



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

Institution/Company

Austrian Federal Economic Chamber, Division Bank and Insurance

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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: 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
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	1 Chapter 1				<p>Date of application. The expectations laid out in the draft guide should become applicable as of its date of publication. Hence, significant institutions (SIs) are expected to promptly start adapting their practices. As from end-2020, SIs should inform the ECB of any divergences of their practices from the supervisory expectations described in the guide.</p> <p>This envisaged date of application is too early out of several reasons:</p> <ul style="list-style-type: none"> - Firstly, there is a considerable data gap as regards ESG-risks in the European Union. This is the reason, why the European legislator is currently revising the Non-Financial Reporting Directive (EU/2014/95) and developing delegated acts to specify Art 8 of the Taxonomy Regulation. - Secondly, if each institution would individually collect information about ESG-risks and use this information to fulfill the expectations laid out in the Guide, this would create severe inconsistencies in practice. Additionally, to collect data on ESG-risks through ESG ratings of rating agencies is no alternative, since the methodology and individual evaluation approach of rating agencies differ strongly and are not harmonized yet. - Thirdly, the management and disclosure of ESG-risks are still in a development phase. The same holds true for the methodologies and tools to address these risks. <p>Against this background, the implementation of a central data register at EU level, which would provide institutions with standardized data on ESG-risks, is a precondition for a correct and consistent application of the guide. Only such a provision of standardized data on ESG-risks at a central point would ensure a consistent application of the guide and avoid the abovementioned data gap.</p> <p>Furthermore, when determining the date of application, it has to be considered that methodologies and tools to address ESG-risks are still in a development phase.</p> <p>Regarding the reference to Art. 98 (8) CRD V it should be pointed out that the mandate is given to the EBA to</p>		Rudorfer, Franz	Publish
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	2 Chapter 1				<p>Principle of Proportionality</p> <p>According to the draft guide national competent authorities (NCAs) are recommended to apply, in substance, the expectations set out in the guide in their supervision of less significant institutions (LSIs), proportionately to the risk profile and business model of the institution. Though we welcome the explicit reference to the principle of proportionality, it remains unclear, how such a proportionate application of the SSM guide would look like and what has to be expected in this regard.</p> <p>Hence, the ECB should clarify, how a proportionate application of the SSM guide looks like and what simplifications can be applied by LSIs when integrating ESG-risks into business models and strategy (expectations 1 - 2), considering ESG-risks in the governance and risk appetite framework (expectations 3 - 6), incorporating ESG-risks in the risk management framework (expectations 7 - 12) and disclosing information about ESG-risks (expectation 13).</p> <p>Therefore, we expect a clear guidance on how a proportionate application of the SSM guide looks like and which concrete simplifications can be applied by LSIs in order to relieve smaller banks.</p>		Rudorfer, Franz	Publish
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	3 Chapter 3				Clarification	<p>Information about physical and transition risks build the basis for the application of the SSM Guide and the fulfillment of the ECB's expectations. As mentioned before, if each institution would collect this information about physical and transition risks individually and apply the SSM Guide based on individual information, the management of climate-related and environmental risks might become very heterogenous in the Single Supervisory Mechanism of the European Union.</p> <p>Against this background and in order to ensure a homogenous management of climate-related and environmental risks in the Single Supervisory Mechanism of the European Union, we suggest the implementation of heatmaps in relation to climate- and environmental risks at European level. Thereby, we mean the development of at least one weather heatmap for Europe. European weather institutes could play an important role when developing such a heatmap at European level. This would enable credit institutions to understand – based on unified scientific data – which areas and regions are prone to which kind of physical risks and if those risks can be classified as "acute" or "chronic". This would be the "base case" weather heat map, based upon which alternative weather heat maps (which would reflect alternative scenarios of climate development) could be created. Aside from avoiding inconsistencies, this would heavily relieve banks from the process of collecting and verifying information on physical risks. Moreover, it would facilitate climate related stress tests.</p> <p>Hence, we suggest the creation of heatmaps in relation to climate- and environmental risks at European level.</p>		Rudorfer, Franz	Publish
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	5 Chapter 4				<p>Planning horizon in the ICAAP</p> <p>According to the ECB Guide to the internal capital adequacy assessment process (ICAAP) institutions are expected to maintain a robust, up-to-date capital plan. The capital plan is to cover a forward-looking horizon of at least three years (Paragraph 44). It is the responsibility of each institution to choose an adequate planning horizon. Three years is the minimum horizon a detailed capital plan is expected to capture. Institutions are also expected to take developments beyond this minimum horizon into account, if they will have a material impact.</p> <p>According to the SSM Guide on climate-related and environmental risks institutions are (generally) expected to consider adopting a longer time horizon for climate-related and environmental risks given the likelihood that they will mostly materialize in the medium to long term.</p> <p>We are of the view that the expectations laid out in the SSM Guide on climate-related and environmental risks are inconsistent with the provisions of the ECB Guide to the ICAAP. According to the latter institutions are expected to take developments beyond the three-year planning horizon into account only under the condition that they will have a material impact. This condition still needs to be integrated in the SSM Guide on climate-related and environmental risks.</p> <p>If long term strategies as regards climate-related and environmental risks need to be developed, credit institutions would not only need a precise guidance on how to develop these long-term strategies by the ECB but also sufficient external data on the long-term realization of climate-related and environmental risks. As mentioned before, these data should be provided at European level in a standardized way in order to ensure that credit institutions base their long-term view on the same data.</p> <p>Therefore, we suggest that the SSM Guide on climate-related and environmental risks should be amended in</p>		Rudorfer, Franz	Publish
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	6 Chapter 4				<p>Scenario analysis and stress tests (expectation 2.1/expectation 11)</p> <p>Again, it should be pointed out that the EBA will not have assessed the development of appropriate qualitative and quantitative criteria for the assessment of the impact of ESG risks on the financial stability of institutions in the short, medium and long term including stress testing processes and scenario analyses until next year (Art. 98 (8) CRD V).</p> <p>Moreover, the envisaged long-term time horizon of “>5 years, beyond the typical business planning horizon”, is linked with uncertainties as this does not correspond with the usual planning horizon.</p> <p>An extension of the time horizon in the normative perspective might not provide representative results due to the high uncertainties, especially with adverse scenarios, static balance sheet, the current regulatory uncertainty and lack of data availability. It should be ensured that such a long-term and uncertain scenario analysis for climate and environmental risks initially only serves as a source of information and cannot be treated as established strategic indicators with limits, triggers and escalation processes. Regarding point 6.5 “Scenario analysis and stress testing” in particular we advocate for referencing specific anchor scenarios with regard to climate and environmental risks. The reference to IPCC or IEA scenarios is not useful and should be removed and replaced with a reference to the NGFS scenarios. □</p>		Rudorfer, Franz	Publish
7	Chapter 4				Clarification		Rudorfer, Franz	Publish

	8 Chapter 7				Clarification	<p>5. Disclosure (expectation 13)</p> <p>The EU Action Plan and accompanying regulatory initiatives have introduced or are about to introduce a large number of disclosure and transparency requirements which results in a rather fragmented disclosure framework regarding ESG issues (European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information, Disclosure-Regulation and amendments in the Taxonomy-Regulation, ECB Guide and also CRR in the future).</p> <p>The expectation to report according to the "European Commission's Guidelines on non-financial reporting: Supplement on reporting climate-related information" seems (at least grosso modo) obsolete as banks have to disclose according to the CRR anyway. Therefore, we would suggest removing the reference in the ECB Guide.</p> <p>As a general remark, there should not be more disclosure requirements applicable to climate-related and environmental risks as there are for the other types of risks. □</p>		Rudorfer, Franz	Publish
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