EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

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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
1	Chapter 3	3.1.1	Definition	11	Clarification	Only one aspect of materiality, that does not integrate that economic activities have created climate change in the first place, hence that all economic sectors are concerned by the low-carbon transition		Cardona, Michel	Publish
2	Chapter 3	3.2.3	Characteristics of climate-related and environmental risks	12	Amendment	it depends also on the transition path followed by the transition in a specific area which determines the risk drivers at play (e.g. regulatory measures, fiscal policy, technological innovation, market, reputation)		Cardona, Michel	Publish
3	Chapter 3	3.2.3	Characteristics of climate-related and environmental risks	12	Amendment	Potential losses also depends on the capacity of counterparties to implement adaptation measures to face with climate physical risks and reduce the magnitude of their exposition		Cardona, Michel	Publish
4	Chapter 3	3.2	Table 1	12	Clarification	two comments on the Physical / Credit-risk : - the idea that there are vulnerable geographies can be misleading, tending to think that also are "unvulnerable geographies". Some geographies and some sectors are more exposed (real estate in southern florida for instance) but financial impact of losses due to physical impacts in Northern regions is much more important, because of the value of buildings, proprety, etc. - Real estate is the most common example when thinking of physical risks, but an emphasise on indirect impacts, through the supply chain for instance could be useful as well.		Cardona, Michel	Publish
5	Chapter 3	3.2	Table 1	12	Clarification	A specific attention should be paid to stranded assets which will represent a challenge for the liquidity situation of banks (with assets whose duration will be much longer than expected)		Cardona, Michel	Publish

6	Chapter 3	3.2.5	Characteristics of climate-related and environmental risks	13	Amendment	the radical uncertainty of climate change and hence of climate-related risks which prevent banks from using the traditional risk management tools mainly based on historical data and probability)		Cardona, Michel	Publish
7	Chapter 3	3.2.6	Characteristics of climate-related and environmental risks	13	Clarification	Real estate and construction are also likely to be impacted (and they actually already are), especially in coastal areas, but the impacts of importants variations of temperature has a great impacts on the soundness of buildings		Cardona, Michel	Publish
8	Chapter 3	3.2.6	Characteristics of climate-related and environmental risks	13	Clarification	There is a common view that only highly emitting sectors will be impacted by climate change. These sectors will be materially impacted for sure. But we think that all sectors will be impacted, directly or indirectly. See for instance, the example of tourism: when air travel or cruises become more costly and less socially accepted, touristic activities based on this type of transportation will be strongly impacted. The same goes for services related to industry, etc.		Cardona, Michel	Publish
9	Chapter 3	3.2.7	Characteristics of climate-related and environmental risks	13	Clarification	Climate-related risk has already started to materialize : see for instance the losses incurred by insurance companies because of recent extreme climate events, PG&E going under the Chapter 11 or the portfolio value losses incurred by investors due to the plummeting share prices of some companies (e.g. GE Capital, E.ON, RWE)		Cardona, Michel	Publish
10	Chapter 4	4.1.3	Expectation 1.1	16	Amendment	With regards to companies, it is key to assess the impacts of climate-related risks on the whole value chain (from input supply to production and then market for delivery and sale)		Cardona, Michel	Publish
11	Chapter 4	4.2.2	Expectation 2.1	17	Clarification	Stress scenario analyses : it could be useful for banks to have more clarity on what is meant when talking about scenarios: climate or macroeconomic scenarios ? with which assumptions and key parameters ?		Cardona, Michel	Publish
12	Chapter 4	4.2.2	Expectation 2.1	17	Clarification	using a materiality matrix can be a first step to help banks with a starting point and determine which issues are critical for them and which paramter they shoud integrate in their scenario analysis		Cardona, Michel	Publish
13	Chapter 4	4.2.4	Expectation 2.1	18	Clarification	Planning horizons : It is important to stress this point. Banks may have the feeling they will be able to withdraw from the riskier sectors on time to avoid losses. But 1/ experience shows that every body will not be able to do so ; and 2/ even, for those who will be able to withdraw on time, this means they will transform a climate-related risks into a business model type of risk (they will loss a substantial part of their business and hence of their revenues and profits)		Cardona, Michel	Publish
14	Chapter 4	4.2.5	Expectation 2.2	18	Amendment	KPI : using materiality matrix can be useful to help banks define their KPIs		Cardona, Michel	Publish
15	Chapter 4	4.2.6	Box 2	18	Clarification	Carbon footprint is a useful indicator of impact on climate change but a rather poor proxy for transition risks: this is a static indicator whereas we need a forward-looking measure, it does not take into account a variety of scenarios and it does not take into account the adaptative capacity of companies		Cardona, Michel	Publish

16	Chapter 5	5.1.4	Expectation 3.2	21	Clarification	So far the approach has mainly been based on risks. This mention of the Paris Agreement is introducing a new approach based on contribution and impact toward a low-carbon and resilient economy. What does this imply in terms of priority vis-à-vis profit maximization. This is a key point.		Cardona, Michel	Publish
17	Chapter 5	5.2.1	Expectation 4	22	Clarification	Setting limits on lending : This is a rational approach for an individual institution. But when looking from a collective standpoint and from an effective transition perspective, this recommendation raises questions		Cardona, Michel	Publish
18	Chapter 5	5.2.3	Expectation 4.2	23	Amendment	common definitions and taxonomies in these risk areas are still under development : One transitory arrangement could be to set minimum requirements for metrics and assessment methodologies to be eligible or to require at least qualitative assessments for climate-related risks		Cardona, Michel	Publish
19	Chapter 5	5.2.3	Expectation 4.3	24	Amendment	including the possibility to include impact criteria in the remuneration policy could be helpful also		Cardona, Michel	Publish
20	Chapter 6	6.1.4	Expectation 7.2	30	Amendment	The question of quantifying risk is tricky because of conceptual obstacles (i.e. radical uncertainty). In many instances, a qualitative approach through scores might be more appropriate to capture this uncertainty		Cardona, Michel	Publish
21	Chapter 6	6.1.5	Expectation 7.3	31	Clarification	Compared to divestment and exposure limits, engagement vis-à-vis counterparts might be the best way to go in many cases. Indeed, it allows banks to play their role: accompanying and financing corporates in their necessary and difficult business transformation in view of the low-carbon transition		Cardona, Michel	Publish
22	Chapter 6	6.1.5	Box 7	31	Clarification	It is a very important example because it shows that a score based on a mix of quantitative indicators and qualitative assessment is an interesting operational approach		Cardona, Michel	Publish
23	Chapter 6	6.4.2	Expectation 10	37	Clarification	Market Risk : Why taking such a restrinctive definition regarding the investment/banking book? Regarding climate-related risks which are mainly medium and long-term, considering the whole banking book would make sense to capture the exposure to market risk.		Cardona, Michel	Publish
24	Chapter 6	6.6.2	Expectation 12	40	Amendment	assess whether climate-related and environmental risks could have a material impact on net cash outflows or liquidity buffers : I think it would make sense to call the attention of banks on potential stranded assets in the Net Stable Funding Ratio		Cardona, Michel	Publish
25	Chapter 7	7.1.3	Expectation 13.1	41	Clarification	Here we come back on the idea to integrate double materiality, and go beyond the risk approach. It is essential also for banking institutions to understand the importance of the impact that economic activities have on climate change, in order to sensitize them to the magnitude of the challenge they are facing, and hence the magnitude of the risks they are facing.		Cardona, Michel	Publish
26	Chapter 7	7.1.5	Expectation 13.3	42	Amendment	It is quite an important point but it is not enough. Supervisors should also "recommend" best practises for these methodologies to be as meanigful as possible		Cardona, Michel	Publish
27	Chapter 7	7.1.5	Expectation 13.3	43	Clarification	Comprehensive and meaningful information : Here comes the question of "minimum criteria" for eligibility which could be set by refulators or "best practises" suggested by supervisors?		Cardona, Michel	Publish

28	Chapter 7	7.1.5	Expectation 13.3	43	Clarification	Likewise, institutions are expected to consider all business lines and their exposures as a whole when reporting on their contribution to environmental goals. : It is a key distinction between disclosure on rsks (TCFD approach) and disclosure on impacts (included in the French article 173 or the NFR Directive)		Cardona, Michel	Publish
29	Chapter 7	7.1.7	Expectation 13.5	44	Deletion	Disclosure of Scope 1,2 and 3 GHG emissions : As already pointed out, this is not an indicator of risks		Cardona, Michel	Publish
30	Chapter 7	7.1.7	Expectation 13.5	44	Deletion	In addition, carbon intensity may be quite misleading as impact indicator depending on the type of numerator used to calculate the intensity		Cardona, Michel	Publish
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