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
1						• EAPB welcomes the ECB's intention to formulate supervisory expectations instead of binding requirements for institutions. Institutions´ approaches to climate-related and environmental risks depend on the institution's size, business model, complexity and geographical location. Thus, institutions should have more t develop appropriate methods and procedures. EAPB recommends making it clearer that the guidelines serve primarily as basis for the supervisory dialogue between the Joint Supervisory Team (JST) and the respective institution. The ECB's expectations, in particular with regard to quantifying climate-related and en risks, systematic IT-assisted data collection and aggregation, should be a longer-term vision for standards to be met by institutions in the future. In addition, it is worth stressing that data and/or recognized methods are often still lacking for climate and environmental risks. The guidance should ease expectations and appropriate opening clauses (e.g. "where appropriate and possible"). • The ECB guidelines state that institutions should determine the materiality of environmental and climate risks. The identification of material risks, including inter- and intra-risk concentrations at the institution level, as part of a risk inventory, is among the most important standards in risk management. Given that clim environmental aspects have an impact on the risk drivers and influence the materiality of the risk types, we ask that the uniform term "risk drivers" be used throughout the guide and that the use of other terms be refrained from. Checking risk drivers for materiality is not a standard practice and does not appear to be regard to standard supervisory practice. It is only reasonable to determine the quantitative contribution of climate-related and environmental risks if climate-related and environmental aspects have an impact on the respective type of risk. Therefore, quantification of climate-related and environmental risks can only be supervisory authorities in such cases. The ECB guide should make it clear that if institutions determine the effects of climate and environmental aspects on the risk types, these institutions should collect data points in a targeted manner, e.g. initially with a view to particularly affected sectors. Overall, the aspect of the climate and risk drivers should be given greater consideration in future. • Institutions should not be required to proactively inform the ECB of any deviation in their approaches to address climate-related and environmental risks from their supervisory expectations set out in the guidelines. Such a requirement would not be in line with the non-binding and future-oriented nature of the guide no legal basis. Therefore, the EAPB recommends deleting the relevant requirement in chapter 2.2. • Several NCAs have already published relevant guidance documents, each of which takes due account of the supervisory needs in the individual countries with regard to less important institutions. In addition, EBA has addressed or will address ESG risks under various guidance documents. Parallel regulations with depths and contents of regulation of different institutions in one area would be very unfavorable for implementation in practice. We therefore recommend deleting the reference to the application of the guidelines to LSIs. • The guidelines should be brought into line with future EBA requirements, including the SREP and the EBA mandates. The focus of the supervisory review could (initially) be placed more strongly on governance, a qualitative view and the first entry into top-down reporting and formulated accordingly in the guidelines focusing on quantitative parameters • According to the feedback received from our member institutions, the planned deadline for application is too short and cannot be complied with. As the publication of a final version of the ECB guide would be possible at the beginning of the fourth quarter of 2020 at the earliest, the remaining time span until the sup discussions "end 2020" would be too short (a few weeks) for a concrete stocktaking and the derivation of action needs or implementation measures. • It should be taken into account that institutions are currently dealing with the consequences of the COVID 19 that require significant resources. An extremely ambitious timetable would not fit in with the supervisory relief granted elsewhere with regard to the publication of new requirements or the handling of existing requirements, which should deliberately provide the institutions with the necessary relief in dealing with the current COVID-19 crisis. Therefore, institutions should have an ongoing dialogue with supervisors/JSTs without setting a specific deadline for the implementation of all measures provided for in the ECB guide. least, a sufficiently long transitional period must be granted. • EAPB welcomes the ECB's intention to formulate supervisory expectations instead of binding requirements for institutions. Institutions´ approaches to climate-related and environmental risks depend on the institution's size, business model, complexity and geographical location. Thus, institutions should have more t develop appropriate methods and procedures. 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Given that clim environmental aspects have an impact on the risk drivers and influence the materiality of the risk types, we ask that the uniform term "risk drivers" be used throughout the guide and that the use of other terms be refrained from. Checking risk drivers for materiality is not a standard practice and does not appear to be regard to standard supervisory practice. It is only reasonable to determine the quantitative contribution of climate-related and environmental risks if climate-related and environmental aspects have an impact on the respective type of risk. Therefore, quantification of climate-related and environmental risks can only be supervisory authorities in such cases. The ECB guide should make it clear that if institutions determine the effects of climate and environmental aspects on the risk types, these institutions should collect data points in a targeted manner, e.g. initially with a view to particularly affected sectors. Overall, the aspect of the climate and risk drivers should be given greater consideration in future. • Institutions should not be required to proactively inform the ECB of any deviation in their approaches to address climate-related and environmental risks from their supervisory expectations set out in the guidelines. Such a requirement would not be in line with the non-binding and future-oriented nature of the guide no legal basis. Therefore, the EAPB recommends deleting the relevant requirement in chapter 2.2. • Several NCAs have already published relevant guidance documents, each of which takes due account of the supervisory needs in the individual countries with regard to less important institutions. In addition, EBA has addressed or will address ESG risks under various guidance documents. Parallel regulations with depths and contents of regulation of different institutions in one area would be very unfavorable for implementation in practice. 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Therefore, institutions should have an ongoing dialogue with supervisors/JSTs without setting a specific deadline for the implementation of all measures provided for in the ECB guide. least, a sufficiently long transitional period must be granted.
2	Chapter 2	2.1		6	Clarification	It is welcome that the ECB has placed its publication in the broader context of many existing regulations of different standard setters at international and European level. Although the expectations set out in the introduction to the Guidelines are "non-binding", the wording of 2.2 could be interpreted as implying a duty the event of deviations. In many places' references are made to existing specifications, guidelines or regulations which have long been binding. The practical examples presented are not per se part of the expectations. We regard the practical examples presented as a list of possible implementations, i.e. examples o and by no means as "best practice" examples or a minimum standard.

3	Chapter 2	2.2		6	Amendment	In our view, the planned date of application is too short term, as the guidelines are still being consulted until 25 September 2020 and it can be assumed that changes to the draft guidelines will be made during the consultation. In our view, instead of a detailed GAP-analysis, banks should inform the ECB of their progress in developing their climate and environmental risk frameworks and thus describe the way forward. There is also no sign of any particular urgency in this respect, as the last ECB assessment of risks classified the risks associated with climate change as low in terms of impact and probability of occurrence (on the grounds that these are more relevant in the longer term; see SSM Risk Map of 7 October 2019). According to the basic idea of the guidance document (Chapter 2.1: Application to significant institutions), institutions should take due account of other relevant publications when implementing the guidance document. The final EBA guidelines on lending and monitoring published on 29 May 2020 are of importance as they contain explicit guidance on how to deal with ESG risks. Institutions should be granted a sufficiently long transition period for the implementation of all measures. In addition, mandates to be provided by the EBA from CRR II or CRD V with regard to Pillar II (SREP) and III (disclosure) should be awaited. The content of the EBA overlaps considerably with the content of the ECB's draft guidance on climate and environmental risks. The ECB guidance on ICAAP and ILAAP alreac overarching requirements for risk management, and it is not appropriate to repeat them with sole reference to climate and environmental risks (which do not constitute separate risk types). Therefore, an internal review or de facto final implementation by the end of the year is not realistic. The statement "to make fully informed decisions on risk-taking" is also misleading, as decisions will also be based on forward-looking data. Since the values used are only estimates or projections, an information gap in this context will not be avoidable in our view. The European Commission will publish delegated a the legislative packages of the Commission action plan on 30 December 2020 respectively 30 June 2021 (in particular on the EU Taxonomy Regulation, EU Disclosure Regulation and MiFID II). Therefore, the ECB should not in advance set rules in this area, nor the ECB should anticipate and predetermine the resul significant requirements.
4	Chapter 3	3.1/3.2		10	Clarification	In general, we would like to point out that the dynamics of climate and other environmental risks, as well as the models, data analyses and narratives known about them, are very different. Due to the intensive research on climate change, science is undoubtedly the most advanced in this aspect. The first narratives a being developed on the basis of scientific research, which will also enable the institutes to take a holistic approach. However, this is not yet the case for other environmental risks. It should therefore be possible to consider individual risk drivers with varying degrees of intensity, depending on the state of scientific anc progress. The liability risks that may arise from climate and environmental risks, which the ECB mentions separately, could lead to unnecessary complexity in the institutions' risk inventories, which already take into account legal risks, conduct risks and compliance risks. An additional introduction of liability risks does not appe useful.
5	Chapter 3	3.1/3.2		10	Clarification	The draft of the guidelines does not yet consistently separate the concepts of the risk from the impact. As it is not necessary for critical credit exposures to be consistent from a risk and impact perspective (e.g. loans to a company that manufactures EU taxonomy-compliant products but has its production site in a loc flooding), we fear that the implementation of the practical examples presented will fall short. Here, further elaboration of the guidelines would be desirable.
6	Chapter 4	4.1	Expectation 1	15	Deletion	The materiality of the risks is already determined in the institutions by means of a risk inventory in existing risk categories and is thus included in the corresponding reporting and strategy processes. However, without considering the materiality of these risks for individual institutions, we reject an audit assessment in t formalised "compliance check". We also consider the reference to monitoring appropriate energy efficiency standards in property portfolios to be too broad. What does it mean to incorporate the latest scientific findings? Is there a need for far-reaching regular analyses of the state of scientific knowledge? The term " used in the review of risk types (e.g. counterparty default risk) and the parameters on which they are based (e.g. PD, LGD). By contrast, a separate review of risk drivers for materiality is not standard practice and does not appear to be appropriate. We also consider the reference to monitoring energy efficiency standards in individual jurisdictions and their impact on property portfolios to be too extensive. Moreover, the source cited in footnote 30 does not describe the supervisory effects of more stringent energy efficiency standards, but rather their potential im risks. At various points, the guidelines state that institutions should determine the materiality of environmental and climate risks for themselves. In our understanding, climate and environmental risks are regarded as risk drivers with an impact on the respective risk types (i.e. credit risk, OpRisk, market risk) and therefore dc a separate risk type. However, it is not made sufficiently clear to us here under what conditions key figures such as KRIs and risk data are to be determined and pricing adjustments made. Only if climate and environmental risks have an impact on the respective risk type does it make sense to derive the quantitative climate and environmental risks and can therefore be required by the supervisory authorities. It should be made clear here that if institutions identify impacts of climate and environmental risks on the risk types, these institutions should collect data points in a targeted manner, e.g. initially with a view to particularly aff In terms of terminology, the term "materiality" should not be used, as climate and environmental risks are not separate risk types, but rather drivers of existing supervisory risk types. Alternatively, one could speak of “relevant climate risks”.

7	Chapter 4	4.1	Expectation 1.1	15	Amendment	As stated in the document the EBA requires banks to scan the business environment capturing a Broad range of external factors and trends that shape the business conditions in operates to institution. Thesis include Macroeconomic variables, the competitive landscape, policy and regulation, technology, societal/de developments, and geopolitical trends. Climate-related and environmental risks are no separate risk but May influence all of these areas. Hence is made no sense to analysis looking for risks separately in isolation. So this would not fit the existing framework. It would like to be preferred if climate and environmental r highlighted during the analysis of the Upper mentioned dimensions (if relevant). So this analysis should focus on external factors instead of "key sectors, geographies and related to products and services they are active in". Rewording suggestion: When scanning your business environment, institutions are expected impact of risks arising from climate change and environmental degradation on external factors and trends that shape the business conditions (if relevant).
8	Chapter 4	4.1	Expectation 1.2	16	Amendment	Due to the fact that a strategic horizon is rather long-term and thus the effects of climate and environmental risks are rather long-term as well and difficult to break-down on a year-end basis it would be more sense to have only two time dimensions: 1. short to medium 2. long-term. Rewording suggestion: institutions understand how climate-related and environmental risks affect their business environment in the short to medium term and long term to inform their business strategy process. We understand the requirement set out in expectation 1.2., in conjunction with the scenario analyses, in such a way that addressing the management body with the results and recommendations of stress tests could suffice and ask for further details.
9	Chapter 4	4.2		17	Clarification	We support the call to take account of short-, medium- and long-term climate and environmental risks in our own business strategy, for example by using stress tests and scenario analyses. However, we would like to raise awareness of the fact that the planned approach will take a corresponding development and t Competitors and the market are still relatively new to the implementation of scenario analyses and stress tests, initial experience is being gathered and various tools and procedures are being tested. In addition, we still need to create a qualitatively sound database and IT support to support our understanding of the s the availability and quality of environmental and climate-related data is currently still a significant challenge for the financial sector. The implementation itself will also take a corresponding amount of time. Realistically speaking, a corresponding adjustment of the business strategy resulting from the findings of these t analyses can only take place downstream. We ask the ECB to take this time horizon into account accordingly.
10	Chapter 4	4.2	Expectation 2.1	17	Clarification	The use of scenario analyses over different time horizons for consideration in the business strategy should be based on the extent to which the business model is affected by climate and environmental risks, and the results and recommendations for action resulting from this should be used. We ask for clarification.
11	Chapter 4	4.2	Expectation 2.2	18	Clarification	From our point of view, the practical example in the draft is exclusively about KPIs for the impact perspective. Although the KPIs allow conclusions to be drawn about the climate-damaging or climate-friendly nature of the business activities, they do not make any statement about the risk content of the exposures. As business strategy and risk strategy are mixed up. KRIs for the risk view should be supplemented here. If climate and environmental aspects as drivers lead to the risk type being classified as material, they may have to be monitored using KRIs ("key risk indicators"). The statement of "fully informed decisions on risk-t context of the definition and monitoring of KPIs can be misleading, also because "information gaps" cannot be avoided in risk management estimates or projections. We ask the ECB to supplement the practical example in the final guide with KRIs for the risk perspective. From our point of view, the draft deals exclusively with KPIs for the impact view. A distinction should be made here, because not every "green" investment is lower-risk than a "brown" investment. For example, d transition risks can be identified depending on the industry, independent of the impact-related KPIs. A control effect for the risk for the institution in terms of ICAAP or ILAAP is therefore not automatically apparent. It would also be helpful to know which KPIs are considered particularly relevant by the ECB from both a risk perspective (also in terms of comparability). If aspects such as comparability do not play a significant role, but KPIs are to be selected solely on the basis of strategic orientation, the ECB should state this explicitly again.
12	Chapter 5	5.1	Expectation 3.1	19	Deletion	The establishment of any additional committees other than those required by CRD or EBA guidelines on internal governance is the sole responsibility of the institution and is clearly based on the principle of proportionality. The risk committee is in principle responsible for monitoring the implementation of the institutio
13	Chapter 5	5.1	Expectation 3.2	20	Amendment	We also consider the recommendation for the explicit consideration of an institution-specific response to various international or national agreements at political or scientific level by the management body to be non-binding. We consider the expectation of monitoring and in-depth investigation of the KPIs described a KRIs specifically for climate and environmental risks, to be too far-reaching. We also consider the planned special status of these risks to be incomprehensible and should be taken into account appropriately to its character as a possible risk driver of established risk types, also with regard to the role of the superviso administrative board in monitoring the management.

14	Chapter 5	5.2	Expectation 4.2	21	Clarification	Expectations 3.3 (concerning the management body) and expectation 4.2 (concerning risk appetite) refer to so-called key performance indicators (KPIs) and key risk indicators (KRIs). However, there is no clear differentiation between the two types of indicators. These should be clearly defined and distinguished fror According to expectation 4, institutions should "explicitly include climate and environmental risks in their risk appetite framework". However, in order to have a steering effect and be practicable for the management level, a risk appetite statement should be short and concise. The expectation should therefore be rewc sense that the brief statement on risk appetite should be based on a careful description of the risks. In the comments on Expectation 4.2, the requirement is also made that "The agreements and limits applicable to risk appetite ... should be set before the business objectives". In practice, the sequence is the other way round, i.e. the business objectives are set first, or at least both are set at the same time. The sente confusion and should therefore be deleted. The mandatory future expectation of quantification of risk indicators and limits mentioned in the draft does not seem to us (at least not at present) to be suitable for all major institutions due to the lack of a uniform definition, data and models for measurement and depends on whether climate and environmental risks have an impact on existing risk types. Moreover, it also contradicts the above-mentioned character of a risk driver for already established risk types (as shown in the draft guidelines, inter alia, in Expectation 5.4). A separate quantification is therefore hardly possible or not meaningful. Here we expect clarification with relevance aspect and in the sense of greater openness to qualitative approaches. Furthermore, a control solely on the climate and environmental aspects does not appear to be expedient in the overall consideration of possible ESG effects. In our view, only economic management that takes into account all risk drive identifies all material risks makes sense. According to the draft guidelines, the ECB requires climate-relevant metrics, although there is no common understanding of which metrics should be used and banks lack comprehensive climate-relevant data from customers - at least for a large part of their portfolios (Sectior wording should reflect the fact that climate-related metrics are currently being developed but may not be available for large parts of the portfolio by the end of 2020. The "sudden and unexpected transition to a low-carbon economy" is a stress scenario with a low probability of occurrence and therefore not appropriat definition of metrics. Practical example 4 is also inappropriate because it is based on a corporate objective and not on the risk perspective.
15	Chapter 5	5.3	Expectation 5	24	Clarification	We do not consider it appropriate to duplicate general risk management requirements of the EBA guidelines on internal governance for climate and environmental risks. This creates redundancies and makes the regulatory framework even more complex. For example, there is no added value to be expected that the body should assign separate roles and responsibilities for climate risks (Exp. 3.1). If climate risk is a risk driver for an institution, the general rule would ensure that roles and responsibilities are allocated appropriately. We would therefore recommend that the whole guidance document be significantly streamlined and on requirements where climate and environmental risks are different from the known supervisory risk types. Consequently, Chapter 5.3 could be deleted without replacement due to its clear redundancy to the EBA guidelines. In particular, the reference to the 3-Lines-of-Defence model should be deleted. In the governance and loan origination guidelines, the EBA has dispensed with specific references or allocations to the 3 lines of defense model. In order to carry out an assessment of climate and environmental risks at the level of individual borrowers, we still need to clarify what this assessment actually contains at the start of business and on an ongoing basis and what role it should play in lending. The term "due diligence" should not be used in the guidelines. This term is not used in the EBA guidelines on lending and monitoring. It can be misunderstood as meaning that very detailed checks would have to be carried out for each individual borrower. The principle of proportionality should also apply at transacti means that lower requirements should apply to smaller loans (e.g. retail). This is because, according to expectation 5.3, the first line of defense is expected to identify, assess and monitor all climate and environmental risks relevant to the creditworthiness and scoring/rating of a customer. It should also, as expected i 7.4, carry out proper due diligence on climate and environmental risks. This is not affordable for all credit sizes and above all is not reasonable. The expectation should be concretised accordingly around the principle of proportionality. Expectation 5 (concerning the organisational structure) calls for a distribution of responsibilities according to the model of the three lines of defense. In the further explanations, again, only the "responsibilities for identification, evaluation and control" will be mentioned. Since independent verification should probably a into account here, the part should be reworded as "identification, monitoring and control and independent audit".
16	Chapter 5	5.3	Expectation 5.5	25	Amendment	The comprehensive monitoring and auditing tasks with regard to sustainability risks lead to unnecessary ambiguities and legal uncertainties, e.g. why the treatment of climate and environmental risks should or must have an impact on the entire business organisation. The risk management function is essentially resp identifying and managing material risks. In our opinion, a binding assignment to the activity of the compliance function is not appropriate and cannot be made on a professional basis, especially in medium-sized or smaller institutions.
17	Chapter 5	5.4	Expectation 6.2	26	Amendment	In view of the still missing data and the corresponding necessary work on IT systems and data sources, the application of the ECB's guidance from the end of 2020 in supervisory discussions - without any transitional period for implementation - seems completely unrealistic. In expectation 6.1, reference should be made to KRIs (not KPIs). In the final ECB Guide, we would welcome a practical example of Expectations 6.2 and 6.3, showing which data in which report could be used to appropriately report on climate and environmental risks from the ECB's perspective.
18	Chapter 5	5.4	Expectation 6.4	27	Amendment	We consider timely reporting and aggregation of risk data beyond those risk types that are material according to the risk inventory at Group level and are included anyway to be too far-reaching, since climate and environmental risks have a cross-sectional impact on all these risks as drivers. The requirement for ad-hoc reporting (6.4) should take into account that this requires changes to IT systems, the set-up of which takes some time, and that this will probably not be completed in the course of 2021 due to necessary release and test cycles in the IT systems. If the requirement is nevertheless retained in the final version of the ECB's Guideline, we would welcome a practical example that would show which data in which report would be suitable for reporting on climate and environmental risks from the ECB's perspective. According to Expectation 6, institutions should "report aggregated risk data that reflect their exposures to climate-related and environmental risks with a view to enabling the management body and relevant sub-committees to make informed decisions ". As climate and environmental risks are considered to be drivers supervisory risk types, it seems more appropriate to integrate the reporting of climate and environmental risks into the reporting of the respective risks. This should be made explicitly clear again at this point in the guidelines.
19	Chapter 6	6.1	Expectation 7.1	28	Amendment	Stress tests are generally not directly used to quantify risk. The reference should be deleted. In addition, in accordance with the previous comments (see in particular General comments), the guidelines should also make it clear here that the intensity of risk management measures depends on their materiality. We consider the requirement of a (documented) justification at the level of the management body i climate and environmental risks are not considered material to be too broad. Rather, climate and environmental risks are a risk driver with an impact on existing risk types and not a risk type of their own. In order to remain consistent, the option to consider climate and environmental risks as a separate risk type shou

20	Chapter 6	6.1	Expectation 7.2	29	Clarification	A separate quantification of climate and environmental risks (at least at present) outside the usual financial and non-financial risks does not appear necessary for us in every case and currently has little chance of success due to the current poor data situation and data history. A review of each risk type to determine modelling adequately addresses the parameters influenced by climate and environmental risks as risk drivers should be performed in the model validation or adequacy review. In our experience, separate quantification using immature methods could even be counterproductive for the future acceptance of correspond management approaches for climate and environmental risks as a whole and could lead to misallocation of capital. In principle, appropriate data would have to be collected with sufficient lead time, and procedures and methods would have to be developed by science and practice in order to be used sensibly at a la necessary. With regard to the quantitative consideration of climate and environmental risks, we would ask for a concrete explanation or a practical example. The practical example in Box 7 describes the preparation and steering effect of environmental ratings, and thus primarily external effects, but does not describe the Institut perspective. In our view, however, the appropriateness of the transfer to higher risk weights for the ICAAP is not yet apparent. Expectation 7.2 must be limited to the case of materiality.
21	Chapter 6	6.1	Expectation 7.4	30	Clarification	In order to carry out a risk assessment at the level of individual borrowers, we still need to clarify what this assessment actually contains at the beginning of the transaction and on an ongoing basis, and what role it is to play in lending. With regard to the so-called "due diligence" under expectation no. 7.4, we point out that proportionality criteria are missing and that the term is inappropriate (cf. our comments on section 5.3). This requirement must be made dependent on the nature and scope of the business relationship and the materiality of any r opinion, the performance of such an audit for each client relationship is inappropriate and should be presented in a differentiated manner against the background of the very high expense involved. This means that the requirement should not only take into account a risk condition (dependence on the sector and geo location of the customer), but the general requirement for such an audit should also be linked in principle to the materiality, e.g. size of the exposure.
22	Chapter 6	6.1	Expectation 7.5	31	Amendment	We do not consider it appropriate to examine the impact of environmental and climate risks on the adequacy of capital resources, as the above reasons do not support a separate quantification and valid effects on capital development are difficult to quantify. Furthermore, integration into the economic perspective sh the assessment of climate- and environment-related risk drivers or parameters for the calculation of risk-bearing capacity that are influenced by them. Furthermore, we do not consider it useful for statements from the ECB's ICAAP guidelines to be repeated in this document with terminology that differs in some cases
23	Chapter 6	6.2	Expectation 8	31	Amendment	The explanations are unnecessary. A reference to the EBA guidelines on lending and monitoring is sufficient, especially since these take account of proportionality aspects and make an appropriate distinction between - voluntary - environmentally sustainable lending and risk management. Practical example 9 aims aspect and is therefore not appropriate here. Many expectations reflect current requirements from European or national rules and are thus a duplication that increases complexity. We assume that the adjustment of the rating classification required in expectation 8.2 is an adjustment of the credit rating. In any case, the credit rating should take into account all cr relevant aspects of the borrower; ESG aspects beyond this cannot be reflected here. In particular, the requirement to "determine and assess those climate and environmental factors that are of material importance for the default risk of the credit exposure" on an individual institution is disproportionate if this is not currently based on fundamental and recognized scientific studies that can be supported quantitative data series for the institutions. Individual institutions are hardly in a position to identify sufficiently quality-assured and clearly distinguishable climate risks and environmental factors from the historical portfolio data that demonstrably increase the credit risk compared to the methods established today. Esp "regulatory risk" factor plays a not insignificant role when it comes to the effect of transitory risks on the cash flow of a company. The increased data requirements for borrowing companies in order to meet the demand for a significantly deeper understanding of the borrower's business model do not seem very approp context of the current discussion on the provision of business data. On the other hand, the supervisory expectation of integrating climate and environmental risks into the processes should focus on the main levers for granting loans and managing portfolios. The blanket requirement to take climate and environmental risks into account at all stages does not seem to be very helpful he 8.2 calls for institutions to adapt their risk classification procedures in order to identify and assess environmental and climate risks. Climate and environmental risks are often risks that are effective on a medium or long time horizon and are currently not explicitly detectable in the relevant rating/default histories. Howe rate (PD) is generally determined for the one-year horizon (based on long-term averages). In accordance with Article 174 CRR II, the forecasting quality of the procedures that the institution can use in accordance with Article 180 CRR II must be ensured. If other factors (such as climate and environmental risks) with relevance were to be taken into account in the procedures, their forecasting quality could decline. In addition, climate and environmental risks (such as earthquakes, floods, etc.) should only be taken into account in the rating if they are of particular concern. There are already suitable options for this in our rating proc overwriting. Expectation 8.2 should therefore be reworded as follows: "Institutions should assess the significance of climate and environmental risks for their significant credit portfolios and monitor the risks associated with these. Where climate and environmental risks are relevant to specific sub-portfolios, they should be taken into account at appropriate points in the lending process". Furthermore, we do not consider the chosen practical example (Box 8), which provides for the consideration of shadow default probabilities, to be appropriate. In individual cases, such a shadow probability of default can possibly support the lending decision. Climate and environmental risks should be analysed case In this context, the previously chosen practical example (Box 7), according to which the analytical risk-weighted assets are increased by a flat rate of one quarter for exposures with negative environmental and climate impacts, is also problematic in our view. Capital adequacy and risk calculation should not be mixed (politically desired) incentive structures.

24	Chapter 6	6.2	Expectation 8.5	33	Deletion	Pricing in climate and environmental factors beyond basic risk costs does not appear appropriate and would be an encroachment on the business autonomy of the institutions and could lead to misdirected impulses. A further emphasis on automatic pricing, separated from supply and demand, business policy and ris therefore superfluous and possibly even counter-productive. Moreover, the requirements would in principle have potential for unintended consequences, especially for sectors facing greater challenges in the transition to a low-carbon economy and which could be affected by lower credit ratings anyway. We would c establish incentives rather than additional costs in lending. In our view, the inclusion of climate and environmental risks in lending guidelines is sufficient if, as explained above, there are general, standardised, rating-relevant factors that would ultimately be incorporated into established pricing procedures. In particular for locally or regionally active institutions such as compar constitutes a disproportionate disadvantage. The practical example chosen for this purpose (Box 9), which "provides for different loan prices for commitments or a sector/customer-specific fee depending on energy efficiency", should be deleted. From a risk perspective, the relevant risk indicators (PD, LGD) are decisive for pricing. Qualitative bonuses or Mali fc environmental factors should not be required here. Unless it is clearly proven (by studies) that "green" financing is lower risk, "green" cannot and should not be equated with "low risk" across the board. From the institutions' point of view, the supply of credit is dependent on business policy and risk costs. A further em automatism as in expectation 8.5 is therefore superfluous and possibly even counterproductive and should therefore be deleted.
25	Chapter 6	6.3	Expectation 9.1	35	Clarification	Footnote 85 refers to para. 31 of the EBA guidelines on outsourcing (EBA/GL/2019/02), which deals with the assessment of the outsourced function. However, the assessment and management of operational risks in this context is primarily related to the service provider and is covered by contingency plans or busin plans (cf. sections 12.3 and 9 of the outsourcing guidelines). We recommend adapting the reference.
26	Chapter 6	6.4	Expectation 10	36	Amendment	Like the ECB, we also see the need to integrate climate and environmental risks into the management of market risk positions. In the case of commodity risk, however, only significant positions need to be considered and analysed. Market risk positions are regularly taken into account automatically, as price changes are determined by various parameters and thus also by climate and environmental risks. An isolated consideration reduced to climate and environmental risks alone does not do justice to the risk management of market risk positions. Therefore, possible price changes (losses) of market risk positions must be unders whole. The extent to which climate- and environment-related parameters systematically affect investments has not yet been sufficiently researched. There is an urgent need for action here. Initial approaches are already available on the market. However, these are not so valid as to allow clear conclusions to be draw general assessment of market risk positions in the future. Even companies for which these parameters have little or no significance do not automatically have higher risks as a result. We do not deny that climate and environmental risks could change the availability of and demand for financial instruments, products a which would also be reflected in their value. Nor do we deny that investments by institutions in companies with business models that are considered to be environmentally unsustainable or whose locations are in areas of high physical risk could also lose value if political measures, market sentiment or technology ch weather events occur or if climatic conditions gradually deteriorate. However, there is no specific evidence of this. Even companies that meet all ESG criteria can suffer imbalances for a variety of reasons. Nevertheless, it can be helpful to conduct sensitivity analyses using scenarios specifically geared to climate an risks in order to find out how strongly a market risk position is dependent on sustainability aspects. In the case of interest rate risk, we expect that there will be little, if any, relation to climate and environmental risks. The same applies to foreign currency positions. The climate and environmental risk will be reflected in the market risk-induced credit spread of interest-bearing securities. This is where the above-ment analyses come in. Risks from foreign currency and commodity positions should only be considered if the resulting risks are material. The introduction of thresholds should be considered, especially in this case. An assessment of the climate and environmental risks of listed shares can basically be envisaged under the above-mentioned restrictions. However, in the case of private equity or venture capital, an assessment of these risks is not possible in the absence of valid data for assessing these risks. These restrictions sh into account accordingly in a guideline When considering transition risks for countries and states, we would like to point out that there is little or no information available on how these risks are to be assessed or managed. For this reason, transition risks can only be taken into account qualitatively, e.g. using scenarios.
27	Chapter 6	6.5	Expectation 11	37	Amendment	Particularly in the case of climate and environmental risks, it is anything but trivial to develop a realistic narrative for a scenario, to model the cause-and-effect relationships based on it and to derive from this effects on specific indicators (e.g. VAR, P&L, capital ratio, etc.). Even the climate scenarios that are used as are based on many assumptions. The subsequent breakdown of implications for individual countries, sectors and customers in turn requires assumptions which, taken together, mean that the result of a scenario analysis is subject to corresponding uncertainties. The assumptions and limitations of scenario analyses especially in the area of climate and environmental risks, should be taken into account. It would therefore be negligent to incorporate results from supervisory or institution-internal stress tests into management without reflection. The recommendation to apply a longer time horizon for the risks should be deleted. Where appropriate, longer-term effects are already taken into account in the economic perspective. An excessively long time horizon would ultimately only increase uncertainty and not generate any reliable management impulses. In the comments on Expectation 11 it is described, among other things, that institutions "formulate assumptions regarding their own risk profile and their respective characteristics and run through several scenarios on the basis of different combinations of assumptions. This places extremely high demands on banks. possible, but above all relevant scenarios in the future already appears difficult for the classic risk types. The explanations should be shortened accordingly.
28	Chapter 6	6.5	Expectation 11	38	Deletion	We believe that the expectation of integrating scenarios relating to climate and environmental risks in recovery planning is too far-reaching. Such a dramatic impact, that banks are forced into recovery due to the climate-related effects, only seems possible to us via the diversion of the classical risks. However, this is already included in the existing requirements. This additional expectation should be deleted. Instead, it could be specifically stated in the gu climate and environmental risks can in principle also lead to greater damage via their impact on classic risks, but that this is already taken into account in the requirements for recovery planning.

29	Chapter 6	6.6	Expectation 12	38	Clarification	Solving the data problem is central to the implementation of various scenario analyses on payment outflows and the consumption of liquidity buffers. In Section 6.6, the ECB formulates Expectation 12, which states that institutions should assess whether significant climate and environmental risks could have a significant negative impact on net cash outflows or liquidity buffers. If this is the case, these parameters must be integrated into scenario-based liquidity risl Following the general principles of the Internal Liquidity Adequacy Assessment Process (ILAAP), the ECB provides several examples of approaches to assess both direct and indirect effects. The formulated requirements necessitate a new process for the materiality assessment of climate and environmental risks in regime and thus fundamental extensions of the simulation procedures. New methodological and data technology solutions must be found for the implementation of the various scenario analyses. This means that in this field, too, there are still considerable conceptual activities and implementation requirements at the institutes.
30	Chapter 7	7	Expectation 13	40-41	Amendment	Due to the lack of data availability on the customer side, financial institutions are currently not yet in a position to report all the key figures mentioned in the non-binding guidelines of the European Commission, i.e. the real economy must first meet the requirements of these guidelines and Article 8 of the Taxonomy R before the institutions are in a position to do so. It is possible that a period of approximation could be introduced so that the ratios have to be disclosed by the financial institutions with a delay of e.g. 2 years after the real economy has fulfilled these requirements. Moreover, double disclosure of the ratios in several re NFRD-Statement) of one institution seems unnecessary. We also suggest the following modification: "The assessment of the materiality of climate-related and environmental risks is therefore expected to be performed using both qualitative and quantitative information": replace "is therefore expected to" with "could therefore". We explicitly reject the mandatory assessment as material on the basis of both qualitative and quantitative criteria as completely disproportionate, as this is not required for other disclosure information, even by the relevant EBA guidelines. Furthermore, such an assessment might not be consistent with a definition of materiality in non-financial reporting. The ECB calls for consistency with the non-binding guidelines of the European Commission, which however focus on further perspectives. Before the ECB pursues the inside-out perspective for supervisory purposes, it would be essential to clarify with relevant stakeholders including legislators, other supervisory aut standard setters how supervisory disclosure is to be dovetailed with accounting (risk report in the management report) and non-financial reporting according to NFRD and taxonomy Regulation.
31	Chapter 7	7	Expectation 13.1	40-41	Amendment	In our view, it is the task of the EBA, not the ECB, to formulate more concrete requirements for supervisory disclosure (Pillar III). Article 449a CRR II provides for mandatory disclosure of ESG risks for large listed institutions from 28 June 2022. We therefore do not consider it appropriate to shorten the scope and imp period. Nor should it prejudge the work of the EBA in accordance with its mandate under Article 434a CRR II. The ECB should not define any ESG-disclosure obligation especially no obligation, which could possibly even take effect as early as 31 December 2020 according to the ECB's timetable presented. In the n ECB may make selected information on climate and environmental risks the subject of a report to the Joint Supervisory Teams, but should refrain from adapting Pillar III, as any diverging requirements of different standard-setters in the coming years will only cause confusion in the public or among the addressees of and, moreover, will not guarantee comparability of the information across credit institutions in terms of time or content.
32	Chapter 7	7	Expectation 13.2	41	Amendment	While the ECB's expectation of disclosure of relevant information on the degree of achievement and progress would increase the obligation for institutions to underpin defined objectives with concrete measures and to allow for their monitoring, it is questionable whether supervisory disclosure is the right medium for it would increase the level of awareness of Pillar III addressees with regard to their own economic decisions. This is particularly true when considering the further level of detail of proposed disclosures. From today's perspective, we consider information on Scope 3 greenhouse gas emissions in particular to be unreal lack of broad and evaluable data availability with regard to the lending business. We firmly reject this level of disclosure detail, also in view of the lack of an EU taxonomy. If an institution considers climate-related risks to be insignificant, it is expected that this judgement will be documented with the available qualitative and quantitative information on which the assessment is based. The requirement should take into account the fact that quantitative climate-related metrics are currently developed and therefore quantitative information on materiality will remain limited to some extent.
33	Chapter 7	7	Expectation 13.3	42	Deletion	We propose the following deletion: ("… in terms of dates and outstanding volumes by geographic area …"), as the outstanding items cannot be reported.
34	Chapter 7	7	Expectation 13.5	43	Amendment	The ECB expects greenhouse gas emissions (Scopes 1, 2 and 3) to be disclosed for the whole group. However, it is currently a fact that banks lack comprehensive climate-relevant data from customers - at least for a large part of their portfolios. The ECB should therefore take into account that climate-related databa developed together with climate-related metrics and will therefore not be available for large parts of the portfolio at the end of 2020. We call for the deletion of Scope 3 requirements, as they cannot be implemented on a broad scale in the short term.
35	Chapter 7	7	Expectation 13.5	43	Clarification	„This could, for instance, entail a project-by-project approach to measuring the carbon intensity of large corporate portfolios and the property-by-property measurement of actual energy consumption or energy efficiency classification for real estate portfolios. " What volumes are considered to be "large portfolios" from the ECB's point of view? It would be helpful if a concrete threshold value could be specified. What is the connection to materiality with regard to Scope 1-3? The amount or percentage of carbon-related assets in each portfolio in € millions or as a percentage of the current portfolio value...". Above what CO2 (threshold) level does the ECB consider assets to have a significant CO2 footprint? Could a high level sectoral breakdown, for example, be sufficient?
36	Chapter 7	7	Expectation 13.7	44	Clarification	On what basis should a decision be made on which climate- and environment-related risks banks should perspectively take into account in their disclosures?
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