



## Template for comments

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

#### Institution/Company

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#### General comments

Moody's appreciate the opportunity to provide comments on the draft "Guide on climate-related and environmental risks". These comments have been informed by discussions of Moody's ESG Solutions, Moody's Analytics and Moody's affiliated companies of Four Twenty Seven and Vigeo Eiris

We welcome the publication of the guide and find it very comprehensive and thorough

We agree that the guide will provide a vehicle for SSM banks to identify and address data and modelling gaps and to develop cutting-edge risk management approaches whilst a balancing exercise to understand the potential challenges and trade-offs for the financial sector as firms continue to build and enhance capabilities to assess climate related financial risks in a granular way

Moody's supports the evolution of this guide in the context of climate change as firms adapt their business models and obtain new tools data and analytics to address relevant climate risks, considering the window for an orderly transition to a carbon neutral economy is finite and closing and that physical risks from climate change are already affecting the financial sector globally

In the next section, we outline the comments to specific sections in the guide and we will be very pleased to discuss further with you on our research and thought leadership efforts and data and analytical capabilities

## 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 1	Multiple	Box 1	4-5	Amendment	With Paragraphs 1 to 13, the document lays out a comprehensive and thoughtful set of regulatory expectations. Given the tremendous need for new financial products and services to manage climate and environmental risk and finance the transition to a zero-carbon economy, it is essential to highlight the roles that covered financial institutions can and should play here.	This is imperative from both the perspective of the individual institution's risk management and the objective of ensuring the entire financial system's overall financial stability.	Blackman, Andrea	Publish
2	Chapter 3	3.2		12	Amendment	Add the mining sector as sector that is highly impacted by the transition to a low carbon economy, re: Sectors that are likely to be impacted by the transition to a low-carbon economy include energy, transport, manufacturing, mining, construction and agriculture.	The mining sectors plays a key role in the transition to a low carbon economy both because of its high decarbonisation potential but also because of the expected high demand for rare earths and niche metals for the production of technologies such as electric vehicles and batteries, hydrogen fuel cell, CCS and the infrastructure necessary for widespread electrification. Not to mention the high risk of stranded assets for coal mining companies.	Blackman, Andrea	Publish
3	Chapter 4	4.2	2.1	17	Clarification	Suggest to mention stakeholder engagement in the scenario analysis framing and use process. Both internal and external stakeholders should be involved in the process.	Internal stakeholders are the ones that can recognise, anticipate and evaluate material risks for the bank. External stakeholders such as experts will provide unbiased views and the capacity to predict unexpected risks, such as highly improbable events.	Blackman, Andrea	Publish

4	Chapter 4	4.2	2.1	18	Clarification	Specify that 'longer term assessment (>5 years)' could in fact extend several decades out, especially for long-lived assets like infrastructure.	Banks may be hesitant to factor in long term projections, but for physical climate risk proper risk management requires an understanding of the risks out to mid-century and beyond.	Blackman, Andrea	Publish
5	Chapter 5	5.4	6	26	Clarification	Clarify that reporting aggregated risk data should focus on distribution of risk rather than averages	For physical risk, banks should be focused on identifying high-risk assets rather than average risk in a portfolio. Banks are in the habit of reporting average carbon intensity and other aggregate metrics for transition risk, but physical risk requires a more disaggregated reporting to be meaningful.	Blackman, Andrea	Publish
6	Chapter 6	6.1	Expectation 7		Clarification	While the Expectation 7 covers the aspect of capital adequacy and ICAAP, it will be helpful to clarify the expectation around whether climate-related and environment risks should be factored into the loss reserve process (IFRS 9). Suggest to add clarifications either in Chapter 6 or 7 on this topic		Blackman, Andrea	Publish
7	Chapter 6	6.1	Expectation 7.2		Clarification	Considering the complexities and data challenges involved in risk quantification, the Guideline should explicitly encourage banks to prioritize activities such as collecting and experimenting with the available ratings, public climate data and internal questionnaire. We would strongly encourage the ECB to provide details on admissible risk quantification approaches. Otherwise there is a high risk that banks will turn their focus and resources to initiatives that produce more measurable outcomes and under-invest in climate risk modeling capabilities due to a poor understanding of available metrics and lack of standardized methods.	Risk practitioners need to adopt a new mindset and understanding of the climate field before flashing out a full-fledged climate risk management framework. ECB should aim to both support development of a suite of capabilities and direct the banks' attention on how to attain those by setting priorities.	Blackman, Andrea	Publish

8	Chapter 6	6.2	Expectation 8.4		Amendment	<p>Banks would benefit from more stylized examples shedding light on how to leverage ESG and climate data sources and operationalize available information for empirical risk measurement. Data barrier to describe retail portfolios' exposure to climate change is holding back the effective implementation of new risk factors into existing modeling framework. In our experience this can be addressed through taking a quantitative route to derive sector, technology and location specific benchmarks and reference points.</p> <p>At its core, any quantitative approach hinges on gathering granular level indicators. A variety of public and proprietary data can be blended with practical underwriting experience. By combining all available sources of information, multi-dimensional aspects of the climate risk exposure can be better pinned down and mapped into a single score metric which allows for a classification of sectors, industries, technologies or geographies. Similar quantitative matching and pattern detecting approaches at the early stages of development can also help to alleviate data uncertainty and provide a quantitative alternative to bespoke and occasional assessment of SMEs where the data scarcity looms large and subjective occasional evaluation may introduce bias.</p>	<p>Data barrier to describe retail portfolios' exposure to climate change is holding back the effective implementation of new risk factors into existing modeling framework. This can be addressed through taking a quantitative route to derive sector, technology and location specific benchmarks and reference points. By offering more examples of flexible and scalable approaches to the data gap problem, ECB could address better the most pressing implementation issue banks face.</p>	Blackman, Andrea	Publish
9	Chapter 6	6.2	8.5	33	Amendment	<p>At the end of the paragraph re: linking discounts or interest rates to environmentally sustainable loans, add explicit examples linking similar incentives to resilience investments and adaptation measures (e.g. flood risk mitigation measures, water efficiency, etc.) given other projects in this area e.g. by the NGFS and the EU Commission's Green Taxonomy expansion on the biodiversity topic, e.g. nature/biodiversity and ecosystem resilience.</p>	<p>The idea that banks have the ability to influence adaptation (and not just sustainability) needs to get more visibility as it will be a crucial mechanism to fund adaptation resilience.</p>	Blackman, Andrea	Publish
10	Chapter 6	6.4	10	37	Clarification	<p>Suggest to add a paragraph on infrastructure / project finance, real estate / REITs as asset classes of particular interest.</p>	<p>Infrastructure projects can be extremely vulnerable to both transition and physical risk with regard to capex, opex. They are long lived and can create systemic failures in a community if they fail, and warrant specific attention for these reasons.</p>	Blackman, Andrea	Publish
11	Chapter 6	6.5	11	37	Deletion	<p>1st paragraph, remove "and IEA" in the following sentence: "for physical risk, institutions are expected to use scenarios that are in line with scientific climate change pathways, such as IPCC or IEA scenarios"</p>	<p>The IEA does not provide physical risk scenarios or pathways. The only reference should be to the IPCC.</p>	Blackman, Andrea	Publish

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