



## Template for comments

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

#### Institution/Company

Nedcommunity

#### Contact person

##### Mr/Ms

##### First name

Italian Association of non-executive and independent directors

##### Surname

Nedcommunity

##### Email address

commissionelegale@nedcommunity.com

##### Telephone number

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

#### General comments

Nedcommunity, the Italian Association of non-executive and independent directors and official member for Italy of EcoDa (the European Confederation of Directors' Association), is pleased to provide its comments on ECB consultation for the Guide on "Climate-related and environmental risks" (the "Guide") published in May 2020

Nedcommunity appreciates the Guide as it clarifies how management boards of institutions are expected to behave in governing climate change risks. The Guide is the logic consequence of the European legislation so far issued and its political position aiming at facing climate change to make Europe the first major economy to put in place a legally binding framework to deliver and go beyond the Paris Agreement covenants. This has been the European approach since – at least – the adoption of the Action Plan on Sustainable Growth in 2018 and the Directive n. 2014/95 on non-financial disclosure whose contents, related to climate, has been enriched by the non-binding Guidelines issued by the European Commission in 2019 and basically integrating the TCFD Recommendations. The underlying idea is that environmental-related risks are financial risks that can have a significant impact on assets of corporations belonging to various industries and strand them – as the economic literature has been asserting since the late 1980s. Obviously, this situation has the potential of enormously affecting banks, of any dimension, that finance enterprises or individuals who do not take into due account climate-related risks. In this respect we praise the proposal of the Guide to address significant and less significant institutions: both categories may be, as matter of fact, interested. In addition, Nedcommunity praise the choice of not adopting a legally binding instrument but a guide to assist institutions - as basis for a supervisory dialogue - and, therefore, their management and supervisory boards to make them ready, over time to adopt the best approach to consider climate-related and environmental risks in the short, medium and long term – also by using stress scenario analysis – when: i) developing the institution's overall business strategy; ii) assessing the business objectives and the risk management framework; iii) exercising effective oversight of climate-related and environmental risks also by setting and monitoring key performance indicators for individual business lines and portfolios. The Guide implies the current prudential framework without superseding any applicable law or ECB Guides, in particular the ICAAP Guide or other relevant publications. Moreover, the Guide rightly, in our opinion -refers to the TCFD Recommendations – that are already quite known and implemented in the market – to identify and qualify climate

## 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
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1	Chapter 4	5.1	expectation 3.1	19	Amendment	<p>While we deem correct to allocate to the management body the responsibility to consider climate-related and environmental risks in the assessment of the company's overall strategy, the business objectives and the risk management framework – as occurs with the other financial risks –, we do not deem appropriate the recommendation of the Guide to “explicitly allocate roles and responsibilities to its members and/or its subcommittees for climate-related and environmental risks”.</p> <p>In our view, climate-related and environmental risks and accountability should be a management board's responsibility as a whole. Any allocation of specific “role and responsibility” for these risks to a single board member and/or to internal committees may, as a matter of fact, jeopardise the consideration of climate-related risks within the overall strategy of the institution, the business objectives and the risk management framework. If this happens, we believe the result could be the opposite of what is the aim of the Guide (see Box 1, points 3). In addition, all European jurisdictions consider the development of a business strategy and the risk management framework one of the main tasks of the management board as a whole. This means the internal committees and/or the individual board members should not have specific personal responsibilities, as these (and the connected liabilities) should stay on the management body as whole. The scope of the Internal committees - when appointed - is restricted to a supervisory function, as they have “to advise” and “to prepare decisions” to be taken by the management body, the internal body with responsibility for the choices made by the institution. The recommended “clear allocation of responsibilities and authority within their internal control framework, including their business lines, internal units and internal control functions” could easily promote the responsibility for the management of climate-related and environmental risks within the organisational structure.</p>		Nedcommunity, Italian Association of non-executive and independent directors	Publish
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2	Chapter 4	5.1	expectation 3.1	19	Amendment	<p>We discourage the setting up of a dedicated internal committee for climate change. The task of considering climate-related risks should be allocated to internal committees already set up such as: the ESG committee or the strategy/scenario committee or the audit or control and risk committee. Moreover, from our experience, climate change is really a cross-functional issue that should involve, at least, any ESG or sustainability committee together with the audit or control and risk committee: such committees should meet and analyse the climate theme together from time to time. It is indeed advisable to allocate climate change to one or more of such internal committees already set up in order to allow an in-depth analysis of climate-related risks and implications also by meeting the management in charge of the issue and leaving to the board, as whole, the full responsibility of embedding those risks within the overall strategy, business decisions and the risk management framework.</p>		Nedcommunity, Italian Association of non-executive and independent directors	Publish
3	Chapter 4	5.1	Box 3	20	Deletion	<p>By contrast, we believe it is not advisable to allocate such issue just to one expert within the board; it does not seem to be efficient, for example, to have a climate scientist as board member as the risk would be his/her isolation from other colleagues with no interaction and no inclusion of climate-related risks within the overall strategy and business decisions</p>		Nedcommunity, Italian Association of non-executive and independent directors	Publish
4	Chapter 4	5.1	expectation 3.1	19	Clarification	<p>Of course board members are recommended “to have adequate knowledge and understanding of climate-related and environmental risks”, as suggested by the Guide, as well as opportunities – knowledge and understanding that may be enhanced through induction sessions or external consultancy on single meetings or decisions. Climate competence is certainly fundamental but it should be spread among all members of the board and the management. In addition, it should be noted that in the market there are already several providers of climate data analytics specializing in scenario analysis for the various geographic regions that boards of directors might refer to for being able to anticipate what the situation might be like in the medium-long term in a certain area before taking decisions on strategy or medium-long term investments.</p>		Nedcommunity, Italian Association of non-executive and independent directors	Publish

5	Chapter 4	5.2	Box 4	22	Deletion	Finally, Nedcommunity believes that the Guide should invite institutions to keep the carbon content of their financed energy mix in line with the target of 1.5°; the observed practice reported under Box 4 of the Guide which refers to “well below 2°C” may be indeed misleading in consideration of the United Nations IPCC’s Special 1.5° C Report, released in October 2018, that emphasized the urgent necessity to keep global warming even below 1.5 °C as – if failing – the consequences would be worse than expected .		Nedcommunity, Italian Association of non-executive and independent directors	Publish
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