Thematic review on climate-related and environmental risks, 2022
Addressing climate-related and environmental (C&E) risks is an ECB supervisory priority for 2022-2024
Supervisory exercises provide complimentary views on banks’ alignment with ECB expectations

Risk management
- 1. Business environment
- 2. Business strategy
- 3. Management body
- 4. Risk appetite framework
- 5. Organizational structure
- 6. Internal reporting
- 7. Risk management framework
- 8. Credit risk management
- 9. Operational risk management
- 10. Market risk management
- 11. Stress testing
- 12. Liquidity risk management

Disclosures
- 13. Disclosures

Horizontal supervisory exercises
- Thematic Review on C&E risk
- Climate Risk Stress Test
- Gap analysis on C&E risk disclosures

Targeted supervisory exercises
- Dedicated on-sites (TBC)
- Targeted review on CRE
The thematic review is conducted by the Joint Supervisory Teams (JSTs), and supported by a horizontal team.
There are five core modules and three risk-specific modules, following a proportional approach.

Core modules (All SIs*)
- Update of the self-assessment and report on progress
- Materiality assessment
- Business environment and strategy
- Governance and risk appetite
- Risk management framework

Risk-specific modules
- Credit risk (95 SIs)
- Market risk (17 SIs)
- Operational risk (48 SIs)

*SI = Significant Institution
The review integrates a follow-up on the 2021 self-assessment exercise

Output 2021

- Requirement to assess materiality
- Requirement to resubmit plan

Shortcomings set out in the feedback letter

Core modules

- Materiality assessment
- Business environment and strategy
- Governance and risk appetite
- Risk management framework

Risk-specific modules

- Credit risk
- Market risk
- Operational risk

Update of the self-assessment and report on progress
The assessment will review banks’ practices from three complementary perspectives:

- **Soundness of practices**: Review of banks’ documentation submitted through the questionnaire.
- **Comprehensiveness of practices**: Case study interviews.
- **Effectiveness of practices**: Assessment scoring.
- **Assessment outcome**: Bank-by-bank findings and peer benchmarks.

The review will be based on detailed assessment guidance that marks the incorporation of these risks in the day-to-day work of the JST.
High-level timeline for the 2022 thematic review

- **Oct `21**  Stakeholder consultation on questionnaire
- **Jan `22**  Launch of bank questionnaire
- **Feb `22**  Industry dialogue
- **18 Mar `22**  Submission deadline for institutions
- **Aug `22**  Feedback letter to institutions
- **Oct `22**  Publication of a report

Dedicated meetings with institutions
The 2022 questionnaire builds on the questionnaire from the 2021 exercise

- 5 tabs to fill covering two questionnaires:
  - 1 questionnaire on the progress of alignment with the expectations
  - 1 questionnaire on the evolution of plans and timeline for implementation

- 2 types of questions
  - Closed questions on the alignment with 11 main expectations (Yes / Mostly / Partially / No)
  - Deep Dive questions on topics of high relevance
  - For each answer, documents are to be provided as evidence

- For each expectation, banks are expected to provide an update on their estimated timeline and next steps relating to the implementation
Meeting schedule (1/3): Institutions will receive various meeting invitations at the onset of the review.

- **March**
  - **Opening meeting**
    - **Objective**: develop an understanding of the overall C&E approach of the institution and introduce the thematic review and to clarify what the institution can expect.
  - **Case study interviews**
    - **Objective**: evaluate the effectiveness of the institution’s practices based on case studies.
  - **Progress meeting**
    - **Objective**: share initial observations and solicit feedback from the institution.

- **July**
  - **Feedback Meeting**
    - **Objective**: share final observation and engage in dialogue based on benchmark findings.
  - **Supervisory dialogue (SREP)**
Meeting schedule (2/3): Institutions will be invited for between 1 and 4 case study interviews

- **Credit risk** (95 SIs)
- **Market risk** (17 SIs)
- **Operational risk** (48 SIs)

Upon request by the JST, banks may be asked to provide additional documentation related to a small number of specific cases for each of the case study interviews. The cases are to be selected by the bank, the JST or a combination thereof.

One case study interview will revolve around the architecture of the banks’ approach to manage C&E risks.

Additional case study interviews will revolve around processes and procedures for specific risk categories.
Meeting schedule (3/3): The feedback meeting will incorporate a peer benchmark view

• In the progress meeting the JSTs will solicit institutions’ feedback on the draft findings. The banks’ feedback will be considered in the conclusion of the review.

• Similar to the 2021 exercise, the feedback meeting will feature confidential peer benchmarks to facilitate the dialogue.

Stylized example of peer benchmark
Banks will receive a comprehensive feedback letter and possible targeted requirements, if warranted.

**Assessment outcomes**

- **Shortcomings**
  - Where the bank’s practices exhibit distance vis-à-vis the ECB expectations, shortcomings will be communicated to the bank.
  - Comprehensive feedback letter (operational act)

- **Severe weaknesses**
  - In case of severe weaknesses, where the bank has shortcomings across an assessment module, a qualitative requirement may be imposed.
  - Targeted qualitative SREP requirements (obligations)

The results from this exercise will feed into the Supervisory Review and Evaluation Process (SREP) from a qualitative point of view, along with the climate risk stress test. This could indirectly impact Pillar 2 requirements through the SREP scores.