EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

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

Institution/Company

ESBG - The European Savings and Retail Banking Group

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General comments

The European Savings and Retail Banking Group (ESBG) welcomes the ECB's commitment to closely follow international and European developments in the field of sustainable finance and to support the financial sector on its path towards a sustainable economy. We believe that coping with this issue is an important priority for the future direction of the credit institution

European savings banks welcome the fact that, instead of establishing binding policies for institutions in regard to their approach to climate-related and environmental risks, the ECB's Guide merely formulates supervisory expectations. It should be stated more clearly that the Guide primarily serves, or is intended to serve, as a basis for the supervisory dialogue between the Joint Supervisory Team (JST) and the respective institution. The expectations formulated by the ECB, particularly in respect of the quantification of climate-related and environmental risks and systematic IT-based data collection and aggregation, may provide a longer-term vision or guidance regarding the standards the institutions will have to meet in the future. This aspect .should be clarified in the Guide by allowing the institutions greater leeway and time in their development of suitable methods and processes, etc Moreover, there is as yet a lack of data and/or recognised methods when it comes to climate-related and environmental risks. The Guide should moderate the expectations in this respect and in many places take respective opt-out clauses into account (e.g. "where appropriate and possible")

Given the complexity of climate-related and environmental risks and the current lack of development of industry standards for their assessment, we consider the ECB's approach of launching a discussion paper to start the dialogue with the institutions to be appropriate. One of the main standards in the risk management field is the identification of material risks, including any concentration within and between those risks at the institution level, in the context of a risk inventory. Scores of European policies relate to the management of institutions' material risks. The Guide also explains at various points that the institutions should assess the materiality of the climate-related and environmental risks. In this context, climate-related and environmental aspects impact the risk drivers and affect the materiality of the risk types (no separate risk type). We, therefore, ask that the term "risk driver" be used consistently throughout the Guide and that no other terms be used. The assessment of the materiality of risk drivers is not a standard practice and does not seem appropriate in view of the standard supervisory practice. A determination of the quantitative contribution of climate-related and environmental risks, and hence a respective supervisory requirement, is only useful in the long term if climate-related and environmental aspects impact the respective risks. It should be clearly stated that provided institutions determine the impact on the risk types that arises from climate-related and environmental aspects, they should systematically collect data points, for instance initially with respect to industries that are particularly affected. All in all, the aspect of the materiality of climate-related and environmental risk drivers should be given greater consideration in the future. In this context, we would also point out that the required data basis does not yet exist since both scenario design and modeling are still in their early stages. Reliable conclusions can only be drawn once correlations have been established, demonstrated, and tested as part of a comprehensive risk management process over a longer period of time

We do not think it is effective that the institutions have to proactively notify the ECB if their approach to coping climate-related and environmental risks deviates in any way from the supervisory expectations set out in the Guide. It is our opinion that such an obligation (in the sense of a disclosure requirement) contradicts the non-binding and forward-looking character of the Guide. Moreover, there is no legal basis for this. It would be more effective if the institutions discuss the current situation and further course of action during talks with the JSTs and the auditors

Timeline of application of the expectations

More clarity is needed on the timeline of application of the different expectations beyond the 2020 supervisory dialogue, considering that addressing divergences in institutions' practices will require the set-up of Roadmaps. In the absence of a transparent clarification of the timeline of application, there is a risk that each JST applies a different approach, potentially un-leveling the playing field for the different institutions. Clarification on how the ECB intends to maintain the supervisory dialogue on this subject is also needed. The complexity, novelty, and level of development might require to intensify this dialogue, not relying solely on the usual mechanisms (consultation via Q&A); clear guidance on the relation with the JST and the coordination across entities would be useful

From the institutions' perspective, we consider the scheduled date of application to be unrealistic. Given that the consultation period lasts until 25 September 2020 and we subsequently expect an intensive debate about the final form of an ECB Guide, it is unlikely that a final version could be published before the beginning of the fourth quarter of 2020. The few remaining weeks until the supervisory dialogue at the "end of 2020" would be too short for a specific stocktake and the identification of required measures and implementation strategies, especially with substantial risk management resources, which would be required for implementation, remaining committed to tackling the consequences of the COVID-19 pandemic

A concrete deadline for the implementation of all measures by the institutions should not be set. Instead, an ongoing dialogue on progress made in the implementation of the requirements of the Guide should take place with the supervisor /JSTs at appropriate intervals. If any deadlines are to be set at all, the institutions must be allowed a sufficient transition period since they are still occupied with the consequences of the COVID-19 pandemic. The highly ambitious timetable is also incompatible with the prudential simplifications regarding the publication of new requirements that are granted elsewhere, or with the handling of existing supervisory policies that were intended to provide the institutions with the (necessary) support to deal with the current COVID-19 pandemic

Phased Approach

We believe that the proposed timeline is far too short and should rather be postponed, or at least a much more phased approach should be envisaged considering that the integration of climate and environmental risks into the entities' risk management frameworks is still at an early stage and is hampered by key challenges which need to be accounted for

i. Methodologies and tools to quantify the risks are still under development (partially acknowledged in the Guide)
ii. No or limited environmental and climate risk data availability; no data history. Up until recently, there was no need to collect these data
iii. No or limited environmental and climate risk data available from the clients
iv. Absence of common definitions: no common taxonomies nor risk definitions
v. Heterogeneous climate risk governance within institutions
vi. Consideration of the critical impact of COVID19

Proportionality

The treatment of more granular, retail exposures should be more specifically considered in the Guide. Risks of a retail portfolio need to be analyzed and treated differently, i.e. on a portfolio level, via heatmaps rather than on an individual basis. The EBA includes as well this approach in the Loan Origination and Monitoring Guidelines. The ECB Guide focuses on the other hand on single name-based analysis when expecting e.g. to conduct due diligence at the inception of a client relationship and on an ongoing basis. The relative materiality of the risks for each segment should be defined and considered in the application of the guidelines

Illustrative Examples

Although the boxes explaining existing practices within banks provide useful views, it should be made clear that they should not be taken as a model To Be or replicable. Also, not all expectations are illustrated with examples

Whilst there are some elements where the ECB wants to advance irrespective of other developments, and this can be feasible relying on each bank's decisions (e.g. development of own taxonomy whilst EU taxonomy is fit for purpose or wide enough), there are other aspects where the methodological tools are far from being ready and available for bank's management (e.g. incorporation of climate risk in IRB modeling). The phased approach would be particularly useful for the second case

Methodologies and tools

Methodologies and tools to quantify the risks are still under development (and partially acknowledged in the Guide). The forward-looking approach of the Guide in itself implies specific challenges in the absence of proven methodologies. A qualitative assessment may need to be prioritised, while quantitative work still requires some progress to be made on data and methodologies. Progress has been made on the qualitative assessment of transition risks related to climate change (heatmaps), which is probably the most advanced area, however, the inclusion of quantitative assessment might come at a later stage. Clarification is also needed on whether e.g. the NGFS guide for climate scenario analysis is to be taken as a reference for the development of scenario analysis methodologies and approaches. The Climate sensitivity exercise organized by EBA might give insight but is conceptually still at an early phase. Quantitative impact assessment of physical risk heavily relies on data and the quantification of other environmental risks (biodiversity) is conceptually far from mature

Data availability

Institutions experience a lack of historical data. Up until recently, there was no need to collect these data. A transition period similar to the EBA Guide should be included to allow for the build-up of a consistent database that is key to manage the risk. The EBA Guidelines on Loan Origination and Monitoring, cross-referenced in several sections, that were issued in May 2020 and will apply by 30 June 2021 include
Institutions have also no or limited data available from their clients, especially from SMEs for which there are currently no real disclosure requirements. NFRD may enable the collection of data for larger companies, but the revised NFRD has not yet been issued. Banks can have only limited liability on the information which is provided by their clients. The main challenges include compliance with Taxonomy criteria and GHG emissions, especially due to the lack of homogeneity of customer data, even for larger companies; varying scopes and methodologies are used to calculate GHG emissions

Definitions

No common definitions are in place. Currently, there are no common taxonomies neither for green nor for brown activities; the green taxonomy is far from ready to be applied by banks (e.g. DNSH criteria). In general, ESG aspects are very heterogeneously considered and defined, not only by banks but also by specialised ESG rating agencies. In the absence of a common understanding/definition, there is a risk of un-leveling the playing field

Consistency with other regulations / requirements / standards and recommendations

The inclusion of environmental degradation in the definition of climate-related and environmental risks implies an additional level of complexity as compared to the evaluation of the financial impact of climate change, where quantification methodologies and approaches are conceptually more mature. Also, the NGFS recognises that more work needs to be done on identifying the financial risks stemming from environmental degradation (NGFS Climate and Environmental Risk Guide section 1.1). The EBA Guidelines on Loan Origination and Monitoring, cross-referenced in several sections, focus on the risks of climate change without considering environmental risks (section 57). Other recommendations focus as well on climate risk rather than environmental risks (TCFD) and more key-related regulatory requirements are still under development. Including the environmental degradation in the definition of climate-related and environmental risks without a clear view and common understanding of how environmental degradation translates into financial risks creates an additional degree of uncertainty

Inconsistency between requirements, standards, and recommendations might have a material impact on capital requirements including the different treatment that could arise between SA and IRB for credit risk, and the estimation of credit risk parameters (potentially impacting the EBA/GL/2017/16, EBA/GL/2019/03, or the ECB Guide to Internal Models). The incorporation in the ICAAP / ILAAP would also imply its consideration in the SREP process, which should be clarified

“In substance”, the National Competent Authorities (NCAs) are expected to apply the Guide in their supervision of less significant institutions (LSIs), proportionately to the risk profile and business model of the respective institutions. We are critical of such an application of the Guide to LSIs. Some NCAs have already published guidelines that take due account of the supervisory needs in each country with regard to less significant institutions. Moreover, the EBA has dealt with or will deal with ESG risks in the context of various guidelines. Parallel regulations of varying depth and content that are issued by different institutions in the same subject area would be very disadvantageous in terms of practical

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 4	4.4.2	Expectation 2.1	17	Clarification	We support the call for institutions to integrate short, medium, and long-term climate-related and environmental risks into their business strategies, employing tools such as stress tests and scenario analysis. Nevertheless, we would like to draw attention to the fact that the envis-aged course of action will require a respective development and transition period. The perfor-mance of scenario analysis and stress tests is still new to competitors and the market. At present, initial empirical findings are being collected and different tools and procedures are tested. More-over, as we understand it, a quality database and the respective IT support are still outstanding; both the availability and the quality of environ-mental and climate-related data still pose a sig-nificant challenge for the financial sector. Moreover, the short, medium and long term should be further specified. Whereas long term is understood as "more than five years" (page 18 of the Guide), it still leaves an open a time hori-zon, which could have a material impact depend-ing on the nature and maturity of each portfolio.		Pargana, Myrto	Publish
2	Chapter 3	3.3.1/3.3.2		10-12	Clarification	Thanks to the concentrated research conducted in the field of climate change, science is un-doubtedly most advanced in this area. At pre-sent, initial narratives are forming based on this scientific research which also facilitates a com-prehensive approach by the institutions. Howev-er, this is not yet true for the other environmen-tal risks. Hence, it should be possible to address individual risk drivers at different levels of thor-oughness depending on the respective scientific and methodological progress. It should also be further clarified what is meant by "explicitly consider", i.e. set action lines, set internal objectives, execute and supervise measures, portfolio assessment, etc. In the fol-lowing sentence: "[...] the management body is advised to explicitly consider the institution's response to the objectives set out under interna-tional agreements such as the Paris Agreement (2015), EU environmental-related policies such as the EU Green Deal, local and national policies, [...]". Also, the consideration of climate risks within credit risk, market risk, etc. implies the consider-ation of these risks by the management. We are wondering whether this expectation implies that there is a need for an additional specific treat-ment, monitoring, and reporting.		Pargana, Myrto	Publish

3	Chapter 5	5.5.2	Expectation 4	21	Clarification	"Institutions are expected to have in place a risk appetite framework (RAF) that considers all the material risks to which the institution is exposed, that is forward-looking, in line with the strategic planning horizon set out in the business strategy and that is reviewed regularly [...]" It should be clarified which time horizon is planned to be considered (short, medium or long term); as per expectation 2.1. the business strategy shall take into account climate risks within the short, medium, and long term. Also, the incorporation of climate change risks in the institutions' risk appetite framework could have a material impact on the business, and should therefore be adequately tested before implementation.		Pargana, Myrto	Publish
4	Chapter 5	5.5.2	Expectation 4.1	21	Clarification	Climate-related and environmental risks should be well defined in the Risk Inventory, not in RAS, appetite towards the risks to be based on internal assessment of exposure towards climate-related and environmental risks. Also, more clarification is needed with regards to the terms of this expectation, e.g. the incorporation of climate risks in the credit assessment could imply a double-counting if additional credit triggers are included.		Pargana, Myrto	Publish
5	Chapter 5	5.5.2	Expectation 4.2	21	Clarification	As pointed out in the explanation of Expectation 4.2 and the respective reference to the EBA/GL/2017/11, risk limits, tolerances and thresholds should be set for material risks. Therefore, we kindly ask for further specification of Expectation 4.2 that requires "…to develop appropriate key risk indicators and set appropriate limits for material climate-related and environmental risks…". Qualitative classification should be further defined in order to ensure a homogeneous implementation across institutions, e.g. low, medium and high risk.		Pargana, Myrto	Publish
6	Chapter 5	5.5.4	Expectation 6	26	Clarification	Further clarification is needed regarding the expectation "The ECB acknowledges that metrics and tools are evolving and that, currently, data available in institutions are sometimes incom-plete. Nevertheless, it expects reporting of cli-mate-related and environmental risks to mature over time.[...] the ECB expects institutions [...] to devise a plan to overcome these gaps and tackle any insufficiencies"; expected timelines, poten-tial transition periods for the collection of the information by institutions, etc. The content of the "plan" will vary depending on the counter-party due to other requirements, e.g. NFRD. ECB could consider the possibility to use proxies to design the plan.		Pargana, Myrto	Publish
7	Chapter 5	5.5.4	Expectation 6.2	26-27	Clarification	Further clarifications should be provided with regards to: "[…]it is also acknowledged that this may not be feasible owing to the current lack of common definitions, taxonomies and data gaps". We wonder whether: - the ECB is planning to provide common definitions to ensure a common understanding/implementation across institutions e.g. materiality of climate-related and environmental risks - "The current lack of common definitions, taxonomies and data gaps" refers to the green taxonomy regulation that was approved by the European Parliament in June 2020. Is it expected/considered that other regulators, such as EBA, might publish further common definitions? - there is a need for a (still unquantified) investment for IT adaptation, i.e. further clarification on expectations is needed to ensure efficient resource allocation and investment planning.		Pargana, Myrto	Publish

8	Chapter 5	5.5.4	Expectation 6.3	27	Clarification	As pointed out in the explanation of Expectation 6.3, material climate-related, and environmental risks across the legal entities and/or business lines should be covered in risk reports. This avoids the necessity for reporting of impacts with spurious accuracy or a nil report where risks are non-material in legal entities and/or business lines. Hence, we kindly ask for further specification of Expectation 6.3 that requires institutions "…to convey the impact of material climate-related and environmental risks on the business model, strategy, and risk profile".		Pargana, Myrto	Publish
9	Chapter 6	6.6.1	Expectation 7.1 and 7.3	28-29	Clarification	The expectation to "incorporate climate-related and environmental risks as drivers of established risk categories into their existing risk management framework" suggests that the incorporation is necessary also in case they are non-material. While we agree that these risks should be "considered" in any case, actual (explicit) "incorporation" into the risk management framework (e.g. in risk models as risk drivers) should, in our view, be required only in case they are deemed material. Hence, we kindly ask to rephrase Expectation 7 in a way that requires "…to consider climate-related and environmental risks as drivers of established risk categories and incorporate them into their existing risk management framework if material…". Similarly, in Expectation 7.3, we deem that institutions should be expected "…to adopt a strategic approach to managing and/or mitigating material climate-related and environmental risks…". Finally, it should be clarified in the explanation of Expectation 7.3 that the improvement of a credit rating is possible only in case of and commensurate with an actual improvement in the creditworthiness of the counterparty.		Pargana, Myrto	Publish
10	Chapter 6	6.6.1	Expectation 7.2	29	Clarification	In the transition phase (to be defined) it shall not be requested to quantity, but to integrate the risks into risk management framework and steer through non-quantification tools and methods		Pargana, Myrto	Publish
11	Chapter 6	6.6.1	Expectation 7.4	30	Clarification	We ask to define what environmental due diligence is in the sense of this ECB expectation and to ensure alignment of the terminology with the EBA Guidelines on Loan Origination and Monitoring. There are two topics with regards to originating financings as defined in the EBA Guidelines on Loan Origination and Monitoring: 1. Assessment of ESG factors on the financial position of the client (individual assessment, based on industry heat maps, a portfolio approach possible, where meaningful) – point 57 of the EBA Guidelines on Loan Origination and Monitoring and 2. Environmentally sustainable lending – points 58 and 59 of the EBA Guidelines on Loan Origination and Monitoring Due diligence mixes these two points and leads to confusion on the perspective of such due diligence, thus a reference to the EBA Guidelines on Loan Origination and Monitoring would be sufficient to put it in the right context.		Pargana, Myrto	Publish
12	Chapter 6	6.6.1	Expectation 7.5	31	Clarification	It should be clarified what "Normative capital adequacy" means, and if it is anticipated that the Capital Requirements Regulation (CRR) is going to be modified to adapt the capital requirements in the IRB approach. Further, this would impact the EBA GL on PD and LGD, or the ECB Guide on Internal Models. Incorporation of climate-related and environmental risks into Capital Adequacy shall be based on Risk Materiality Assessment and institutions' exposure to the risks.		Pargana, Myrto	Publish

13	Chapter 6	6.6.1	Expectation 7.6	31	Clarification	The frequency of the "regular internal reviews […] in the context of the ICAAP" of the identifica-tion, measurement, and mitigation instruments for climate-related and environmental risks in their periodic reviews should be clarified.		Pargana, Myrto	Publish
14	Chapter 6	6.6.2	Expectation 8	32	Clarification	"[…] institutions are expected to adopt a holistic approach and take into account risks associated with climate-related and environmental factors in their credit risk policies and procedures". It should be clarified if specific Guidelines (or modifications to the existing ones) are going to be issued so institutions have a standard to implement, or if institutions may apply the Equator Principles to develop its considerations, and no further clarification will be given, in addition to that incorporated in Guidelines on loan origination and monitoring.		Pargana, Myrto	Publish
15	Chapter 6	6.6.2	Expectation 8.1	32	Clarification	It should be clarified whether a methodology for the identification and assessment of the climate-related and environmental factors that are mate-rial to the default risk of the loan exposure is going to be set, or whether otherwise it is up to the institution to define the methodology. We also require further clarification in respect of the performance of climate-related and envi-ronmental risk assessments at the level of the individual borrower, i.e. what aspects such as-sessment involves at the start of the business relationship and throughout and which role it should play in the lending process.		Pargana, Myrto	Publish
16	Chapter 6	6.6.2	Expectation 8.1, 8.2 and 8.6	31-34	Clarification	The expectation to “include climate-related and environmental risks in all relevant stages of the credit-granting process and credit processing” suggests that the inclusion is necessary also in case they are non-material. Interpreted in the strict sense, this may lead to the necessity of superfluous inclusion of risk drivers in credit risk procedures and models (e.g. via Article 179(1)(a) CRR for IRB models) that counteract their robustness. Hence, we kindly ask to rephrase Expectation 8.1 either to “…consider climate-related and environmental risks…” or to “…include material climate-related and environmental risks in all relevant stages of the credit-granting process and credit processing.” Similarly, in Expectation 8.6, we deem that institutions should be expected to “…reflect the different costs driven by material climate-related and environmental risks…” in loan pricing. Finally, while many institutions will indeed need to “adjust” risk classification procedures to identify and evaluate […] climate-related and environmental risks, the general Expectation 8.2 could be that institutions are expected to “apply” or “adopt” such procedures.		Pargana, Myrto	Publish

17	Chapter 6	6.6.2	Expectation 8.2	32	Clarification	For expectation 8.2 we would like to emphasize that this expectation should be better aligned with the requirements defined in the EBA Guidelines on Loan Origination and Monitoring, which were published on 29th May 2020, in order to avoid potential inconsistency in the regulatory expectations. This expectation could be only applied for corporate clients, which also include micros, small, medium, and large enterprises. Considering that especially for smaller clients, like micros and small enterprises, there is an increasing trend to apply automated lending processes, the requirements set in this expectation cannot be applied at an individual level. Even EBA Guidelines on Loan Origination and Monitoring are recognizing that in some segments a portfolio approach may be more appropriate. Moreover, it will take some time to establish a reliable basis for the collection of the data at the individual client level that will allow for incorporation into risk classification procedures like rating and scoring. In our view, especially at the beginning, it is sufficient if the banks incorporate appropriately the assessment of the ESG factors into the creditworthiness assessment and not the risk classification procedures. We urge ECB to reflect this possibility explicitly in this expectation, in line with the EBA Guidelines on Loan Origination and Monitoring. Apart from that, it should be clarified whether ECB will provide further methodologies with regards to the expectation that "[…] Institutions are expected to consider, for example, the use of heat maps that highlight sustainability risks based on the relevance of individual (sub-)economic sectors for a given client."		Pargana, Myrto	Publish
18	Chapter 6	6.6.2	Expectation 8.3	33	Clarification	1. The valuation of collaterals would have an additional impact on LGD estimation, which could require to recalibrate the models. The time horizon of this valuation should also be a driver for the estimation. 2. "[…] Institutions are expected to give particular consideration to the physical locations and the energy efficiency of commercial and residential real estate in this regard". Additional consideration should be taken regarding commercial real estate collaterals, where other aspects such as the sector of activity could be useful when assessing the commercial real estate. In this sense, sectors that are highly affected by climate risk are more likely to end up with stranded assets, and these could include their commercial or production facilities.		Pargana, Myrto	Publish
19	Chapter 6	6.6.2	Expectation 8.4	33	Clarification	The requirements for consideration of the ESG related risks i.e. in lending and credit risk management have been also established in the EBA Guidelines on Loan Origination and Monitoring published in a final version on 29th May 2020. The EBA Guidelines define several phase-in implementation periods. Therefore, we deem it utmost important that the ECB Guide also explicitly acknowledges these different implementation periods to ensure consistency of regulatory requirements and supervisory expectations. Furthermore, implementation of the requirements related to managing these risks in the portfolio strongly depends on proper implementation in the credit granting and managing process, with huge investments in the organizational procedures regarding management of these risks in the credit portfolio. This will require some time to build up and ensure data availability in order to define i.e. deleveraging strategies. Therefore, the expectation 8.4 defined in this ECB Guide should align with the expectations set for implementation of the EBA GL on Loan Origination and Monitoring, which define phase-in requirements for addressing data gaps in the monitoring of already existing credit facilities up until 30 June 2024.		Pargana, Myrto	Publish

20	Chapter 6	6.6.2	Expectation 8.5 and 8.6	33 - 34	Clarification	Specific Guidelines regarding the pricing model in order to include climate-related and environmental risks should be provided. It is particularly complicated to include these risks in the pricing framework due to working in progress methodologies for their identification and assessment. In addition, the different timeline for the implementation of this expectation across institutions could have a material impact on the strategic positioning, business, and market share.		Pargana, Myrto	Publish
21	Chapter 6	6.6.3	Expectation 9	34	Clarification	It should be clarified if a methodology for incorporation of climate-related events in reputational risks will be provided and if there is an expected impact on capital requirements.		Pargana, Myrto	Publish
22	Chapter 6	6.6.3	Expectation 9.1 and 9.2	34-35	Clarification	As regards operational risk management, it should be clarified that the ECB does not expect changes to existing AMA models in line with its strategy of supervision of models discontinued under the Basel III finalisation. Furthermore, to avoid the impression that it is the ECB's interpretation that reputational risk falls under operational risk, some clarification (e.g. adjustment of the header of Section 6.3) might be appropriate.		Pargana, Myrto	Publish
23	Chapter 6	6.6.3	Expectation 9.2 and Box 10	35	Clarification	"[…] institutions are also expected to consider evaluating the compliance of their investment products with international or EU best practices, […]". The ECB should clarify how institutions must consider these risks within the reputational risk. In the BOX 10, an example is proposed on how an institution is incorporating an estimation of its possible reputational risk into its ICAAP. We wonder whether the ECB is going to guide how to conduct this exercise.		Pargana, Myrto	Publish
24	Chapter 6	6.6.4	Expectation 10	36	Clarification	"[…] Given the specific characteristics of market activities, internal stress testing could be usefully applied to better understand and assess the relevance of climate-related risks for an institu-tion's trading and banking book." The ECB should clarify the time horizon of these stress test exercises and whether it refers to the regu-latory stress test.		Pargana, Myrto	Publish

25	Chapter 6	6.6.5	Expectation 11	37	Clarification	"[...] Institutions are expected to define the assumptions for their risk profile and individual specifications, as well as consider several scenarios based on different combinations of assumptions. As part of their capital planning, institutions are expected to assess their capital adequacy under a credible baseline scenario and institution-specific adverse scenarios. [...]". Is there any particular requirement on how these assumptions must be taken into consideration? I.e. are new climate variables expected to be introduced into current models or should the climate impact directly translated into existing economic variables? "[...] Institutions are expected to consider adopting a longer time horizon for climate-related and environmental risks given the likelihood that they will mostly materialise in the medium to long term. In particular, longer time horizons could be reflected in stress testing from the economic perspective. [...]"; The ECB should clarify if there is any guidance or limit established or expected for this "longer time horizons". The explicit ECB's expectation for institutions to use scenarios in line with scientific climate change pathways, such as IPCC or IEA scenarios as part of the ICAAP, is asked to be repositioned as an optional reference, considering: (1) Limited scope of these workgroup's quantitative conclusions: these working groups only provide inputs for a limited number of industries, potentially covering a low proportion of some institutions' assets. Hence, the investment to adapt internal credit and market risk models and methodologies may not be justified yet, if other internal assessments or external references provide better solutions and a more accurate perspective of the climate change and environmental risk profiles. (2) ICAAP provides input for supervisory exercises, but it is commonly understood as an internal program (as the acronym conveys), where each institution determines the models and methodologies to be used, following adequate own governance and control procedures."		Pargana, Myrto	Publish
26	Chapter 6	6.6.6	Expectation 12	38	Clarification	It should be clarified if any threshold will be established to define whether the liquidity buffer has been affected enough by these risks to incorporate it in its calibration.		Pargana, Myrto	Publish
27	Chapter 7	7	Expectation 13	40	Clarification	It should be clarified whether Implementing Technical Standards with templates indicating minimum and additional information to institutions will be issued considering that the NFRD is still in a consultation process.		Pargana, Myrto	Publish
28	Chapter 7	7	Expectation 13.2	41	Clarification	Article 431 CRR defines a notion of materiality of information with not further specified relation to the notion of materiality of risk/risk drivers men-tioned in other sections of this Guide. To avoid confusion, we propose to clarify Expectation 13.2, e.g. starting with "In case an institution deems information on climate-related risks to be immaterial for the purpose of disclosure, …".		Pargana, Myrto	Publish

29	Chapter 7	7	Expectation 13.4	43	Clarification	To be able to answer all information requirements of EC Guidelines on non-financial reporting, banks face some important challenges: - ESG data from counterparties is not currently available. This point is especially challenging for commercial banks which generally provide loans to a large number of categories of SMEs, where sometimes the mentioned information is not available even for the SME itself. - Proper IT developments are needed to allow entities to make robust and reliable calculations. - Defined quantification methodologies are also needed to ensure that disclosed information is comparable and reliable. Due to all the above, it is convenient to adopt this recommendation gradually, as IT systems, methodologies, and information are getting ready. In general terms, a balance needs to be found between feasibility and operational burden on one side and appropriate information on the other side.		Pargana, Myrto	Publish
30	Chapter 7	7	Expectation 13.5	43	Deletion	The ECB expects greenhouse gas emissions (Scope 1, 2, and 3) to be disclosed. However, to be able to calculate Scope 3 GHG emissions, banks and corporations face some important challenges: - currently, banks lack comprehensive climate-relevant data of their clients, at least concerning a large part of the portfolios. This point is especially challenging for commercial banks which generally provide loans to a large number of categories of SMEs, where sometimes the mentioned information is not available even for the SME itself. - Proper IT developments are needed to allow entities to make robust and reliable calculations. - Defined quantification methodologies are also needed to ensure that disclosed information is comparable and reliable. In this case, methodologies for Scope 3 for Financial Institutions are still under development and it is key to ensure all institutions use sound and appropriate methodologies. Hence the ECB should take into account that climate-related databases, together with climate-related metrics, are in the process of development and therefore will not yet be available for large parts of the portfolio by the end of 2020. Institutions that are firmly tied to a particular business area could unduly disadvantage the disclosure of greenhouse gas emissions in competition. We call for Scope 3 specifications to be deleted since they cannot be widely implemented in the short term.		Pargana, Myrto	Publish
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