BANQUE CENTRALE EUROPÉENNE
SUPERVISION BANCAIRE

## Template for comments

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

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**General comments**

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services . Operating in 91 countries and territories around the world, we draw on the expertise of 40,000 professionals – 24,000 in the Mazars integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes in every stage in their development.

Mazars takes a particular interest in advising clients on how to address climate change risk, as evidenced by the report  we co-authored with the Official Monetary and Financial Institutions Forum (OMFIF). The report is based on a survey of 33 central banks and regulatory authorities across the world, and finds that most supervisors now see climate risks as an important issue and acknowledge that a long-term response is needed.

Mazars therefore welcomes the opportunity to comment on the ECB guide on climate-related and environmental risks, issued for consultation in May 2020. In our view, the recommendations set out in the guide will help to boost the long-term resilience of the financial system and promote consistency of approaches.

We set out in this letter some of our general comments on the ECB's approach.

**1. General compliance**

We fully support the ECB's efforts to improve the management of climate-related and environmental risks across the banking industry. We also welcome that the ECB is looking to encourage early adoption of the guidelines among institutions. We note that institutions are expected to begin aligning their practices with the ECB's expectations upon final publication of the guide in Q4 2020, and that the ECB expects to begin supervisory dialogue with significant institutions starting from end-2020. While we recognise that the ECB is not requesting full alignment with the guide over this period, the timescale being proposed may leave banks with insufficient time to develop effective plans for adoption.  In our view the ECB should consider postponing the application date and supervisory dialogue to a later time, in order to allow institutions at least six months from the final publication date to develop an organisation-wide implementation approach, collect the required data and build relevant modelling tools.

We also note that the guide does not intend to impose additional auditing requirements on institutions, and fully support this approach. However, we believe that institutions may falsely perceive this statement to imply that external auditors currently have specific duties related to the management of climate-related and environmental risks. To avoid ambiguity, we suggest that the ECB clarify that the guide does not impose additional external audit requirements on institutions.

Our final points on general compliance relate to the relationship between this guide and other relevant material. The guide notably encourages institutions to consider other publications which specifically address managing climate-related and environmental risk, and refers to the institutions which have authored these resources. We believe it would be helpful if the ECB could list the specific texts to be considered in its guide, clarify which ones are binding, and hierarchically group these texts based on their relevance to banking institutions. While we acknowledge this may involve a judgment call for some publications, it would be helpful for prioritisation and planning by banks that are currently in the early stages of implementation.

Similarly, we note that the guide is not to be viewed as a substitute or replacement of any applicable law. However, it is our understanding that ESG risks and their respective management are not currently explicitly part of the applicable regulation, namely directive 2013/36 of the EU (CRD IV). We also note that ESG risks will be introduced in the SREP with art. 98(8) of directive 2019/878 (CRD V), which is not applicable yet. To avoid ambiguity, we would suggest that the ECB highlight this development in the guide. Such clarification would increase awareness among banks, allowing them to plan ahead, and may also encourage early adoption of similar expectations within this guide.

## 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 |
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| 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 |
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| 1 | Chapter 2 | 2.1 | Footnote 2 | 6 | Clarification | "This effectively means that this guide does not intend to impose additional auditing requirements"<br><br>This provision might be misleading since it leaves the ambiguity that external auditors have specific duties related to safe and prudent management of climate-related and environmental risks | In order to remove any ambiguity, could the ECB clarify that this guide does not intend to impose external audit requirements? | David Labella |
| 2 | Chapter 2 | 2.1.2 | Par. 2 | 6 | Modification | "Significant institutions are expected to use this guide, taking into account the materiality of their exposures to climate-related and environmental risks."<br><br>Materiality seems to be an arbitrary notion, which may leave room for varying interpretations amongst institutions. | Could the ECB provide guidance for institutions to better understand what an exposure materially exposed to climate-related risk is, for instance by defining a materiality threshold? | David Labella |
| 3 | Chapter 2 | 2.1.3 | Par. 3 | 6 | Modification | "This guide does not substitute or supersede any applicable law..."<br><br>By stating this the ECB is considering the current applicable law to be binding for banks. However ESG risks and their respective management are currently not part of the applicable regulation, namely directive 2013/36 of the EU (CRD4). ESG risks will be introduced in the SREP with art. 98(8) of directive 2019/878 (CRD5), which is not applicable yet. | Can the ECB clearly state that this guide is not binding for banks since the CRD5, and its forthcoming requirements on ESG risks in the context of the SREP, are not yet applicable? | David Labella |
| 4 | Chapter 2 | 2.1.3 | Par. 3 | 6 | Modification | "institutions are encouraged to duly consider other relevant publications…"<br><br>Since international publications need local transposition in order to be legally applicable, many banks may not be aware of these publications, and may not be aware of the respective importance of each publication. | In our view it would be worth clarifying which texts are binding for banks, and including a "hierarchy" of texts for banks to consider to assist less advanced institutions with prioritisation. | David Labella |
| 5 | Chapter 2 | 2.2.1 | Par. 1 | 6 | Modification | "this guide is applicable as of its date of publication"<br><br>The consultation ends the 25th of September, then the ECB is expecting to start the supervisory dialogue with banks from end-2020. While we note that full alignment will not be expected by the end of this year, the timeline might be challenging for institutions. Consequently, banks might not have sufficient time to comply with the expectations listed in the Guide. | It might be appropriate to leave at least 6 months from final publication for banks to comply with the guide. | David Labella |
| 6 | Chapter 4 | 4.1.4 | Expectation 1.2 | 16 | Clarification | "institutions are expected to take into account up-to-date scientific insights..."<br><br>Since there are many scientific insights on climate-related and environmental risks, banks may struggle to prioritise the most relevant information. | Can the ECB clarify which scientific sources might be valuable to inform banks' understanding of climate-related and environmental risk? | David Labella |
| 7 | Chapter 4 | 4.2.1 | Expectation 2 | 17 | Clarification | "When determining and implementing their business strategy, institutions are expected to integrate climate-related and environmental risks that materially impact their business environment in the short, medium or long term."<br><br>We note that materiality with respect to climate and environmental risk can refer to impact on the institution, as well as the institution's impact on the environment. For instance, the NFRD requires disclosure on both types of impact (the "double materiality" perspective).<br><br>We believe that this guide focuses mainly on materiality with respect to impact on institutions. However, to avoid ambiguity, we believe this should be clarified at the start of section. | Can the ECB clarify that its expectations on managing material climate-related and environmental risks pertain to risks with a significant impact on institutions, and not the impact of these institutions on the environment? | Leila Kamdem-Fotso |

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| 8 | Chapter 4 | 4.2.2 | Expectation 2.1 | 17 | Clarification | "a short to medium term assessment is expected to include analysis of the climate-related risks to which the institution is exposed within its current business planning horizon (3 to 5 years)"<br><br>Banks that do not yet possess climate-related scenario analysis capabilities may be unsure on which assumptions to employ, notably with respect to evolution of exposures ("balance sheet assumptions"). For the 3-5 year horizon, a **static** balance sheet may be an appropriate assumption - this would be consistent with the ACPR approach to climate stress testing. | Can the ECB clarify whether banks should assume a static or dynamic balance sheet for scenario analysis, for the 3 to 5 year horizon? | David Labella |
| 9 | Chapter 4 | 4.2.2 | Expectation 2.1 | 17 | Clarification | "a longer term assessment beyond the typical business planning horizon (>5 years)…"<br><br>Banks that do not yet possess climate-related scenario analysis capabilities may be unsure on which assumptions to employ, notably with respect to evolution of exposures ("balance sheet assumptions"). For the 5+ year horizon, a **dynamic** balance sheet may be an appropriate assumption - this would be consistent with the ACPR approach to climate stress testing. | Can the ECB clarify whether banks should assume a static or dynamic balance sheet for scenario analysis, for the 5+ year horizon? | David Labella |
| 10 | Chapter 5 | 5.1 | Expectation 3.1 | 19 | Clarification | "The management body is expected to consider climate-related and environmental risks when developing the institution's overall business strategy, business objectives and risk management framework and to exercise effectively oversight of climate related and environmental risks"<br><br>We welcome the ECB's suggestion that management take ownership with respect to climate-related and environmental risk management. To boost accountability within organisations, perhaps institutions should also allocate responsibility to a specific department by appointing an individual responsible for climate and environmental risk.<br><br>This would be in line with the UK Prudential Regulation Authority's Supervisory Statement 3/19. In this Statement, the PRA outlines its expectation that firms allocate responsiblity for identifying and managing financial risks from climate change to the appropriate Senior Manager, and ensure this is reflected within their Statement of Responsibilities. | It would also be relevant to expect the management body to appoint one department responsible for managing and monitoring all risks related to climate change. The appointment of a climate risk manager should be submitted to the management and surveillance bodies for validation. | Emilie Legroux |
| 11 | Chapter 5 | 5.1 | Box 3 | 20 | Clarification | "For example, as part of its medium-term strategic plan, one bank is in the process of establishing a committee which draws on internal and external expertise, such as scientists from relevant disciplines, to advise and assist the management body in defining its ESG strategy."<br><br>Where significant institutions can call upon external expertise, smaller firms may find the investment difficult to make. Although it is appreciated that it is an area where the all parties, including the Authorities, are still in an exploratory phase. | Can the ECB build and provide a guiding taxonomy for ESG risks to support less significant institutions in the first-time implementation of an ESG risk management strategy? | Phuong Gomard |
| 12 | Chapter 5 | 5.2.1 | Expectation 4.1 | 21 | Clarification | "Institutions are expected to have in place a risk appetite framework (RAF) that considers all the material risks to which the institution is exposed, that is forward-looking, in line with the strategic planning horizon set out in the business strategy and that is reviewed regularly."<br><br>The timeframe within which climate change related risks might manifest is deemed to be longer given their long-term nature. However, the ECB recommends that all risk management processes now take into account those risks so that institutions can anticipate their mitigating actions on a timely manner. This includes for instance the Internal Capital Adequacy Assessment Process (ICAAP).<br><br>We note that the ECB does not want to change the ICAAP strategic time horizon. However, it is encouraging banks to take a longer-term perspective within this assessment, and is recommending a qualitative approach as quantitative methodologies are still being developed. For instance, institutions would be expected to reflect on strategies to mitigate risks from exposures susceptible to climate risk. | Can the ECB clarify in the guide that incorporating climate change-related risks into the ICAAP will not involve changing the strategic time horizon, and should be done in a qualitative manner? It would be helpful if the ECB could also provide an indicative example on embedding climate-related and environmental risks within the ICAAP. Finally, can the ECB confirm whether, and if so how, the results of climate-related stress testing or scenario analysis should be included? | Phuong Gomard |
| 13 | Chapter 5 | 5.2.2 | Expectation 4.1 | 21 | Modification | "Institutions are expected to develop a well-defined description of climate-related and environmental risks in their risk appetite statement…"<br><br>Integrating these risks into the risk appetite statement is an important first step for banks. However, banks should also regularly review climate-related sections of the risk appetite statement and adjust in line with their business strategy and most recent analysis of the risks they face. For instance, the NGFS Guide for Supervisors (page 41) recommends an approach in which the results of scenario analysis and stress tests feed into the risk appetite framework. | In our view the guide should clearly state that setting the risk appetite is not a one-off process, and that climate-related sections of the risk appetite should be periodically reviewed by the Board. | Ben Taylor |

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| 14 | Chapter 5 | 5.3.4 | Expectation 5.3 | 24 | Modification | "Institutions are expected to describe the tasks and responsibilities of the first line of defence in terms of risk-taking and managing climate-related and environmental risks in their policies, procedures and controls. Institutions are expected to ensure that the first line of defence performs its duties in accordance with any climate-related and environmental policy, procedure or limit. More specifically, the first line of defence is expected to identify, assess and monitor any climate-related and environmental risks relevant for the creditworthiness and the scoring/rating of a client, as well as to conduct proper due diligence on climate-related and environmental risks in line with Expectation 7.4".<br><br>Given this will be a relatively new process for most banks, the first line of defence may be unable to effectively manage this responsibility at first. | Does the ECB agree that in the initial stages of incorporating ESG risks in institutions' risk management framework, the approach for identifying, assessing and monitoring those risks will be top-down with Senior Management and risk function's guidance as knowledge and processes will need to become more mature before the first line of defence can fully perform its roles and duties of identifying, assessing and reporting on those risks? | Phuong Gomard |
| 15 | Chapter 5 | 5.3.4 | Expectation 5.3 | 24 | Clarification | "Institutions are expected to describe the tasks and responsibilities of the first line of defence in terms of risk-taking and managing climate-related and environmental risks in their policies, procedures and controls"<br><br>We agree with this approach, and believe it should also be applied to the 2nd and 3rd lines of defense (compliance and internal audit, respectively). | It would be relevant to expect institutions to describe the roles and responsabilities of the second line of defence and internal audit on the climate risk monitoring scheme. | Emilie Legroux |
| 16 | Chapter 5 | 5.3.7 | Expectation 5.6 | 25 | Clarification | "The internal audit function is expected to consider in its reviews of the risk management framework the extent to which it is equipped to manage climate-related and environmental risks"<br><br>In our view, this assessment should include an evaluation of management's role in this process. Specifically, whether adequate attention and resources are allocated to the management of these risks. | The internal audit function should also make sure that the management body supports efforts relating to climate risks management. | Emilie Legroux |
| 17 | Chapter 5 | 5.4.5 | Expectation 6.4 | 27 | Clarification | "An institution is expected to be able to generate aggregated and up-to-date climate-related and environmental risks data in a timely manner"<br><br>We agree with the ECB's expectation that institutions maintain up-to-date data on such risks, and also believe that this data should be subject to a strict quality review process. | In our view, the aggregated data should be subject to a second level of defence control in order to internally certify the information, and the methods for setting and aggregating the data should be formalised. | Emilie Legroux |
| 18 | Chapter 6 | 6.2.2 | Expectation 8.1 | 32 | Clarification | "Specifically, institutions are expected to form an opinion on how climate-related and environmental risks affect the borrower's default risk. The climate-related and environmental factors material to the default risk of the loan exposure are expected to be identified and assessed."<br><br>We agree that important aspects of climate-related risk, with respect to probability of default, should be considered in pricing as also mentioned in expectations 8.5 (climate strategy) and 8.6 (lower funding costs for the bank). However, we believe that risk assessments should only capture actual risks. This is likely to be more beneficial to banks, for instance when making sure that backtesting is pertinent. | While understanding the virtuous aspects of embedding negative climate externalities in the assessment of probability of default, does the ECB agree that externalities that do not affect the actual creditworthiness of counterparties should be kept outside of credit risk assessments? | Christophe Bonnefoy |
| 19 | Chapter 6 | 6.2.5 | Expectation 8.4 | 33 | Clarification | "Institutions are expected to monitor how geographic and sectoral concentration is prone to climate-related and environmental risks. Likewise, institutions may measure concentrations of assets with specific characteristics likely to be targeted by transition policies, for example the distribution of energy efficiency labels within residential and commercial real estate portfolios in the light of potential legislation."<br><br>We observe in section 8 that risk assessment by business line should impact the Credit Risk Assessment hence the RWA and pricing. Paragraph 8.4 in particular highlights the risk of concentration on a qualitative basis. | With respect to RWA, can the ECB clarify any adjustments foreseen for credit risk capital requirements, specifically with respect to climate events? For instance, should the correlation factor among banks should be impacted? | Christophe Bonnefoy |
| 20 | Chapter 6 | 6.4.4 | Expectation 10 | 36 | Clarification | "With specific reference to the credit spread risk component of banking book positions, institutions are expected to assess the relevance of the credit spread among all the drivers of overall market risk. This is relevant when considering, among others, that financial instruments issued by companies belonging to sectors perceived as environmentally unsustainable and which do not adopt a comprehensive sustainable management approach might suffer an abrupt decline in their value."<br><br>We understand that it will be required to try to assess the evolution of the market implied intensity of climate risk and corresponding discount which is a non trivial approach; we make the parallel with the work that the ECB has performed as part of the discount factors computation. We note that these parameters are difficult to calibrate and subject to judgment, and that a set of public benchmarks on such parameters would help institutions to meet this expectation. | Should we expect from supervisory authorities the emergence of public benchmarks on these parameters? For instance, does the ECB intend to publish benchmarks for climate risk discount factors? | Christophe Bonnefoy |