



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

Institution/Company

Caixa Geral de Depósitos, S.A. (CGD)

Contact person

Mr/Ms

First name

Surname

Email address

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General comments

CGD-Confidencial

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 2	2.2.	-	6-7	Clarification	<p>"As part of the supervisory dialogue, as from end-2020, significant institutions will be asked to inform the ECB of any divergences of their practices from the supervisory expectations described in this guide."</p> <p>>The deadline to comply seems to be demanding, given that the ECB "acknowledges that the management and disclosure of climate-related and environmental risks, and also the methodologies and tools used to address them, are currently evolving and are expected to mature over time." Moreover, one should note that the Milestones for EBA regulatory mandates on sustainable finance include several important dates spread from 2020 until 2025. Therefore, significant institutions - and also the ECB (and NCAs) - would benefit from an appropriate time to integrate the new ESG requirements, especially in times of complexity and operational burden (as those related to the COVID crisis).</p> <p>>At the current stage, institutions are beginning to adopt their practices in light of the expectations set out in the guide and which already comprehend a complex and extensive work.</p> <p>>Whenever possible, it would be important to clarify and detail how significant institutions should then inform the ECB about their divergences (e.g. special purpose report; schedule of interactions with JST; etc.). How does the ECB expect this information to be?</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities. Moreover, the clarification would also avoid additional work that should not be necessary at this stage as the guidelines are not binding for the institutions.	Don't publish
2	Chapter 4	4.2.	2.1	17	Clarification	<p>"These assumptions can be quantitative and/or qualitative in nature, are expected not to rely solely on historical experiences, and also 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). This may also involve an expert judgement, since the given nature of climate change as a driver of financial risk will present new challenges that have not yet materialised."</p> <p>>Whenever possible, the reliance on "expert judgement" should be minimised for enhancing comparability and safeguarding a level playing field.</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.	Don't publish
3	Chapter 4	4.2	2.1	17	Clarification	<p>Relying on stress test scenarios that are in a very incipient phase when determining business strategy could lead to an underestimation of risks that could trigger financial instability and give an unrealistic information.</p>	Stress test scenarios are in a very explorative state and expecting institutions to rely on them could be problematic.	Don't publish

4	Chapter 4	4.2.	2.2 / Box 2	18	Clarification	<p>"The implementation of the institution's business strategy is expected to reflect material climate-related and environmental risks, for example by setting and monitoring key performance indicators (KPIs) that are cascaded down to individual business lines and portfolios. (...) In order to support their business strategy, institutions may set KPIs for any type of material climate-related or environmental risk. These KPIs should be measurable and quantifiable, wherever possible."</p> <p>>Desirably the ECB should define a set of KPIs and KRIs, and also a common risk scoreboard for banks, in order to grant a level playing field and to promote a phase-in in their implementation, as data availability is scarce and developing appropriate quantitative metrics is still under development. Furthermore, geographic location and the business model of an institution should also be considered when defining this set of parameters, as the impact of climate-related risks should affect specific institutions differently.</p> <p>>Can the KPIs mentioned in Box 2 be considered as a best practice?</p> <p>>Whenever possible, it would be important to clarify and detail the regularity of KPIs computation and assessment. Can the ECB provide further guidance regarding the choice and measurement of climate-related and environmental KPIs?</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.		Don't publish
5	Chapter 5	5.	-	19	Clarification	<p>"In addition, appropriate and regular reporting on climate-related and environmental risks to the management body is expected to ensure proper management of these risks."</p> <p>>Whenever possible, it would be important to clarify and detail the concepts of appropriateness and regularity of reporting.</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.		Don't publish
6	Chapter 5	5.1.	-	20	Clarification	<p>"... the management body is expected to review all policies potentially affected by climate-related and environmental risks, including the (credit) policies for each sector and product, on a regular basis."</p> <p>>Whenever possible, it would be important to clarify and detail the concept of "regular basis" concerning this type of revision (e.g. once a year, every 2 years, etc.?).</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.		Don't publish
7	Chapter 5	5.1	-	20	Clarification	<p>Currently, institutions do not have historical data and the information on climate risks is still limited, which makes it difficult to define quantitative metrics. A common framework among institutions should be used, but the data sources are still being developed.</p>	The clarification would be important to define the expectation on institutions to develop quantitative metrics when the ECB is still developing methodologies to estimate the magnitude of climate-related risks for the financial system.		Don't publish

8	Chapter 5	5.2	4.2.	21	Clarification	<p>"Institutions are expected to develop appropriate key risk indicators and set appropriate limits for climate-related and environmental risks in line with their regular monitoring and escalation arrangements."</p> <p>>Whenever possible, it would be important to clarify and detail the concepts of "appropriate" KRIs and risk limits (based on a set of criteria, guidance or best practices), and also of "regular monitoring".</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.		Don't publish
9	Chapter 5	5.2.	4.2	22	Clarification	<p>"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."</p> <p>>The use of qualitative statements would contribute to different compliance levels and additional complexity for supervised entities (and also to regulators and supervisors).</p> <p>>This kind of ECB statements might raise some questions regarding the timing to publish this Guide (since it will be applicable as of its date of publication and "as from end-2020, significant institutions will be asked to inform the ECB of any divergences of their practices from the supervisory expectations described in this guide.").</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.		Don't publish
10	Chapter 5	5.3.	5	23-24	Clarification	<p>It is necessary to understand that a complete integration of climatic and environmental risks in the banks' risk management framework will require robust quantification methodologies, which are still at a very early stage. The Guide reinforces the idea that credit institutions should take a forward-looking approach to considering climate / environmental risk, but the risk management discipline is still in its infancy (lack of comprehensive tools and methodologies).</p>	A more direct and precise approach is needed at the level of the entire organizational structure of the Bank. Different expectations should be prioritized to help banks define roadmaps.		Don't publish

11	Chapter 6	6.1.	7	28	Clarification	<p>"Institutions are expected to incorporate climate-related and environmental risks as drivers of established risk categories into their existing risk management framework, with a view to managing and monitoring these over a sufficiently long-term horizon, and to review their arrangements on a regular basis."</p> <p>>Whenever possible, it would be important to clarify and detail the concepts of "sufficiently long-term" (>5 years?) and "regular basis" (how often?).</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.		Don't publish
12	Chapter 6	6.1.	7.1	28	Clarification	<p>"Institutions are responsible for implementing a regular process for identifying all material risks and including these in a comprehensive internal risk inventory."</p> <p>>Whenever possible, it would be important to clarify and detail the concept of "regular process" (e.g. type, periodicity, etc.).</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.		Don't publish
13	Chapter 6	6.1.	7.6	31	Clarification	<p>"Institutions are expected to evaluate the appropriateness of their identification, measurement and mitigation instruments for climate-related and environmental risks in their periodic reviews. (...) As the availability of data and methodologies for identifying and measuring climate-related and environmental risks is evolving rapidly, institutions are expected to regularly consider the appropriateness and quality of the data sources and methods in place."</p> <p>>If possible, it would be important to clarify the concept of "periodic reviews" and the regularity of this appropriateness assessment (e.g. always, periodic assessment, other?).</p> <p>>Moreover, since the data sources are still scarce and being developed, this would bring additional complexity for financial institutions. The publication would benefit from (i) a stabilised taxonomy regarding climate-related and environmental risks (implementation is still pending), (ii) more developed data sources and (iii) a better timing for banks (the COVID crisis has already brought substantial complexity and operational burden to banks).</p>	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.		Don't publish

14	Chapter 6	6.2	-	32-33	Clarification	Expectations for credit risk management must take into consideration that EU Taxonomy is an excellent tool for an EU common classification system but which is in an implementation phase. It makes it difficult for institutions to take into account climate related and environmental risks in loan origination and monitoring when (i) companies are still taking first steps to disclose information against the taxonomy, and (ii) larger companies may have a wider range of activities and services, which makes the classification very complex (as well as anticipating overlapping effects).	The clarification would be important to avoid expectations about procedures that are dependent on developments being carried out by market players concerning other guidelines still in progress and only binding in 1.5 or 2 years. There should be a consistent roadmap.		Don't publish
15	Chapter 6	6.2.	8.3	33	Clarification	"Institutions are expected to incorporate these considerations into both the process for establishing the value of collateral and into regular reviews." >Whenever possible, it would be important to clarify and detail the concept of "regular reviews" (e.g. type, periodicity, etc.).	The clarification would be important to avoid different compliance levels and additional complexity for supervised entities.		Don't publish
16	Chapter 6	6.2.	8.5	33	Deletion	"This could, for instance, entail offering discounts on the interest rate of an environmentally sustainable loan or linking the interest rate of the loan to the achievement of a sustainability target by the client." >In an environment of prolonged low interest rates, it is not relevant to discuss the offer of interest rates discounts.	It does not seem relevant to include this kind of commercial aspects/suggestions within the context of this Guide (since it is focused on risk management and disclosures).		Don't publish
17	Chapter 6	6.5	11	37	Clarification	Climate risks stress test models should be based on proper research, findings brought from past events and informed concerns. When an institution is geographically located where there is no past history of extreme weather events, it turns difficult to build climate risk stress test scenarios and estimate the impacts of those events. There must be a common language among the institutions and the supervisor should provide guidance on this theme.	The clarification would be important to avoid estimates based on explorative scenarios and models, while institutions are also expected to assess their capital adequacy under a credible baseline scenario and institution-specific adverse scenarios.		Don't publish
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