

Template for comments

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

Institution/Company

Climate Scale

Contact person

Mr/Ms

Mr

First name

Duarte

Surname

Costa

Email address

duarte.costa@climatescale.com

Telephone number

+32 471 66 75 22

Please tick here if you do not wish your personal data to be published.

General comments

The guidelines offer a good step forward to help the banking sector in the euro area to start considering the reporting and assessment of climate related risks. However, they lack in ambition in setting the standards ahead of where the sector already is, insisting on vague and overly focused transition risk oriented document. It is important to remind the regulator that physical risks are the origin of the climate change threat and that these are likely more impactful than transitional as little impetus has been pursued in mitigating climate change and -in making substantial regulatory shifts. This is in itself a high risk to the banking sector and the overall economic stability of the euro zone vis a-vis the climate shocks predicted to Europe and its trading partners. My objective here was to remphasize the leadership and guidance role of the regulator (the ECB) in a very new and unknown field for the banking community. I also tried to contribute to strengthening the references to physical risks as these had been highly overlooked in these guidelines. DC

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	Physical Risk	3.1		10	Rewording	"Physical risk refers to the material threat... "	Risks are not yet impacts but the warning of their possible occurrence	Costa, Duarte	Publish
2	Physical Risk	3.2		10	Rewording	Replace 'impact' by threaten / threat	Risks are not yet impacts but the warning of their possible occurrence	Costa, Duarte	Publish
3	Observations from stocktakes	3.3		13	Change emphasis of sentence	"Despite the fact that The majority of institutions have implemented one or more sustainability policies (22). However, despite the increasing number of tools to assess the impact of climate-related and environmental risks available, most of the institutions are still to assess this on their balance sheet.	The regulator needs to be ahead of the problems that institutions face to comply with climate-risk regulations and point towards solutions and examples of success, instead of justifying their limitations.	Costa, Duarte	Publish
4	Observations from stocktakes	3.3		13	Change emphasis of sentence	More specifically- In fact, only an small emerging number of institutions hasve fully incorporated climate-related and environmental risks into their risk management framework, through for instance a risk measurement approach, by defining their risk appetite, performing stress tests and scenario analyses and/or assessing the impact on their capital adequacy. The ECB sees that institutions are increasingly involved in joint industry initiatives aimed at developing adequate methodologies and obtaining the necessary data	Once again, the regulator should point to solutions and emphasize examples of institutions that are leading in reporting climate risks, instead of referring to the solution as a difficult path that only a few were able to follow. The reality is more that an increasing number of institutions sees this pathway as necessary. These guidelines are more helpful if they encourage and point to solutions.	Costa, Duarte	Publish

5	Observations from stocktakes	3.3		14	Change emphasis of sentence	Only a minority of institutions' disclosures are in line with the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD). This is a serious problem to the financial stability of the banking sector in the euro area vis-a-vis the increasing evidence of the material impacts from climate-related risks. Nonetheless, the ECB has observed that a number of institutions are involved in initiatives that promote broader and more comparable disclosures and are working on improving their disclosure procedures. For this reason, the ECB is launching this guide to increase the adoption of climate risk assessment practices (namely in line with the TCFD recommendations) and strengthen the resilience of the euro area banking sector against climate risks.	The regulator can emphasize here the importance of this guide to revert such serious and worrisome situation in the banking sector (where only a minority of institutions disclose climate risks and in line with the recommendations by the TCFD).	Costa, Duarte	Publish
6	Business environment		1.1	15	Prevent omission of physical risks	Institutions are required to document material factors impacting their business environment. Material factors covers acute and chronic changes in physical hazards and their range of likelihood from a representative ensemble of climate model projections.	The regulator mentions material factors impacting their business environment but then only elaborates on the characteristics of the <i>impacted</i> (the business environment and transition risks) and not on the <i>impactor</i> (the physical threats). It has been pinpointed in a variety of analysis of climate-related risk standards that these are being disproportionately focusing on transition risks and overlooking physical risks (which are at the origin of the risks and are more serious / likely given the political inertia to change regulations).	Costa, Duarte	Publish
7	Business environment		1.1	15	More precise language	When scanning their business environment, institutions are expected to identify risks arising from climate change and environmental degradation at the level local to regional scale of key sectors, geographies and related to products and services they are active in or are considering becoming active in	Ensure high resolution / granularity of analysis. Low resolution / Country level data are too coarse to enable the sufficient level of accuracy of physical changes at an asset level to make financial decisions to prevent material impacts.	Costa, Duarte	Publish
8	Business environment		1.2	16	Prevent omission of physical risks	Institutions are thus expected to explicitly consider climate related and environmental physical and transitional changes to their macroeconomic and regulatory environment and their competitive landscape, in particular. This is expected to be reflected in institutions' business strategy processes, and demonstrated by documented management body (29) meetings and discussions.	Once again, the regulator overly focuses on transitional risks and overlooks the physical ones.	Costa, Duarte	Publish

9	Business environment		1.2	16	Encourage internal understanding about climate risks	Institutions are expected to demonstrably understand to take into account from up-to-date scientific data and information insights to enhance their understanding of the potential changes to their business environment going forward.	Up to now, institutions are making vague and elementary descriptions of climate change with some sort of connection with their operations and assets. These add little or nothing to the understanding of the risks the institutions are exposed to and even less on the solutions that are being put forward to increase resilience. The regulator ought to require institutions to be demonstrably aware, from sound science, of their climate-related risks and to inform/disclose to the regulator, stakeholders, investors and potentially the wider society of these.	Costa, Duarte	Publish
10	Business strategy		2.1	17	Change emphasis of sentence	These scenarios are expected to include assumptions regarding impact threats (expressed from exposure and vulnerability to physical hazards and transition risks) 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, but also on the state-of-the-art of future climate simulations 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).	Institutions will need to make assumptions to assess impacts but these need to be based on concrete informations. The guidelines should not be too vague about this and use what is recommended in science. For physical risks, the only assumption that is necessary is to derive the financial impact from model projections. From climate models, it is possible to have a range of change to calculate potential financial implications.	Costa, Duarte	Publish
11	Business strategy		2.1	17	Comment	Scenario analyses can be used to assess risks in the short to medium term as well as in the longer term	In physical risk scenario projections, time horizons are much longer than the ones presented below: short is 2025-2049, medium is 2050-2074, and long is 2075-2100. These guidelines will not take into account climate change if the near term horizon is limited to the next 5 years and (a little beyond) as the climate change signal only starts to be prevalent within at least 10 years from now.	Costa, Duarte	Publish
12	Business strategy		2.1	17	Technical correction	A short-to-medium term assessment is expected to include an analysis of the climate-related and environmental risks to which the institution is exposed within its current business planning horizon (three to twenty five years)	Short term physical risk from climate change would be neglected in such shorter time frame.	Costa, Duarte	Publish
13	Business strategy		2.1	18	Technical correction	A longer-term assessment beyond the typical business planning horizon (beyond 2050), assessing the resilience of the current business model against a range of plausible future scenarios from the state-of-the-art of climate modelling and at sufficiently granular resolution relevant to estimate climate-related and environmental risks, would be required to capture the specificities of this kind of risk	Who defines what is plausible or not? Will plausibility be demonstrated? The regulator should give clearer indication of what scenarios are plausible and not leave loopholes open for institutions to explore. Furthermore, granular resolution is key to derive financial impacts from physical risks.	Costa, Duarte	Publish

14	Business strategy		Box 2		Comment		Excellent idea to mention positive examples. This is overly focused on climate mitigation. There are some promising examples too of institutions measuring climate risks, incorporating these into risk strategies and measuring their outcomes. Moreover, was this exemplar institution mentioned also exemplar in measuring, reporting, disclosing climate related risks? If not, that aspect should also be mentioned and encouraged to change.	Costa, Duarte	Publish
15	Risk Appetite		4.2	22	Change emphasis of sentence	The ECB expects institutions to assign quantitative metrics to climate-related and environmental risks, particularly for physical and transition risks. However, In fact, it also acknowledges the efforts from some institutions doing quantitative assessments of risks assisted by climate service providers, despite the fact that common definitions and taxonomies in these risk areas are still under development. and that Qualitative statements can still be used but only as intermediate-first steps and as part of a trajectory where while the institution is developing appropriate quantitative metrics	There are currently available climate service providers that can provide quantitative metrics of these risks to institutions. The regulator should encourage institutions to explore what is available in the market to adequately assess climate related risks (using quantitative data and metrics). It would be a good idea to also add a Box with an example of this. Prolonging even further the phase of qualitative (and rather meaningless) assessments is undermining the success of these guidelines and setting the pace in the euro area behind other jurisdictions.	Costa, Duarte	Publish
16	Risk Appetite		4.2	22	Rewording	With respect to climate-related risks, institutions are expected to develop metrics that consider the long-term nature of climate change, particularly how different paths of temperature and greenhouse gas (GHG) emissions may trigger and/or accentuate existing risks. These metrics are expected to support the institution's ability to implement risk mitigating actions on a timely basis and to take into consideration a sudden and unanticipated transition towards a low-carbon economy or a physical event that may have an impact on its operations or lending portfolios.	For climate change risks (long-term or even short term), the time horizon cannot be the one stated in expectation 2.1. mitigating actions may be misleading here with climate mitigation. Risk mitigating actions is clearer.	Costa, Duarte	Publish
17	Risk Appetite		Box 4	22-23	Comment		Good example. Once again risk assessments are overlooked, particularly physical risks. Could you explore examples that combine both? There are many. For instance among TCFD adopters.	Costa, Duarte	Publish
18								Costa, Duarte	Publish
19								Costa, Duarte	Publish
20								Costa, Duarte	Publish
21								Costa, Duarte	Publish
22								Costa, Duarte	Publish
23								Costa, Duarte	Publish
24								Costa, Duarte	Publish
25								Costa, Duarte	Publish
26								Costa, Duarte	Publish
27								Costa, Duarte	Publish
28								Costa, Duarte	Publish
29								Costa, Duarte	Publish

30								Costa, Duarte	Publish
31								Costa, Duarte	Publish
32								Costa, Duarte	Publish
33								Costa, Duarte	Publish
34								Costa, Duarte	Publish
35								Costa, Duarte	Publish
36								Costa, Duarte	Publish
37								Costa, Duarte	Publish
38								Costa, Duarte	Publish
39								Costa, Duarte	Publish
40								Costa, Duarte	Publish
41								Costa, Duarte	Publish
42								Costa, Duarte	Publish
43								Costa, Duarte	Publish
44								Costa, Duarte	Publish
45								Costa, Duarte	Publish
46								Costa, Duarte	Publish
47								Costa, Duarte	Publish
48								Costa, Duarte	Publish
49								Costa, Duarte	Publish
50								Costa, Duarte	Publish
51								Costa, Duarte	Publish
52								Costa, Duarte	Publish
53								Costa, Duarte	Publish
54								Costa, Duarte	Publish
55								Costa, Duarte	Publish
56								Costa, Duarte	Publish
57								Costa, Duarte	Publish
58								Costa, Duarte	Publish
59								Costa, Duarte	Publish
60								Costa, Duarte	Publish
61								Costa, Duarte	Publish
62								Costa, Duarte	Publish
63								Costa, Duarte	Publish
64								Costa, Duarte	Publish
65								Costa, Duarte	Publish
66								Costa, Duarte	Publish
67								Costa, Duarte	Publish
68								Costa, Duarte	Publish
69								Costa, Duarte	Publish
70								Costa, Duarte	Publish
71								Costa, Duarte	Publish
72								Costa, Duarte	Publish
73								Costa, Duarte	Publish
74								Costa, Duarte	Publish
75								Costa, Duarte	Publish
76								Costa, Duarte	Publish
77								Costa, Duarte	Publish
78								Costa, Duarte	Publish
79								Costa, Duarte	Publish
80								Costa, Duarte	Publish
81								Costa, Duarte	Publish
82								Costa, Duarte	Publish
83								Costa, Duarte	Publish
84								Costa, Duarte	Publish

85								Costa, Duarte	Publish
86								Costa, Duarte	Publish
87								Costa, Duarte	Publish
88								Costa, Duarte	Publish
89								Costa, Duarte	Publish
90								Costa, Duarte	Publish
91								Costa, Duarte	Publish
92								Costa, Duarte	Publish
93								Costa, Duarte	Publish
94								Costa, Duarte	Publish
95								Costa, Duarte	Publish
96								Costa, Duarte	Publish
97								Costa, Duarte	Publish
98								Costa, Duarte	Publish
99								Costa, Duarte	Publish
100								Costa, Duarte	Publish
101								Costa, Duarte	Publish
102								Costa, Duarte	Publish
103								Costa, Duarte	Publish
104								Costa, Duarte	Publish
105								Costa, Duarte	Publish
106								Costa, Duarte	Publish
107								Costa, Duarte	Publish
108								Costa, Duarte	Publish
109								Costa, Duarte	Publish
110								Costa, Duarte	Publish
111								Costa, Duarte	Publish
112								Costa, Duarte	Publish
113								Costa, Duarte	Publish
114								Costa, Duarte	Publish
115								Costa, Duarte	Publish
116								Costa, Duarte	Publish
117								Costa, Duarte	Publish
118								Costa, Duarte	Publish
119								Costa, Duarte	Publish
120								Costa, Duarte	Publish
121								Costa, Duarte	Publish
122								Costa, Duarte	Publish
123								Costa, Duarte	Publish
124								Costa, Duarte	Publish
125								Costa, Duarte	Publish
126								Costa, Duarte	Publish
127								Costa, Duarte	Publish
128								Costa, Duarte	Publish
129								Costa, Duarte	Publish
130								Costa, Duarte	Publish
131								Costa, Duarte	Publish
132								Costa, Duarte	Publish
133								Costa, Duarte	Publish
134								Costa, Duarte	Publish
135								Costa, Duarte	Publish
136								Costa, Duarte	Publish
137								Costa, Duarte	Publish
138								Costa, Duarte	Publish
139								Costa, Duarte	Publish

140								Costa, Duarte	Publish
141								Costa, Duarte	Publish
142								Costa, Duarte	Publish
143								Costa, Duarte	Publish
144								Costa, Duarte	Publish
145								Costa, Duarte	Publish
146								Costa, Duarte	Publish
147								Costa, Duarte	Publish
148								Costa, Duarte	Publish
149								Costa, Duarte	Publish
150								Costa, Duarte	Publish