



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

Institution/Company

Japanese Bankers Association

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General comments

:Dear Sirs/Madams

We, the Japanese Bankers Association(*), appreciate the opportunity to provide comments on the ECB Guide: "climate-related and environmental risks" (the Guide) on May 20, 2020
.We hope that our comments will contribute to further discussions at the ECB

The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in(**) Japan. As of September 25, 2020, JBA has 117 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 72 Associate Members (banks & bank holding company), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 251 members. Several of its largest member banks are active participants in the EU financial markets

[General Comments]

We welcome the references to the NGFS indicating that the ECB's approach is aligned with the international supervisory expectations on climate risk which have been developed by central banks and regulatory authorities
.We also recognize that the Guide is made in line with the TCFD recommendations and it is also an ambitious initiative to incorporate climate change risks into risk appetite frameworks, risk management frameworks, etc. While the Guide shows the rules and expectations for financial institutions in the European region for the first time, advanced European initiatives are important in future global discussions as well. Therefore, we would like to comment not only on the discussions within Europe but also on the global discussions, and on the concerns of Japan's banking industry

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	NA	6	Clarification	We believe that sufficient international coordination among the global regulators would be required to avoid regulatory fragmentation.	In order to reduce the burden for global financial institutions to comply with the different requirements in multiple countries and to ensure the consistency with the international discussions and comparability on climate and environmental risk assessment.	Japanese Bankers Association, JBA	Publish
2	Chapter 2	2.2	NA	6	Clarification	It is necessary to align the calendar of supervisors with that of regulators in order to avoid inconsistencies and eliminate uncertainties as to the date of implementation of the proposals. The calendar proposed by the ECB will frontrun and lead to inconsistencies with the regulatory agenda mandated for the EBA in CRR2 and potentially CRR3 changes.	<p>The EBA has set out the following actions in the roadmap, based on the mandates set out in the Regulations and the Directive:</p> <p>a) Assessing the possibility of including ESG risks in the SREP. The EBA shall submit to the Commission, the European Parliament and the Council a report containing its conclusions by 28 June 2021 and may, where appropriate, issue its RTS guidelines</p> <p>b) Prudential treatment of exposures related to environmental and/or social objectives: The EBA has until 28 June 2025 to draw up a report that it will send to Parliament, the Council and the Commission, in which case it would be justified that exposures related to assets or activities related to environmental and/or social objectives are treated differently in prudential terms. On the basis of this report, the Commission shall, if appropriate, make a legislative proposal.</p>	Japanese Bankers Association, JBA	Publish

3	Chapter 2	2.3	NA	7	Clarification	We would like the ECB to clearly state that the supervisory policy and approach of the home country authorities of foreign banks with headquarters outside EU should be fully considered in the application of this guide to the EU subsidiaries of foreign banks. It is preferable that proportionality will be secured, but it is better to provide more specific information on what kind of simplification is possible.	In order to reduce the burden for global financial institutions to comply with the different requirements in multiple countries.	Japanese Bankers Association, JBA	Publish
4	Chapter 3	3.2	Table 1	11	Clarification	Climate-related Risk and Environmental Risk are used separately in the draft Guide. While Physical Risk and Transition Risk are generally recognized as Climate-related Risk, the methodology to reflect certain elements such as Water Stress, Resource Scale, Biodiversity Loss and Pollution in Environmental Risk is still unclear at this stage and should be clarified.	-	Japanese Bankers Association, JBA	Publish
5	Chapter 4	4.1 4.2	Expectation 1, 1.1, 1.2, 2, 2.1	15	Clarification	The time horizons on "the short, medium and long term" should be clarified for climate-related and environmental risks.	To better understand the documentation and assessment process.	Japanese Bankers Association, JBA	Publish
6	Chapter 5	5.2	Expectation 4.2	21	Clarification	While it is possible to consider how climate change and environmental risks should be defined and managed, it is difficult to expect the automatic-risk-blocking effect immediately after the risk appetite and the risk limit are applied and the relevant risks are taken into consideration. The expected effects should be carefully verified and judged, and it should be recognized and understood that decisions on a case-by-case basis will be necessary, and that flexibility should be allowed.	Considering the wide range of corporate activities, it is not possible to assess the risks of a business solely on the basis of climate change and environmental risks. Since the correlation between credit risk and market risk is still unclear, the judgment on this expectation should be carefully considered and a flexible response is required.	Japanese Bankers Association, JBA	Publish
7	Chapter 5	5.2	Expectation 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 can only be developed based on data availability.	-	Japanese Bankers Association, JBA	Publish
8	Chapter 5	5.4	Expectation 6.2	26	Clarification	The ECB should give institutions a reasonable timeframe 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.	-	Japanese Bankers Association, JBA	Publish
9	Chapter 5	5.4	Expectation 6.3	27	Clarification	We would not support a dedicated / standalone risk report, but recommend to integrate climate-related and environmental risks in the existing report covering the existing categories of risks for which environmental risks are an aggravating factor.	-	Japanese Bankers Association, JBA	Publish

10	Chapter 6	6.1	Expectation 7	28	Clarification	<p>Strengthening supervision of climate and environmental risk management should be coordinated with changes in the social structure or the development of appropriate risk reduction measures for such risks.</p> <p>In addition, if only strengthening risk management is to be pursued first, it is desirable to consider sharing the burden of such risk management between the financial institution and its customers.</p>	<p>If the speed at which financial institutions recognize and act on climate and environmental risks differs from the speed at which social structure changes, including the transition to a low-carbon society, unexpected adverse impacts may occur. In order for financial institutions to address climate and environmental risks, it would be appropriate to consider measures to reduce the occurrence of such adverse impacts. If a financial institution becomes aware of the amount of risk through strengthening climate and environmental risk management, it is expected that each financial institution will take actions to control and mitigate such risk, such as by:</p> <ul style="list-style-type: none"> i) Use of risk reduction methods such as guarantees and insurance; ii) Restraint of loans to high-risk customers; or iii) Passing on risks to customers. <p>Of these controls, if the framework for realizing the measures described in i) above is insufficient in a whole society, a certain number of financial institutions will take actions described in ii) and iii) above. As a result, there is concern that the framework for climate and environmental risk capture aiming at realizing a sustainable society will cause confusion in the market. (For example, banks will be reluctant to extend loans for sectors expected to decline). Therefore, in order to encourage changes in financial institutions' behavior through the strengthening of supervision, it is desirable to consider measures to prevent (temporary) market turmoil caused by such changes in bank activities.</p>	Japanese Bankers Association, JBA	Publish
11	Chapter 6	6.1	Expectation 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 in particular.	-	Japanese Bankers Association, JBA	Publish
12	Chapter 6	6.2	Expectation 8.1	32	Clarification	We recognize that pressing challenges include data availability, lack of standardized methods and comparability, and lack of disclosures by clients, especially when identifying transition risk for clients. It is right that banks may need to engage with their clients to develop some data infrastructure required to measure the risks, but it also should be emphasized that some corporate disclosure rules are required for the global emerging risk.	Because data availability, lack of standardized methods and comparability, and lack of disclosures by clients are obstacles to promote such practices.	Japanese Bankers Association, JBA	Publish

13	Chapter 6	6.3	Expectation 9.1	35	Clarification	We would like the ECB to ensure consistency not only with business continuity and operational risk, but also with the concept of operational resilience, which is currently under discussion among the authorities in each country.	It is also necessary to consider physical risks in scenario testing for the continuation of important services.	Japanese Bankers Association, JBA	Publish
14	Chapter 6	6.4 6.5 6.6	Expectation 10, 11, 12	36	Clarification	Regarding the use of historical data, we would like the ECB to ensure that the quantitative calculation method used by the parent company in outside EU can be allowed to apply mutatis mutandis to the EU subsidiaries of foreign banks.	With respect to the use of historical data on stress scenarios and the calculation of market risks, it is considered beneficial to ensure comparability and consistency within the group in order to contribute to the formulation of relevant practices, given the fact that industry standards are still being established.	Japanese Bankers Association, JBA	Publish
15	Chapter 6	6.4 6.5	Expectation 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. 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.	Japanese Bankers Association, JBA	Publish
16	Chapter 7	-	Expectation 13.5	43	Clarification	This requirement to include Scope 2 and Scope 3 for the whole group is excessive. At this moment the relevant data is not available yet, also from client side.	To better understand the scope and level of requirement.	Japanese Bankers Association, JBA	Publish
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