments, and to develop stress-testing scenarios that incorporate climate-related and environmental risks."	Market Risk generally focuses on extreme yet plausible events over a relatively short time horizon, with the simulation and analysis of these scenarios generally grounded in historical data. In the case of climate risk, whilst no or little historical data is available to guide in the definition of what would be an extreme but plausible outcome, the considered time horizon will also be much longer. Over this time horizon, one fundamental postulation is that within the bank's diversified trading book portfolio, positions will generally be sufficiently liquid (and traders sufficiently efficient) to rebalance inventories over time. Over the time horizon usually considered for climate risks, the bank's positions in its trading book would obviously have been rebalanced multiple time. Hence we see no value in delivering a set of computations assuming specific carbon trajectories over a long time horizon (for example over the next 30 years, with a 5Y time step). Nevertheless in view of the emerging risk posed by the sudden realisation of climate-related events (either physical or transition), we appreciate the need (and also plan) to investigate ways of evolving the existing stress-testing platform to factor in climate-centric scenarios and their potential immediate impact on the bank's trading books. Meanwhile, the bank is participating in market-wide scenario analysis exercises where market risk is in scope (such that the 2020 ACPR climate pilot exercise), with a view to develop knowledge in this area.	ROYERE, Catherine	Publish

20	Chapter 6	Liquidity risk	Expectation 12	38	Clarification	<p>ECB should clarify that the potential impact of climate-related and environmental risks on liquidity risk can be assessed only on a best effort basis. Banks need a margin of maneuver to provide evidence and justify this articulation between climate/ environmental risk and liquidity risk, especially given the differences in terms of time horizons.</p> <p>"To assess whether material climate-related and environmental risks could cause net cash outflows or depletion of liquidity buffers and, if so, incorporate these factors into their liquidity risk management and liquidity buffer calibration."</p>	<p>Liquidity risk is a very short term risk, whereas climate and environmental risks is rather expected to have significant consequences rather in a long term horizon. The disconnection between these two time frames means it might be irrelevant to consider the materialization of climate risks in the definition and management of liquidity buffers today for banks.</p> <p>Nevertheless, to the extent there would be consequences on liquidity driven by climate and environmental risk driver (e.g. physical risk may lead to default risk which itself may have ramification on liquidity), it would make sense to take those consequences into account.</p> <p>Transition risks is expected to materialize slowly, which means liquidity portfolio can adapt without losses to the new paradigm. A shorter horizon could come from drastic political measures, new tax.... In the short or medium term, the main risk related to environmental and climate risks may rather be a reputational risk that is already captured in the current prudential framework.</p> <p>Physical risks might occur more suddenly (extreme weather events...), with possible impacts on certain assets. However, physical risks is expected to arise in rather localised areas and accordingly with circumscribed impacts unlikely to affect significantly the management of liquidity buffer itself.</p> <p>Regarding physical risk on the banks premises the consequences would above all relates to operational risk and are captured by the prudential requirements on this risk.</p> <p>Thus as it cannot be excluded that climate and environmental risks could affect to some extent net cash outflows or the liquidity of the banks, most probably in the long term, climate change risk should rather be considered in the stress test scenarios as a risk driver on some class of assets/ geography area and the consequential impacts on liquidity if any should be taken into account through these scenarios.</p> <p>We do not have any further comments on these proposals and fully agree that the materialisation of such risks could be assessed by region (region of booking of the liquidity buffers to remove any ambiguities), as the consequences of Climate-related and environmental risks can be very localised and political.</p>	ROYERE, Catherine	Publish
21	Chapter 7	Disclosure	Introduction	40	Amendment	<p>ECB guide should highlight the dependency of banks to the information disclosed by their corporate customers with the following amendment:</p> <p>"Going forward, financial institutions subject to the Non-Financial Reporting Directive (NFRD) will be asked to provide further transparency on the extent to which their activities can be regarded as environmentally sustainable, as far as the information is available from their corporate customers"</p>	<p>Banks are dependent of the information disclosed by their corporate customers, under NFRD or not under NFRD</p>	ROYERE, Catherine	Publish
22	Chapter 7	Disclosure	Expectation 13	40	Amendment	<p>We propose to delete "as a minimum" that could be interpreted as the ECB expects banks to report ALL non binding 21 indicators embedded in the EC Guidelines on climate non-financial reporting, whereas the revised NFRD has not been finalized nor entered into force:</p> <p>"For the purposes of their regulatory disclosures, institutions are expected to publish meaningful information and key metrics on climate-related and environmental risks that they deem to be material and feasible, in line with the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information."</p>	<p>We do not agree with the ECB expectation that institutions should publish as a minimum, all the indicators proposed in the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information (21 KPIs for banks).</p> <p>Banks should be allowed to select from the EC list of non-binding indicators those they consider the more meaningful and feasible.</p>	ROYERE, Catherine	Publish

23	Chapter 7	Disclosure	Expectation 13.3	41	Amendment	We propose to reword the expectation as following: "When financial institutions disclose figures, metrics and targets as material, they are expected to disclose or reference the methodologies, definitions and criteria associated with them, as far as the information is available from their corporate customers"	The potential future role of EFRAG as standard settler is more than welcome. Data used for disclosure purposes should be of the same quality as for accountancy purposes. However it is key to remind that banks are dependent of the information disclosed by their corporate customers.	ROYERE, Catherine	Publish
24	Chapter 7	Disclosure	Expectation 13.4	43	Amendment	"To disclose climate-related risks that are financially material in line with the bank's selection of KPIs from the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information"	We do not agree with the ECB expectation that institutions should publish as a minimum, all the indicators proposed in the European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information (21 KPIs for banks). Banks should be allowed to select from the EC list of non-binding indicators those they consider the more meaningful and feasible	ROYERE, Catherine	Publish
25	Chapter 7	Disclosure	Expectation 13.5	43	Amendment	A phase in approach should be introduced for scope 3 : "Institutions are expected to disclose the institution's Scope 1, 2 and 3 GHG emissions, for the whole group, with an appropriate phase-in depending on the advancement of common methodologies ."	For the banking sector, the specificity that needs to be taken into account is that methodologies for assessing the scope 3 do not exist contrary to the other industry sectors. It could be possible to calculate step by step (e.g. by sectors) the financed GHG emissions, but it is worth mentioning that no consensus exists as regards bonds and market activities.	ROYERE, Catherine	Publish
26	Chapter 7	Disclosure	Expectation 13.6	43	Amendment	"To disclose the in house KPIs and KRIs used for the purposes of their strategy-setting and risk management, as well as their current performance against these metrics"	We believe that these KPIs should be home made, as the strategies and risk management framework depend only on the bank choices.	ROYERE, Catherine	Publish
27	Chapter 7	Disclosure	Expectation 13.7	44	Amendment	We propose to add a phase in principle in expectation 13.7 as following: " Institutions are expected to explicitly consider the need for further disclosures in a second step, as far as common methodologies are developed"	We propose to disclose on climate risk first and the additional information on water stress, biodiversity loss, resource scarcity and pollution...on a second step, when methodologies become more mature (for biodiversity, for example, the work by the TNFD (Task Force for nature related financial disclosure) has just started.	ROYERE, Catherine	Publish
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