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

Please see a more detailed explanation of the 12) key points below in the following link:
https://www.ebf.eu/wp-content/uploads/2020/09/Key-general-considerations-on-the-ECB-draft-Guidel-on-Climate-related-and-Enviromental-Risks.pdf

1) Timing
2) Principle based approach vs detailed requirements
3) Level Playing Field and proportionality for LSI
4) Proportionality in terms of different assets
5) Data availability and verification
6) The level of application: The Guide should remain at consolidated level, and only if relevant, some perimeters might be explored by carrying out deep dives rather than applying the Guide at a sub-consolidated level
7) Governance and the need for a holistic approach
8) Climate and environmental risks as driver of existing risk categories, or a separate risk category
9) Cross effects between physical and transition risk still need better understanding through scenario analyses
10) Symmetric approach
11) common set of relevant KPIs
12) Illustrative examples

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 2	2.1		6	Amendment	The level of application of this Guide should be at banks' consolidated level in order to avoid burden on both banks and inspection teams. Only if necessary, deep dives could be led in specific areas. Therefore, we suggest to insert into the paragraph : "The Guide should be applied at consolidated level".	Avoid unnecessary burden for both banks and inspection teams	, EBF	Publish
2	Chapter 2	2.1			Amendment	To ensure consistent understanding within supervisory teams, it should be made clear that inspection teams cannot use examples given in boxes in the Guide as the supervisory “general rule”. Such clarification could be introduced by the following wording : "The observed practices shared throughout this document, described in the boxes, merely serve as a means of illustration and are not necessarily replicable, nor do they necessarily meet all supervisory expectations. Therefore, supervisory teams cannot require from institutions systematic application."Ensure consistent understanding of supervisory teams that examples given in boxes in the Guide are not the supervisory “general rule”		, EBF	Publish

3	Chapter 2	2.2		6	Amendment	To request significant institutions to inform ECB of any divergences of their practices from this guide, which is still on the consultation phase, as from end-2020 will be challenging. We recommend postponement of the Supervisory Dialogue or phasing approach. In addition, we would request the ECB to clarify the legal status (per expectation) and how divergence from the recommendation is going to be considered in the Supervisory Dialogue.		, EBF	Publish
4	Chapter 2	2.2		6	Amendment	Significant institutions are expected to promptly start adapting their practices. We would like to stress the need for phasing approach and clarity of the ECB expectations per each phase. We would like to propose to postpone the supervisory dialogue by one year (2022) and adapt the implementation calendar to ensure: - Consistency with regulatory timeline and work. The EBA has not yet fulfilled its mandate given by CRR 2 to include in particular ESG factors in SREP and reflect on the prudential treatment of sustainable finance assets. Clarification is expected earliest with the EBA report in June 2021. The EBA Guidelines on loan origination explicitly referenced in the Guide, were finalized in last May and will be applicable by 30/06/2021 with a transitional arrangement of up to 3 years. A bank specific phased approach should, be allowed by the SSM, regarding the nature of environmental risks (climate probably for most banks, biodiversity, other), the risk typology (credit & operational risk, market and liquidity risk) and the scope of clients (: large corporates, SMEs / retail / financial institutions), reflecting different stages of maturities in terms of data/methodologies/practises, We suggest the following rewording : "As part of the supervisory approach, as from end-2021, significant institutions...."	Postponement of the supervisory dialogue by one year is considered as the most appropriate to ensure consistency with regulatory timeline and work, to account for the level of banks and to allow further data	, EBF	Publish
5	Chapter 2	2.4		9	Amendment	Alongside the risk materiality concept already introduced in the Guide, **better proportionality should also be included**. Different types of asset classes should not be treated in a one-fits-it-all-approach. Besides, regarding specificities of environmental risks, banks should be allowed to reflect in the requirements the geographic maturity regarding environmental risks (e.g. differentiated decarbonisation horizons for jurisdictions). We suggest providing in the Guide proportionality principle as it is allowed in the EBA Guidelines and to clearly state it. Therefore, we would add the following phrase at the end of the paragraph 2.4 : "As permitted by EBA Guidelines, the proportionality principle should be applicable in the supervisory expectations. In addition, given specificities of environmental risks, banks can also appreciate the geographic maturity regarding materialisation of environmental risk and reflect it in their risk management framework"	Further reflecting legal basis which allow proportionality principle and allow inclusion of more proportionate aspects specific to environmental risks such as geographic maturity.	, EBF	Publish

6	Chapter 3	3.2		11	Amendment	We would suggest the amendment to the guide reported in bold: "The magnitude and distribution of climate-related and environmental risks depend on the level and timing of mitigation measures and whether the transition occurs in an orderly or disorderly fashion. The circular economy, for example, gives an opportunity for a systemic transition to an economic system designed to be able to regenerate natural capital, therefore being eco-sustainable by design. Potential losses stemming from climate-related and environmental risks depend especially on the future adoption of climate-related and environmental policies, technological developments and changes in consumer preferences and market sentiment. Irrespective of this, any combination of physical and transition risks will, in all probability, materialise on the balance sheets of euro area institutions. Existing estimates of adverse long-term macroeconomic effects resulting from climate change point to significant and lasting losses in wealth. These may be due to slowing investment and lower factor productivity in many sectors of the economy, as well as reduced potential GDP growth."	The aim of this amendment is to consider the positive impacts of the transition from a linear to circular economy as reported in a 2019 paper published by the [Ellen MacArthur Foundation, "Completing the picture how the circular economy tackles climate change", 23/09/2019]. In detail, by decoupling economic growth from the exploitation of virgin raw materials and environmental degradation, as well as by developing practices more resilient to the economic cycle, Circular Economy (CE) offers effective hedging of linear risks, shields financial actors from the risk of stranded values and generates fresh and non-speculative demand for investments. The paper estimates the cost to the global economy by 2100 of USD 54 trillion	, EBF	Publish
7	Chapter 3	3.2	Table 1	11	Clarification	How does the ECB expect banks to account for the interaction between the climate and environmental risk drivers? In the guide they are viewed as separate risk drivers that can be viewed independently. Water stress for instance was previously considered a climate related risk, now it is an environmental risk driver. Climate related physical risks exacerbate water scarcity but so does excessive water use or water pollution.	Helps to understand the interaction between the climate and environmental risk drivers	, EBF	Publish
8	Chapter 3	3.2	Table 1	11	Clarification	The extent of transition risk impact on the market liquidity risk is not very clear, e.g., the deterioration of the institution's own assets due to transition risks can also have impact on the Bank's liquidity position if these assets are used as collaterals to obtain funding.	Helps to understand the definition and taxonomies for physical/transition risks	, EBF	Publish

9	Chapter 4	4.1 / 4.2	Expectation 2.1		Amendment	We believe some clarifications should be provided on the potential use of different scenario analysis depending on the maturity We believe that scenario analysis (stress) is an adequate tool to measure materiality of climate-related and environmental risk impact on strategy. In the steering horizon of the Bank (short to medium term) it is already embedded in the current risk monitoring framework. Long-term horizon impact on business environment should only be used to enlighten business strategy. Inclusion of environmental risks into business environment analysis and strategy determination / implementation is relevant on short (1-year) and medium term (< 5 years). In addition, we believe it is premature to build climate related stress scenario analyses, to develop a set of plausible scenarios to test the resilience of banks business models. At this stage, we consider that the priority is to actively participate to the current exploratory pilot climate related scenarios lead by EBA, ACPR and BoE, as banks and regulators/ supervisors need to learn together. The expectation 2.1 should therefore be amended consequently or confirmed that the Guidance is not prescriptive in terms of long-term strategic decisions and scenario analysis.		, EBF	Publish
10	Chapter 4	4.1	Expectation 1	15	Clarification	It will be helpful to provide an example/observed practice like for the other expectations (with the understanding that this is only illustrative)	Helps to understand the expectation	, EBF	Publish

11	Chapter 4	4.1	Expectation 1	15	Clarification	Standard econometric sectoral models are normally based on estimates of final demand, competitiveness of domestic companies and input-output links among sectors. In this context, it is difficult to formally shock a sector for both physical and transition risk, given the judgmental nature of both the size of the shock and its impact on the relevant variables. It is also difficult to assess how other sectors react, for instance because resources move from a polluting sector destined to downsize to such sectors. We would like the ECB to confirm that the Expectation 1 does not refer to quantitative forecasting analyses.		, EBF	Publish
12	Chapter 4	4.1	1.1	15	Clarification	We prefer that banks have the flexibility to define the right level of granularity for their institution. However, a common understanding of sectors which are most impacted would be helpful ECB already noted sectors more likely to be impacted by physical and transition risks on page 13 but more details would ensure that bank analysis is more comparable	To better understand the desired level of granularity This will help the institution to identify the correct and comparable metrics	, EBF	Publish
13	Chapter 4	4.1	1.1	15-16	Amendment	We would suggest the amendment to the guide reported in bold: "When scanning their business environment, institutions are expected to identify risks arising from climate change and environmental degradation at the level of key sectors, geographies and related to products and services they are active in or are considering becoming active in. Climate-related and environmental risks, for instance, may influence economic growth, employment or real estate prices at the national, regional or local level. Weather events may cause droughts or floods affecting regional agricultural production or housing demand at the national, regional, or local level. Policy changes to promote an environmentally-resilient economy may reduce the demand for real estate in certain, for example high flood risk, areas. Parallel to this, the competitive landscape is affected by the development of a green financing market and consumer preferences that are shifting away from carbon-intensive goods and services. In the area of technology, institutions serving clients operating in energy-intensive industries, or power stations with a high reliance on fossil fuels, may see that their clients are facing significant capital expenditure requirements to decarbonise their energy mixes. At the same time, institutions serving clients operating in renewable energies production or in circular economy projects may see their clients becoming potentially more resilient and therefore may experiment a de-risking effect on their asset portfolio. Institutions are expected to properly document the materiality assessment of climate-related and environmental risks for their business environment. For instance, it could be reflected as part of their regular monitoring of material or emerging risks, or evidenced through management board discussio	The aim of this amendment is to consider in the scanning of the business environment not only the potential adverse impacts due to environmental and climate change risks but also the opportunities that may arise from a greater leverage on the sustainable finance, such as from a Circular Economy strategy. This amendment is based on a research by Università Bocconi and Intesa Sanpaolo (Claudio Zara and Shyaam Ramkumar, "Circular Economy and Default Risk", 7/07/2020], that has been presented in the Conference of the International Society for Circular Economy on the 6-7th July2020, University of Exeter. Proceeding are under publication. It provides the evidence of a positive relation between the degree of circularity and de-risking effect, measured	, EBF	Publish

14	Chapter 4	4.1	1.1	15	Amendment	As stated in the document, EBA requires banks to scan the business environment capturing a broad range of external factors and trends that shape the business conditions in which an institution operates. These include macroeconomic variables, the competitive landscape, policy and regulation, technology, societal/demographic developments, and geopolitical trends. Climate-related and environmental risks are not considered a separate risk but may influence all of these areas and risk factors These existing risk factors are already analysed in existing stress scenario analysis. Due to this it would make more sense to include climate and environmental risk factors in existing scenario analysis once the EBA/BOE/ACPR pilot exercised are finalized, instead of running isolated analysis but flexibility should be allowed for each bank. “Institutions are expected to include the effects of climate-related and environmental risks on major risk factors (e.g. market risk) in existing business strategy. Also, this analysis should rather focus on external factors instead of "key sectors, geographies and related to products and services they are active in". Rewording suggestion: When scanning their business environment, institutions are expected to identify the effect of risks arising from climate change and environmental degradation on external factors and trends that shape the business conditions (if relevant).”		, EBF	Publish
15	Chapter 4	4.1	1.1	16	Clarification	Could you please confirm that the guidance does not call for a separate analysis to be performed on the competitive landscape , but the competitive landscape should be taken into account when scanning the business environment to identify and assess climate risks	Significant differences in the level of transparencies from different players makes difficult to understand clearly the competitive landscape	, EBF	Publish
16	Chapter 4	4.1	1.2	16	Clarification	When describing "policy-driven developments" it is not clear to which policies (internal or external) it refers.	Unclear whether it refers to internal policies vs. regulatory developments or other external policies This will help institutions in the compliance process	, EBF	Publish

17	Chapter 4	4.2				According to the draft guide, ECB is requesting climate related metrics although there is no common understanding of what metrics should be used, . It should be left for banks to decide on the most appropriate metrics based on their strategy that is bank specific.		, EBF	Publish
18	Chapter 4	4.2	Expectation 2	17	Clarification	In case of transition risk there sometimes is a conflict between Financial materiality and Environmental and Social materiality (double materiality). In case of a conflict, what is the priority of the supervisor?	Helping to understand how an institution should prioritize according to the supervisor.	, EBF	Publish
19	Chapter 4	4.2	Expectation 2	17	Clarification	Scenarios should be in house scenarios at the discretion of the bank, as the strategy is specific to the bank. In addition, for the moment, common standard scenarios are NOT available.	When developing a set of scenarios to test the resilience of the business model it is a challenge to judge the possible impact of climate-related and environmental risks and the time horizon over which these effects are expected without forward looking methodologies and research	, EBF	Publish

20	Chapter 4	4.2	2.1	18	Amendment	Climate-related and environmental risks have their impact on the long term, probably decades, whilst the business plans, the Risk Appetite Framework, the stress tests have a medium-term view. It is a very difficult task to capture the specificities of climate risks for the bank given the high volatility and uncertainty of the actual environment due to technological and also given the lack of complete modelling methodologies for scenario analysis in order to evaluate the impact of the C/E risks on the business strategy. Consequently, in our view, the final version of the Guide should also clarify that the C/E risks impacts analysis on the business strategy should be mostly qualitative. Considering the high volatility and the uncertainty of the actual environment due to technological, political and macroeconomic factors and also given the lack of complete modelling methodologies for scenario analysis, the final version of the Guide should clarify that the C/E risks impacts analysis on the business strategy should be mostly qualitative.	Considering the high volatility and the uncertainty of the actual environment due to technological, political and macroeconomic factors and also given the lack of complete modelling methodologies for scenario analysis, the final version of the Guide should clarify that the C/E risks impacts analysis on the business strategy should be mostly qualitative.	, EBF	Publish
21	Chapter 4	4.2	2.1	17	Amendment	We would suggest the amendment to the guide reported in bold: "Institutions are expected to determine which climate-related and environmental risks are material in the short, medium and long term with regard to their business strategy, for example by using (stress) scenario analyses. As set out in the EBA Guidelines, institutions should take the limitations, vulnerabilities and shortcomings detected in internal stress tests and scenario analyses into account when determining their business strategy. The scenario analysis tool is particularly useful in the context of climate-related and environmental risks given the uncertainty associated with the future course of climate change and society's response to it. By developing a set of plausible scenarios to test the resilience of its business model, an institution can account for this uncertainty in its strategic decision-making. The scenario analysis should take into account not only the potential adverse impacts due to environmental and climate change risks but also the opportunities that may arise from a greater leverage on the sustainable finance. A Circular Economy strategy for example offers an effective hedging of linear economy risks, shields financial actors from the risk of stranded values and generates fresh and non-speculative demand for investments. These scenarios are expected to include assumptions regarding the impact of climate-related and environmental risks and the time horizons over which these effects are expected to materialise. These assumptions can be quantitative and/or qualitative in nature, are expected not to rely solely on historical experiences, and also to be relevant to an institution's particular exposure to environmental risk (depending on the types of business activity, sector and location of such exposures). This may also involve an expert judgement, since the given nature of climate change as a driver of financial risk will present new challenges that have not yet materialised as well as new business opportunities.	The aim of this amendment is to consider the positive impacts of the transition from a linear to circular economy in the scenario analysis as reported in a 2019 paper published by the Ellen MacArthur Foundation [Ellen MacArthur Foundation, "Completing the picture how the circular economy tackles climate change", 23/09/2019]. In detail, the paper estimates the cost to the global economy by the year 2100 of 54 trillion dollars due to climate change effects, even if Paris Agreement will be met. To date, it says, the shift to the circular model has particularly focused on the transition to renewables: while being essential, the abandonment of fossil fuels only covers 55% of CO2 emissions. The remaining portion is in fact linked to the production of goods such as cars, food, clothing and everyday products. At an	, EBF	Publish
22	Chapter 4	4.2	2.2	18	Clarification	What is the expected level of cascades for KPI? Is there a minimum level of expectation? Please define better what is the minimum standards expected on KPI settings Amendment: KPIs should be 'in house' "The implementation of the institution's business strategy is expected to reflect material climate-related and environmental risks, for example by setting and monitoring in house key performance indicators (KPIs) that are cascaded down to individual business lines and portfolios.	E.g. KPIs could be few and impact only selected businesses	, EBF	Publish

23	Chapter 4	4.2	Box 2	18	Amendment	Example i) Carbon foot printing KPIs (absolute GHG emissions) may look appealing but might not be technically and operationally suitable for monitoring the strategy (see remark on expectation 13.5). Industry should develop relevant common KPIs, eventually for some of them shared with the non-financial industry to ensure comparability in disclosures and cascaded down to individual business lines and portfolios.		, EBF	Publish
24	Chapter 5	intro		19	Clarification	Please clarify the application at a group level, there is no mention in the document except for the fact that to have the "holistic view of all risks both on an individual and consolidated basis… institutions are expected to embed these risks in their governance and risk appetite frameworks, while adequately involving all relevant functions..": Are those relevant functions to be declined in all the companies of the group? (e.g. is it enough to have a dedicated structure/committee at a group level ?) The first gap analysis to be provided to the JSTs should be required on a consolidated basis only. It makes sense as new ESG policies, governance, metrics, reporting are usually defined at Group level. Only when CRR3/CRD5 and EBA guidelines/ RTS will apply, the scope of the supervision at subsidiary or sub consolidation levels could be aligned with the regulatory scopes.	It is necessary to better clarify the application at a group level	, EBF	Publish
25	Chapter 5	5.1 & 7.3			Amendment	The draft guide has a strong emphasis on integration of Business and Risk strategies (Expectation to disclose structure, roles & responsibilities, relationships, procedures, implementation, resp.; items 5.1, 7.3) Expectation should reflect the fact that climate related metrics are being developed currently, and hence, a full integration into business and risk strategies remains dependent on further progress in the development of climate and environmental risk frameworks As partially acknowledged in the guide, it has to be understood that a full and complete integration of climate-related and environmental risks into banks risk management framework will need robust quantification methodologies, which are still at a very early stage. The ECB document reinforces the idea that institutions must take a forward- looking approach to considering climate/environmental risk, but the risk management discipline is still in progress (there is a lack of comprehensive tools and methodologies). For this reason, a phasing approach is needed. The different expectations should be prioritized to help banks in the definition of roadmaps		, EBF	Publish

26	Chapter 5	5.1	3.2	20	Amendment	This expectation should be limited to main policies directly and materially affected by climate-related and environmental risks “The management body is expected to review the main policies potentially affected by climate-related and environmental risks, including the (credit) policies for each sector and product, on a regular basis. “ There should be flexibility on the granularity used. Only sector / products for which environmental risks are expected to be material should go through this review.	Management body review should be limited to policies/products materially affected by climate-related risks.	, EBF	Publish
27	Chapter 5	5.2	expectation 4	21	Amendment	Institutions are expected to develop appropriate key risk indicators and set appropriate limits for climate-related and environmental risks in line with their regular monitoring and escalation arrangements" Ass explained in Table 1 (page 11) climate risk basically is a risk-driver that 'materialises' in known risk types (e.g. credit risk and operational risk). To establish an all-inclusive and mutually exclusive risk framework a clear definition and positioning of climate risk is essential to avoid misunderstanding/noise and possible double-counting of risk.	Avoid misunderstanding and risk of double-countin	, EBF	Publish
28	Chapter 5	5.2	4	21	Amendment	Regarding: “For example, by setting limits on lending to sectors and geographies that are highly exposed to climate-related or environmental risks. “ A possible way to do it would be to integrate climate-related or environmental risks while setting limits on lending sectors and geographies. Flexibility and in-house limits should be allowed as the Risk Appetite Framework is specific to each bank.		, EBF	Publish

29	Chapter 5		4.2	22	Clarification	Regarding: “The ECB expects institutions to assign quantitative metrics to climate-related and environmental risks, particularly for physical and transition risks. However, it 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. Please refer to our general comment : the quantitative metrics developments could only be developed based on data availability		, EBF	Publish
30	Chapter 5	5.2	4.3	23	Amendment	We suggest the following wording : "Remuneration policies and practices, including the use of deferral and the determination of performance criteria, are expected to help foster a long-term approach. To encourage behaviour consistent with their climate-related and environmental (risk) approach, institutions that have climate-related and environmental objectives could consider when appropriate implementing a variable remuneration component linked to the successful achievement of those objectives for their senior management in charge of ESG policies, based on number of KPIs. Where the financial impacts of climate-related and environmental risks are difficult to quantify, the management body can consider incorporating appropriate qualitative criteria into the remuneration policy of the senior management directly accountable to the management body as regard the achievement of those objectives .”	We favour workability of remuneration practices expectations	, EBF	Publish
31	Chapter 5	5.3	5.5	25	Clarification	We understand and agree to a role of the compliance function in the context of ensuring adherence to sustainability related applicable laws, rules, regulations and standards and we agree that tasks and responsibilities need to be defined, in addition to the tasks and responsibility of the risk management function for identifying, assessing, measuring, monitoring and reporting on climate-related and environmental risks in general (see expectation 5.4). In LSI usually the compliance function must check if laws, rules, regulations and standards are respected, but it is not up to them to express on legal responsibilities However, the reference to ‘liability risks’ in expectation 5.5 is not clear to us, it will be more effective to have a description of what is meant by “liability risk”: if it is intended as a particular kind of risk ("legal" or “reputational risk" for example) or it is intended as compliance risk, as described in the last line of the expectation “As rules and standards on sustainability may change over time, institutions may increasingly face compliance risks stemming from climate-related and environmental issues" as the risk of non-compliance with laws, rules, regulations and standards is not limited to a liability risk in our view. .	Liability is not a primary focus of the Compliance function in banks, it is more about compliance with rules and regulations and the spirit thereof	, EBF	Publish

32	Chapter 5	5.4	6.1	26	Amendment	Regarding: "In particular, this includes risk data reporting governance, IT infrastructure, risk data aggregation capabilities and reporting procedures." A comprehensive integration of data governance and integration into information systems will require massive investment and need time to be implemented. Here again, a phasing approach should be considered to ensure the feasibility (as on some environmental areas, data collection might be much more difficult). In addition, for consistency and efficiency sake, we propose to integrate data governance into the existing framework. Amendment: "To integrate the data governance for climate-related and environmental risks in the existing data framework (incl. risk data reporting governance, IT infrastructure, risk data aggregation capabilities and reporting procedures…) »	Phase-in approach needed to ensure feasibility.	, EBF	Publish
33	Chapter 5	5.4	6.2	26	Amendment	Regarding: "Institutions are expected to consider adapting their IT systems to systematically collect and aggregate the necessary data in order to assess their exposures to these risks. " ECB should give to the institutions a reasonable time to implement this expectation, as adapting IT system could be quite complex, and the needed investments could constitute quite a financial burden that will need to be spread over time. Amendment: ""To consider adapting their IT systems via a long term project to systematically collect and aggregate the necessary data in order to assess their exposures to these risks, in a best effort basis in a fast evolving regulatory and market environment"	Review implementation timeframe to ensure feasibility	, EBF	Publish
34	Chapter 5	5.4	6.3	27	Clarification	An institution's risk reports are expected to convey the impact of climate-related and environmental risks on its business model, strategy and risk profile. Banks are taking different approaches – standalone reports as well as embedding within existing annual or sustainability reports. Hence individual banks should have the flexibility to choose the approach they want to take with their climate-related disclosures.		, EBF	Publish

35	Chapter 6		7.2	26	Amendment	As also stated in the ECB Guide to the ICAAP, risks are not expected to be excluded from the assessment because they are difficult to quantify or because the relevant data are not available. Where such quantification methodologies are subject to further developments, also taking into account the current work and upcoming publications of international networks and standard setters, institutions are expected to make active efforts to develop or apply appropriate tools and methods. In order to cope with issues mentioned in our general comments, the ECB should adopt a phase-in approach, especially regarding quantification methodologies		, EBF	Publish
36	Chapter 6	6.1	7.2	29	Clarification	Regarding quantification methods - in order to mitigate the issues mentioned in our general comments, the ECB should adopt a phase-in approach for these in particular.	Phase-in approach needed to ensure feasibility.	, EBF	Publish
37	Chapter 6		7.4		Amendment	Expectation to conduct a climate-related and environmental due diligence, both at the inception of a client relationship and on an ongoing basis (item 7.4) Running that type of due diligence for every client relationship is not adequate, in our view, and should be limited to sensitive sectors and regions		, EBF	Publish

38	Chapter 6		7.4	26	Clarification	This should be understood to include the collection and verification of information and data needed to assess borrowers' vulnerabilities to climate-related and environmental risks. Not sure on how this "verification" should be done? The holistic due diligence required can't be reached without deeper E&S disclosure requirement for companies and standardization of metrics disclosed. Alignment with NFRD should be envisaged.		, EBF	Publish
39	Chapter 6	6.1	7.4	30	Amendment	Unclear how the "verification" should be done. The holistic due diligence required can't be reached without deeper E&S disclosure requirement for companies and standardization of metrics disclosed. Extra-financial information to be disclosed by corporates should be standardized in a comprehensive regulatory framework, audited by external review. Also approaches should differ while speaking about SMEs / retail which might not be able to disclose relevant / audited information. Alignment with NFRD to be envisaged.	Proper climate-related and environmental risks analysis should rely on strong reporting frameworks which would ensure data availability and consistency.	, EBF	Publish
40	Chapter 6	6.2	expectation 8	31	Amendment	We consider that 'at all stages' is excessive. Recommendation 8.1 with "all relevant stages" is more appropriate. ""To consider climate-related and environmental risks of the credit-granting process and to monitor the risks in their portfolios »		, EBF	Publish

41	Chapter 6	6.2	8.1		Clarification	Physical risk has a long-term element which is difficult to reconcile with current credit risk frameworks as they focus on a shorter horizon. Combining these two frameworks (long term and short term) could lead to climate risks becoming essentially insignificant as these effects are overwhelmed by the effects of other risk drivers which dictate in the shorter term. Margins of conservatism could be used instead to make sure that the short-term magnitudes do not overwhelm the longer-term magnitudes. However, frameworks on margins of conservatism from the regulator should also explicitly address the treatment of climate and environmental risks.		, EBF	Publish
42	Chapter 6	6.2	8.1	32	Deletion	Concerning the proposal that institutions may take into consideration the quality of the clients' own management of climate-related and environmental risks we would like to note that that disclosure of such information by banks' clients is not common. We suggest to clarify the following paragraph "Institutions may take into consideration the quality of the clients' management of climate-related and environmental risks" by adding, when available.	The ECB should rely on legal basis and considers difficulties to gather needed data on such considerations	, EBF	Publish
43	Chapter 6	6.2	8.3	33	Amendment	Regarding collateral valuation, the legal basis is CRR and additional Guidelines published by the EBA. Such legal basis reflects the specificities of the range of activities concerned and the methodologies used (statistical or model-based valuation, external valuation etc...). For specialised financing for instance, banks would rely on external stakeholders, for instance market price using external sources coming from specialized companies (MSCI, Clarkson for boats, AVAC for Airlines etc), for which we do not know how climate-related environment risks are taken into consideration. When relying on external valuers, the supervisory expectation can only be taken into account when external valuers include these risks in their assessment process. For more statistical based valuation which can be used for micro and small enterprises for instance, the ability to take into account drivers in relation to environmental risks will depend on the availability of the information (which sometimes can be based on the will of the client to provide information on their assets). Therefore, we think that the expectation should 1/ reflect the valuation methodologies 2/ be limited in terms of sectors to the most prone to such risks (e.g. : real estate). We suggest to reword the paragraph : "Institutions are expected to consider climate-related and environmental risks in their collateral valuations where appropriate, in a manner which is proportionate and which takes into account the valuation methodology and its structural constraints such as data availability".	Need to reflect legal basis, as well as all valuation methodologies and data availability concerns	, EBF	Publish

44	Chapter 6	6.2	8.4	33	Clarification	What does ECB expect institutions to take as "likely policies", is that based on Paris or based on politics.	Paris pledges and national political reality are often far apart so for the risk model it depends a lot which one is chosen.	, EBF	Publish
45	Chapter 6	6.2	8.4	33	Clarification	Can the link between the CRR and the expectations in relation to collateral valuation be clarified? Is the document referring to "market value, within the meaning of the CRR"?	Clarification is needed on whether the expectation to consider climate-related and environmental risks in the valuation of the collateral refers to the market value within CRR meaning or rather than just "value", as obviously these two cannot be in conflict.	, EBF	Publish
46	Chapter 6	6.2	8.4	32	Amendment	The supervisory expectation with regards to monitoring and management of credit risks in portfolios in particular concentration analysis of assets with specific characteristics that are likely to be targeted by transition policies should be proportionate to the type of portfolios. Therefore we suggest to reword the expectation in the following way : "Institutions are expected to monitor and manage credit risks in their portfolios, when relevant, through sectoral/geographic concentrations analysis, exposure limits, deleveraging strategies and scenario-analysis and/or stress testing". Moreover, we would welcome clarification on the legal basis for this expectation	Need to introduce more proportionality and to clarify the legal basis for the integration of environmental factors in concentration analysis	, EBF	Publish

47	Chapter 6	6.2	8.5	33	Deletion	Regarding pricing framework, the rationale of the EBA on GL on loan origination is to "set expectations for the risk-based pricing of loans, listing a set of risk-based elements that institutions should consider and reflect when pricing newly originated loans, without prescribing any specific pricing strategies and interfering with business decision-making responsibilities." The aim is that "institutions implement a comprehensive framework for the pricing of loans" and the Guidelines "does not prescribe any particular pricing strategies, as that remains the business responsibility of institutions themselves". Giving hat pricing strategies should remain in the business responsibility of institutions themselves we propose ECB to clearly state that tit is not prescribing any particular pricing strategies and expectation 8.5 is rather suggestive in the nature. Therefore, we consider the supervisory approach to be contradictory to the EBA philosophy. Note also that the EBA guidelines are not yet applicable.		, EBF	Publish
48	Chapter 6	6.2	8.5-8.6	33-34	Clarification	Meeting these expectations requires ensuring data availability from sectors and companies to financial institutions in a consistent and sufficient way to enable integrating environmental factors into pricing. The requirements in the Guidelines should take into account the current lack of relevant and reliable data which is expected to improve over time with the revised NFRD .Proposed initiatives such as Central ESG data register could also substantially improve both the availability and quality of the data. https://www.ebf.eu/ebf-media-centre/a-centralized-register-for-esg-data-in-eujoint-letter/		, EBF	Publish
49	Chapter 6	6.2	8.6	34	Amendment	Regarding pricing framework, reflecting the relevant costs induced by environmental risks can be operationally challenging. We think that more flexibility should be introduced. Therefore, we suggest to reword the beginning "Institutions' loan pricing is expected to reflect, where appropriate and feasible, the different costs driven by climate-related and environmental risks."	Operational challenges and relevancy of the supervisory expectation	, EBF	Publish

50	Chapter 6	6.3	9.1	34	Amendment	We consider that a relevant way to address the impact of climate changes on physical risk of its operations is through scenario analysis**. In that context, we would favour the development of climate changes scenarios as a prerequisite and in this perspective would advocate for industry wide work in liaison with regulators and local authorities that can be key in the management of some extreme events.**	Need to consider the development of industry wide scenarios as a prerequisite for banks to comply with this requirement	, EBF	Publish
51	Chapter 6	6.4 - 6.5	10,11	36	Clarification	The ECB Guide asks Institutions to monitor on an ongoing basis the effect of climate-related and environmental factors on their current market risk positions and future investments, and to develop stress-testing scenarios that incorporate climate-related and environmental risks. We notice that this is a very complex task, for which neither industry practices nor market data are available. Potentially, Institutions could develop very different approaches, leading to very different market scenarios and impacts on market risk measures. ECB should clarify that the priority is not delivering a set of computations assuming specific carbon trajectories over a long time horizon but to develop common knowledge in this area. We also notice that the considerations above should be applied not only to market risk measures, but also to the valuation of financial instruments. These topics should be discussed in a working group focused on the impact of climate-related and environmental risks on asset pricing and market risk management	Focus on the impact of climate-related and environmental risks on asset pricing and market risk management is needed.)	, EBF	Publish
52	Chapter 6	6.4				Could ECB confirm that the Guide does not specify the necessity for ad hoc reporting on climate and environmental risk but this is integrated in the existing reporting		, EBF	Publish

53	Chapter 6	6.5	11	37	Amendment	The Guidelines states that the "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 .../as well as consider several scenarios based on different combinations of assumptions."" It would be extremely difficult to manage different environmental risks in one single scenario (for ex a scenario simulating the effect of a strong hurricane due to climate change with a chemical pollution causing big losses on biodiversity), as a result the ECB expectations would lead to the utilization of several scenarios, each of them focusing on one type of risk. It has to be understood that this could led to an exponential use of scenarios and related stress testing exercises, which might not be operationally feasible. We would need here to consider the materiality of those risks to strictly limit the number of scenarios used and stick to shared views of futures (ex : for transition risk only consider a scenario aligned with Paris agreement). Reference to the NGFS would support greater consistancy of approaches between the ECB & other supervisors We also introduce qualitative assessment : it would make sense to keep climate-related risks as the driving force in the scenarios and being quantitatively assessed, with a qualitative assessment made posteriori for environmental risks.		, EBF	Publish
54	Chapter 6	6.5	11	37	Clarification	Institutions are expected to consider adopting a longer time horizon. How realistic and plausible are these scenario's for longer time horizons (20-30 years)?	To clarify on how realistic and plausible these scenarios are for longer time horizons	, EBF	Publish
55	Chapter 6	6.5	11	38	Clarification	Regarding "In particular, longer time horizons could be reflected in stress testing in the economic perspective", we think that the expectation is unclear and it would clearly causes implementation difficulties, as ICAAP exercise only makes sense if it's being done as a complete exercise (with normative and economic perspective), with could operationally not be done on so many scenarios and such a long time horizon. We would suggest that the usual time horizon (3 years) of the ICAAP exercise remains unchanged. Therefore, we would delete the following paragraph "Institutions are expected to consider adopting a longer time horizon... in the economic perspective."	Longer horizon in the ICAAP is deemed not relevant and not appropriate.	, EBF	Publish

56	Chapter 6	6.5	11	37, 38	Clarification	The ECB should provide their expectations regarding the trade off on scenarios which give different weights on different time horizons. Using a short versus a long-term horizon will result in different prioritization in terms of the risks being considered and the inputs being used. Furthermore, long term horizons introduce significant uncertainty in results (not to mention difference in strain on resources), which should be addressed by the ECB in terms of the regulatory and prudential expectations.	Clarification with regards to trade between long- and short-term horizon for scenario analysis	, EBF	Publish
57	Chapter 7	7	13	40	Deletion	It is not meaningful to duplicate disclosure requirements from the CRR or EBA guidelines in this guide for the purpose of climate risks. If climate risk is a relevant risk driver, institution will report about it in their disclosures anyway. The Guidelines should clearly state that the European Commission's "Guidelines on non-financial reporting: Supplement on reporting climate-related information" are for voluntary applications and that the process of update of NFRD is ongoing. Consequently, all the ECB' expectations based on the EC GL should be revised in the language. (i.e. 13.2)	Due to the missing mandate ECB should not articulate disclosure requirements. This work has to be done by the EBA.	, EBF	Publish
58	Chapter 7	7	13	40-44	Clarification	Expectation 13 and related sub-points, in terms of disclosure, are in line with the requests reported in the "European Commission's Guidelines on Reporting climate-related information", which also make reference to the recommendations issued by the "Task Force on Climate related Financial Disclosures (TCFD)". In this context, we point out that the European Commission's (EC) Guidelines mentioned are not-binding and do not create new legal obligations in terms of non-financial disclosure. Furthermore, with regard to the performance indicators, the EC Guidelines make reference to the EU taxonomy, whose full definition and implementation phase, also for non-financial companies, is still under way. However, although on the disclosure side an alignment process with the EC Guidelines and to the TCFD is in progress (the achievements are reported annually in the Consolidated non-Financial Statement), we highlight some difficulties in the disclosure of some complex issues included in the EC Guidelines and therefore also in the alignment with the expectations of the ECB (e.g. some metrics, also based on the analysis of the portfolio, and the calculation of Scope 3 emissions on lending portfolio and investments portfolio). In addition, it should be clarified that financial institutions are currently not yet in a position to report all the KPIs mentioned, due to a lack of data availability on the customer side. This means that businesses must first meet these requirements before institutions are in a position to report.	Although on the disclosure side an alignment process with the EC Guidelines and to the TCFD is in progress (the achievements are reported annually in the Consolidated non-Financial Statement), we highlight some difficulties in the disclosure of some complex issues included in the EC Guidelines and therefore also in the alignment with the expectations of the ECB. It should be stressed that institutions are not able to report all of the KPIs due to a lack of data. Businesses should meet reporting requirements first.	, EBF	Publish

59	Chapter 7	7	13	40	Clarification	Please clarify regulatory disclosures. We propose to delete "as a minimum" that could be interpreted as the ECB expects banks to report ALL non biding 21 indicators embedded in the EC Guidelines on climate non-financial reporting, whereas the revised NFRD has not been finalized nor entered into force	We assume that ECB refers to Pillar 3. If not please clarify.	, EBF	Publish
60	Chapter 7	7	13	40	Amendment	Please confirm that the ECB is not asking to report on immaterial risks but to explain, as stated in the EC GL, why that risk is immaterial for the bank We would suggest to reword to clarify that In case an institution deems climate-related risks to be immaterial, the institution should document this judgement with the available qualitative and quantitative information underpinning its assessment." as quoted from the June 2019 document (EC GL). The wording should however recognize the fact that quantitative climate related metrics are being developed currently, and hence, quantitative information on materiality will remain limited to some extent.	Pillar III should remain meaningful. It would be meaningless to report information about immaterial risks.	, EBF	Publish
61	Chapter 7	7	13.3	46	Deletion	We propose the amendment of the text “in terms of dates and outstanding volumes by geographic area and/or other metrics and criteria with reference to the definition of the covered activity and associated targets”. Please find below the text: “Institutions committing to stop or limit financing to certain industries or activities through dedicated financing policies are then expected to disclose the definition of the covered activity and associated targets, in terms of dates and outstanding volumes by geographic area and/or other metrics and criteria. Institutions are also expected to communicate on progress in achieving these targets, the internal monitoring governance, as well as relevant methodological aspects, in particular, the criteria used to identify counterparties covered by the financing policy and the scope of business relationships concerned. Likewise, institutions are expected to consider all business lines and their exposures as a whole when reporting on their contribution to environmental goals. ECB should also amend the Guide in order to specify that banks are dependent of the information disclosed by their corporate customers: “When financial institutions disclose figures, metrics and targets as material, they are expected to disclose or reference the methodologies, definitions and criteria associated with them, as far as the information is available from their corporate customers”	Institutions could identify different ways to define the covered activity and associated targets, other than dates and volumes by geographic area, that are still compliant to the expectation	, EBF	Publish

62	Chapter 7	7	13.5	43	Clarification	The information listed in this expectation do inform about the GHG-emissions of a client or a portfolio. What they do not inform about is the underlying risk. A short-term loan to a coal producing company might have high GHG emissions, but could have a low risk. The ECB should make clear what the objective of such information is DISCLOSURE ONLY. If risk is in focus it should be made clear that there is no direct linkage.	ECB should make clear that GHG-emissions and risk do not have a direct linkage.	, EBF	Publish
63	Chapter 7		13.5		Amendment	Amendment: ""Institutions are expected to disclose the institution's Scope 1, 2 and 3 GHG emissions, for the whole group, with an appropriate phase-in depending on the advancement of common methodologies." Institutions are expected to disclose the institution's Scope 1, 2 and 3 GHG emissions for the whole group (item 13.5); Banks are lacking comprehensive climate related data from clients – at least for a large portion of portfolios . The ECB should clarify that the Guide only focuses on financial materiality (impact of environmental risks to the bank) and excludes the impact of the bank on the environment. The GHG emissions on scopes 1, 2 and 3 as already included in TCFD and NFRD NBG, provided that the methodologies used are disclosed (as common and stand-ardized methodologies do not exist yet), as well as the objectives to be achieved by 2050;. Carbon foot printing disclosures are however frequently limited to Scope 1 and 2, where there is an agreed calculation methodology; they generally repre-sent less than 20% of a company's emissions across all major climate relevant sec-tors (except for utilities and materials manufacturing. Scope 3 emissions are not harmonized, difficult to estimate and carbon footprinting may not give the appro-priate insight for decision-making of financial institutions. Moreover, Scope 3 emission disclosure faces the difficult question of how to allocate the responsibility for Scope 3 emissions without double counting across sectors of the economy. For example, are emissions associated with oil consumption a responsibility for the oil & gas industry or the auto sector? Scope 3 emissions are not harmonized, difficult to estimate and carbon footprinting may not give the appropriate insight for decision-making of financial institutions. In addition, the relevance of the use of Scope 3 emissions in banks banking book (i.e. financed emissions) should be further discussed. Carbon foot printing tends to favour simple (but not necessarily impactful) decarbonization strategies. Banks can reduce their total carbon footprint simply by lending more to certain sectors or subsectors with lower sector intensity or companies with a larger 'enterprise value' that artificially depresses the carbon footprint. For example, a carbon footprint approach might identify that emissions from the steel industry are higher than the pharmaceutical sector. As a result, the steering decision might be to divest away from the former in favour of the latter. The associated marketing suggests emissions reduction that is entirely virtual and can be achieved without any meaningful climate action by the bank. It should be therefore considered whether a more appropriate specific GHG-related KPIs should be developed given the unsuitability of using Scope 3 emissions in absolute terms to credit portfolio in order to measure alignment with climate goals (such as Paris agreement goals).	ECB should make clear that a phase-in is allowed on Scope 3 depending on the advancement of common methodologies	, EBF	Publish
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