



Template for comments

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

Institution/Company

Avantage Reply

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General comments

Please find our proposal for Amendments and Clarifications to the ECB Guide on climate-related and environmental risks

We have analysed the ECB expectations from several different angles, and have drafted our proposals via a committee of internal experts from 5 different European countries

During this public consultation period, we have had the opportunity to consult with several ECB supervised banks, discuss challenges, and help them to begin to prepare for the future. In this context, some of our proposals reflect both our perspective as a consulting firm and the issues being discussed within ECB supervised banks

Thank you for your consideration

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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: 25 September 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 5	5.2.2	Expectation 4.1	21	Amendment	<p>We propose a change in the current text of the first sentence of Expectation 4.1</p> <p>Current Draft: "Institutions are expected to develop a well-defined description of climate-related and environmental risks in their risk appetite statement."</p> <p>Proposed Draft: "Institutions are expected to develop a well-defined description of climate-related and environmental risks (e.g. in their risk taxonomy or risk appetite framework)."</p>	<p>As currently articulated, this statement may lead to misunderstanding. We see the risk taxonomy being the structure within which climate-related and environmental risks are clearly defined. The Risk Appetite should then be used to articulate the Institution's appetite in relation to climate-related and environment risks, in context of the definition in the taxonomy.</p> <p>This proposed edit may make that distinction clearer. □</p>	Rossi, Christopher	Publish
2	Chapter 6	6.4	Expectation 10	36	Clarification	<p>The wording of expectation 10 differs from expectations 8 and 9. We understand this to mean that Institutions should assess if a realistic scenario can be constructed. On the other hand, however, if the Institution can justify why no realistic scenario can be constructed then this would be sufficient for the ECB.</p> <p>If all Institutions are expected to develop market risk stress tests, then providing more detailed guidance on how to do this would be helpful.</p>	<p>The comment aims to recognize the short-term nature of trading book positions and how this contrasts against the long-term nature of climate change scenarios. In this sense, it may not be immediately clear how a long-term climate change scenario could impact market risk positions.</p> <p>The most likely scenario may be a sudden change in prices due to a climate related event or policy announcement. However, for smaller banks, calibrating this jump may be a challenge and providing more guidance around this may be helpful.</p>	Rossi, Christopher	Publish

3	Chapter 6	6.5	Expectation 11	37	Amendment	<p>We propose a change in the current text of the following sentence in Expectation 11:</p> <p>Current Text: "Institutions with material climate-related and environmental risks are expected to evaluate the appropriateness of their stress testing, with a view to incorporating them into their baseline and adverse scenarios."</p> <p>Proposed Draft: "Institutions with material climate-related and environmental risks are expected to evaluate the appropriateness of their stress testing, with a view to incorporating them into their stress testing approaches."</p>	<p>The horizon of current stress test scenarios used by Institutions is typically 3-5 years, shorter than those required to appropriately assess climate-related and environmental risks.</p> <p>As such, integrating climate-related and environmental scenarios into the existing scenarios may require analytical compromises given the differences in horizons and methodologies.</p>	Rossi, Christopher	Publish
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	4 Chapter 6	6.2	Expectation 8.3	33	Clarification	<p>The text of the Collateral Valuation expectations gives a clear indication that Institutions should consider Physical Risks in these evaluations. However, the expectations with regards to Collateral Valuations do not explicitly articulate considerations for possible Transition Risks.</p> <p>The text would benefit from the clarification that institutions need to prepare and possibly consider transition risks in the collateral valuation process. □</p>	<p>To help mitigate, monitor and effectively manage potential Transition Risks for Real Estate exposures, specifically Commercial (CRE), we would propose requiring additional criteria for appraisals where the value of the real estate also considers medium to long-term factors based on probable changes in the economy, specifically due to new EU policies that can affect certain industries. Consider for example Commercial Real Estate which is configured to refine petroleum - this real estate may lose significant value in the coming years due to new laws or taxes that are directly related to Green Deal initiatives or changes in consumer sentiments.</p> <p>Moreover, with regards to Capital Requirements, the market value of real estate is a major component of LGD estimation for the Advanced approach, and is also the basis for LTV calculation for the Standard Approach. As we have seen over the course of the EBA Benchmarking exercise, Institutions have developed thousands of different models to estimate risks, which has in turn complicated the supervision and comparability of Institutions at the ECB level.</p> <p>We believe where the ECB were to endorse a secondary Collateral Evaluation that would assess both Physical and Transition Risks over the medium/long-term, Institutions would be further minded to effectively and accurately perform risk management activities.</p> <p>This comment is correlated to expectation 8.4, which references Transition Risk for Real Estate already on the books.</p>	Rossi, Christopher	Publish
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5	Chapter 5	5.4	6	26	Clarification	<p>It would be beneficial if the ECB could clarify or identify any relevant external data sources that may be used to meet ECB expectations on climate-related and environmental risk assessment and reporting. This request is based on our observation of precedence by the PRA/FCA.</p>	<p>The ECB expectations touch on the need to utilize quality data for Risk Management, internal reporting, disclosures and other key purposes. The ECB references challenges that Institutions face due to the lack of (quality) data, especially from external sources, though the ECB does not provide indications that Institutions will be provided with a list of identified data sources, such as ECAI rating agencies.</p> <p>For comparison, the FCA and PRA in the UK supply a list of recognized providers (https://www.fca.org.uk/publication/corporate/climate-financial-risk-forum-guide-2020-data-tools-providers.pdf) while not explicitly approving or recommending any of them. The ECB may consider this approach to provide baseline homogeneity among Institutions and provide additional guidance (e.g. less-significant Institutions).</p>	Rossi, Christopher	Publish
6	Chapter 5	5.2	4.2	22	Amendment	<p>The following text may be considered for addition at the end of expectation 4.2, and before GHG considerations:</p> <p><i>"The ECB acknowledges the common practice for Institutions to define limits in the RAF which are consistent with Large Exposure limits, considering both CRR II and National exemptions. Large Exposures limits are likely to be revised through the legislative adoption process in the coming years (pursuant to Article 501c of CRR II, which requires the EBA to assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified (as a component of Pillar 1 capital requirements)). The ECB therefore acknowledges uncertainties that Institutions may face to precisely define RAF limits, and concentration limits per industry sector."</i></p>	<p>The proposed amendment may help address concerns that Institutions may have regarding defining their RAF over a 2-5 year horizon, considering that the referenced EBA Action Plan envisions the adoption of new Prudential standards by 2025, and assuming that items regarding climate-related and environmental risks require medium to long-term considerations (e.g. policies).</p>	Rossi, Christopher	Publish
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