Template for comments

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

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General comments

BBVA welcomes the “ECB Guide on climate-related and environmental risks. Supervisory expectations relating to risk management and disclosure”. It is an important step in the right direction towards a sequential integration of those contingencies in banks business models, strategies, governance, risk management and reporting. It sheds light on how the ECB looks forward to banks carrying out a safe and prudent management of climate-related and environmental risks, and to communicate them clearly and .transparently according to the prudential framework

The comprehensiveness and the ambition of the document is worth to be highlighted. It proves the relevance of this issue in terms. of financial stability and the rigour the ECB is working on it. BBVA appreciates the chance to provide some comments to this :consultation. It is going to be provided through two main topics that we consider of the utmost importance **(i Some more accurate guidance provided by the supervisors is needed by banks through some more concrete standards for implementing their expectations. There is currently a lack of standard approaches and a shared methodology on climate-related risks from a supervisory perspective. Banks tend to be encouraged by the authorities to move forward on our own, and not waiting for regulatory or supervisory standards. That is a thrilling challenge in the current nascent stage in which we are all learning .from each otherii) On the ECB time framework, some more certainty and enough time in advance are both needed by :banks what are the supervisors' key goals for the next three years? and for three following? At what speed do supervisors expect banks to progress towards fully accomplishing their expectations?**

Template for comments

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

Please enter all your feedback in this list.
When entering feedback, please make sure that:
- **each comment deals with a single issue only;**
- **you indicate the relevant article/chapter/paragraph, where appropriate;**
- **you indicate whether your comment is a proposed amendment, clarification or deletion.**

Deadline:	25 September 2020

ID	Chapter	Paragraph	Expectation or box number	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data
1	Chapter 3	3.1	Expectations 1, 4, 7	10	Clarification	The ECB states"Climate-related and environmental risks are commonly understood to comprise two main risk drivers: physical risk and transition risk". Is the ECB going to provide a separate definition for climate risks and for environmental risks? Is it going to be consistent with that of the EBA on ESG factors and ESG Risks: "ESG factors are environmental, social or governance characteristics that may have a positive or negative impact on the financial performance. While it is understood that institutions are directly exposed to ESG factors as companies, ESG risks materialise when ESG factors affecting institutions' counterparties have an impact on the financial performance of the institutions"	i) Climate-related risk is a type of environmental risks. Distinguishing among them will through specific definitions to be applied by the ECB will help banks to properly integrate them as drivers of already existing risks. At BBVA we are carrying a sequential approach and have achieved some more progress on climate-related than ot the rest of the environmental risks, aligned with the European Commision roadmap. ii) Ensuring consistency and coordination between the ECB Supervisory Expectations and the EBA Prudential Mandate for the integration of ESG factors and risks is of the utmost importance to provide some certainty. Overlappings and inconsistencies need to be avoided because they cause uncertainty and can imply an extra burden for credit entities.	Fraile, Arturo	Publish

2	Chapter 2	2.2	Expectation 2	6	Clarification	Given the facts that: i) the Guidelines will be applicable as soon as the final version is released by the end of this year and will be used for the 2021 Supervisory Dialogue, ii) the 13 expectations are all important and that the ECB expects banks to comply with all of them (as was explicited by Patrick Amis during the public hearing): What deegree of achievement does the ECB expect? At what speed do supervisors expect banks to progress towards fully accomplishing their expectations?	Some more certainty and enough time in advance are both needed by banks. We are aware of the existing trade-off between physical and transition risks. It is important to accelerate but the increase of speed should allow for a solid progress to comply with the expectations: rushing on the implementation (of the supervisory expectations) could be a source of financial instability instead of promoting stability.	Fraile, Arturo	Publish
3	Chapter 6	6.4	Expectations 10,11	37	Clarification	The ECB is working on climate-related stress testing form a macropudential perspective. Once the methodology is released, would it be possible to be replicated by credit entities and to be used by us the supervisory expectations purpose? When is it expected to be released?	Banks tend to be encouraged by the authorities to move forward on our own. There is a lack of a commonly accepted methodology to modelling those risks and to incorporate them into stress testing. One of our main concerns is the comparability of results and the implications it could have. The results of the climate transition stress testing if not cautiously and properly interpreted could be a transition risk themselves. An homogenous coordinated approach jointly developed by the supervisors and the private sector, considering both, best theoretical models and their practical implementation subject to availability of data could be worth to be considered.	Fraile, Arturo	Publish
4	Chapter 6	6.1	Box 7	30, 31	Clarification	Box 7 and the Expectation 7.5 give the sense that it is required to calculate a Climate Risk related capital charge. It should be clarified if this is the case.	It is too early to introduce a climate risk capital charge given the lack of historical data and the absence of robust methodologies to quantify this risk.	Fraile, Arturo	Publish
5	Chapter 6	6.2	Box 8, Expectation 7.5	32	Clarification	The box seems to advocate for the development of climate affected PDs. These PDs would generate serious regulatory problems to the financial institutions as they will use different PDs for regulatory and management purposes (use-test not fullfilled). The regulatory approval of these PDs will not be possible as there are not historical data and will be mainly based on expert criteria.	It is too early to introduce climate risk adjusted parameters (PD/LGD) given the lack of historical data and the absence of robust methodologies to quantify this risk.	Fraile, Arturo	Publish

6	Chapter 6	6.5	Expectation 11	37	Clarification	Currently there is a lack of data and robust methodologies for stress testing and scenario analysis. Regarding the definition of the scenarios, the NGFS has issued some broad reference scenarios, however these scenarios do not cover all the required variables to measure the impact of climate change. In this regard and in order to generate a common play field It is high desirable to have a complete set of scenarios and a common methodology issued by the financial regulators (ECB/EBA). Given the fact that the ECB has just entered into the NGFS Steering Committee. Could you please shed some light on the fact that if the most recent NGFS publications will be used as the main reference for the development of a supervisory "official" methodology" and in the exercises to come, such as in climate-related stress testing?	Using different scenarios and methodologies will generate a high degree of heterogeneity between financial institutions that is not due to their real climate exposure.	Fraile, Arturo	Publish
7	Chapter 7		Expectation 13	40	Amendment	Metrics to manage climate-related risks shouldn't be taken for granted. All metrics proposed come from high-level recommendations that haven't include a feasibility assesstment. They shouln't considered as "a minimum". Final decision about metrics will be defined by the EBA after an engagement with different stakeholders, including banks' community	Adding that the metrics cited are preliminary metrics that will be defined later after a feasibility assessment and considering the purpose of each one	Fraile, Arturo	Publish
8	Chapter 7		Expectation 13	43	Amendment	In our opinion, Scope 3 GHG emissions is not a climate-risk indicator. In absolut terms neither in relative terms in GHG/€Million financed. It can be a great metric to be disclosed for transparency purposes but it is not a metric than can be used to set targets or to manage risks. For instance, we can reduce our scope 3 by 50% simply reducing our exposure to one certain sector and this wouldn't mean that we are reducing our transition risks of our portfolio by 50%. If all banks were doing the same we could have another type of risk, a systemic risk. To manage transition risks we think we must have a sector-based approach with carbon metrics that explain the different possible transtions our clients may have and that guide us in the engagement with them.	Adding that the metrics cited are preliminary metrics that will be defined later after a feasibility assessment and considering the purpose of each one	Fraile, Arturo	Publish
9	Introduction				Amendment	The scope of the expectations proposed is very wide. To answer them banks will need a phasing approach due to the lack of methodologies, tools, data and capabilities. In order to prioritize it would be very helpful to have greater clarity about timing of each expectation. The lack of shared approach in timing could create asymetries between the different supervisory teams	The expectations should include public time horizons to ensure a level playing field for supervision and comparability	Fraile, Arturo	Publish
10	Introduction				Amendment	There will be no time between the publication of the final report and the day of its application. The application could start 6 months after its publication in order to provide time to banks in defining their action plan and start delivering progress	The applicability of the expectations could start 6 months after its publication	Fraile, Arturo	Publish

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