Template for comments

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

Institution/Company

FEBEA - European Federation of Ethical and Alternative Banks and Financiers

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First name

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General comments

- The ECB should bear in mind that there are key players active in the long term and sustainable financing, and namely ethical banks and financial institutions, frequently (very) small organisations but very active at local level. Therefore, any upcoming regulations on the sector must be proportionate regarding their size, allowing them the needed flexibility to enable them to continue financing the social and sustainable projects. It could be useful to promote reduced capital requirements for finance to social and sustainable activities. Moreover, this should be combined with local incentives.

See as reference: - http://febea.org/sites/default/files/febea_answer_0.pdf - https://www.eesc.europa.eu/en/news-media/news/eesc-calls-inclusive-and-sustainable-banking-union In addition to this, the reporting burden should not be imposed on small organisations (final beneficiaries), due to the lack of tools and ressources. The methodology should allow for flexibility in regards to a bottom-up approach, which builds on existing capacities at the beneficiary level which can be used to report upwards by the financial institution. The opposite, the imposition of a top-down approach that ignores the capacities of the financial intermediaries or of the final beneficiaries may jeopardise the whole exercise, leading to simply green washing instead of reporting. In this perspective, a large NGO training and financing program could be organised to involve them as a partners supporting the monitoring and reporting process. We would also advocate for: - The use of impact weighted accounting (see for instance the latest piece of research of the Impact Weighted Accounts project by Harvard Business School https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx ?)

- The regulators encouraging the banks to make more “green” loans thanks to a lower RWA ponderation
- The use of a long term and quantitative impact measurement methodology which does not change (too much) over time for comparability.

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	4.2	22	Amendment	Chapter 5.2 « Risk appetite » states that « [the ECB] also acknowledges that common definitions and taxonomies in these risk areas are still under development, and that qualitative statements can be used as intermediate steps while the institution is developing appropriate quantitative metrics» (page 22). We would advise against discouraging the use of quantitative assessments and instead advise encouraging the institutions to develop their own quantitative assessments or be part of ongoing quantitative assessment initiatives.	Quantitative indicators would ensure greater transparency and accountability and prevent green washing	,	Publish
2	Chapter 5	5.4	6.2	27	Amendment	Chapter 5.4 « Reporting » stating that « While institutions are expected to incorporate the data taxonomy of these risks, [the ECB] also acknowledged that this may not be feasible owing to the current lack of common definitions, taxonomies and data gaps » (page 27). We would advise against discouraging the use of quantitative statements and instead advise encouraging the institutions to develop their own quantitative reporting or be part of ongoing quantitative reporting initiatives.	Quantitative indicators would ensure greater transparency and accountability and prevent green washing	,	Publish
3	Chapter 3	3.2		10	Amendment	Chapter 3.2 « Characteristics of climate-related and environmental risks » (page 10) could be more specific about the concept of stranded assets resulting from the transition risk. A reference to fossil power plants can be made, with the underlying statement that the stranded-asset risk is a short-term transition risk (see for instance IEEFA or Bloomberg);	Stranded assets resulting from the transition risk might have a relevant impact	,	Publish

4	Chapter 5	5.1	3.2	20	Amendment	There’s the need for members of management body to possess the adequate level of knowledge and understanding of climate risks: this statement about training could mirror the reference to the article 91 CRD about the general prudential framework: « Article 91 CRD provides that […] members of the management body shall possess sufficient knowledge, skills and experience to perform their duties […]. »	Such measure would ensure an effective implementation of climate risk-sensitive measures	,	Publish
5	Chapter 5	5.1	3.1	19	Amendment	expectation 3.1 states that « The management body is expected to explicitly allocate roles and responsibilities to its members and/or its sub-committees for climate-related and environmental risks » (page 19). We would advise going one step further and encouraging that the roles directly associated with climate and ESG issues (such as head of ESG or head of sustainability) are part of the management body (and not reporting for instance to the legal or communication departments like it is commonly witnessed).	Such measure would ensure an effective implementation of climate risk-sensitive measures	,	Publish
6	Chapter 4	4.2	2.1	17	Amendment	Chapter 4.2 « Business Strategy » refers to the possibility to involve an « expert judgment since the given nature of climate change as a driver of financial risk will present new challenges that have not yet materialized » (page 17). We would advise for more systematic encouragements to refer to external expertise when assessing climate risk and defining climate strategy in this guide. For instance, expectation 2.2 could stress that setting the right KPI could require some external expertise and/or the use of some pre-existing external framework, related to impact measurement.	Such measure would ensure an effective implementation of climate risk-sensitive measures	,	Publish
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