



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

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General comments

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
1	Chapter 6	6.2	8.1 + box 8	32	Clarification	<p>We believe that expectation 8.1 is key to institutions quantifying the credit risk impacts of climate risks and reallocating capital efficiently.</p> <p>However, the question does arise whether the observed practice in box 8 is as close to a best practice for the industry as it may be. For instance, although qualitative inputs into scorecards can be a complement to an exercise of quantification of impacts on probabilities of default (PD), we believe that this practice is not sufficient on its own to form a comprehensive analysis of the impacts of climate risk on borrowers' credit risk. Highlighting this as an example of observed practice may unintentionally give the signal that this is adequate, whereas in our view it would fall short of this expectation.</p> <p>Climate scenario models are now at a stage of development where they allow to compute ranges of quantitative impacts on probabilities of default - and we believe this should be encouraged.</p>	Raising the level of expectation 8.1.	LUNSFORD, DAVID	Publish
2	Chapter 6	6.2	8.2	32-33	Amendment	<p>Expectation 8.2 states that critical exposures should be considered under various scenarios, where applicable. Our view is that potentially this expectation may be more ambitious. We have found, through our own work and our clients' work, that performing scenario analysis can be useful to determine which exposures are critical in the first place. Encouraging institutions to focus only on what are deemed to be "critical exposures" may therefore be limiting.</p> <p>Our view is to consider encouraging institutions to consider all exposures under various scenarios.</p>	Raising the level of expectation 8.2.	LUNSFORD, DAVID	Publish

3	Chapter 6	6.2	8.4	33	Amendment	<p>Our interpretation is that Expectation 8.4 appears to be focused on geographical and sectoral concentrations (for instance, the second sentence reads: "Institutions are expected to monitor how geographic and sectoral concentration is prone to climate-related and environmental risks").</p> <p>While we agree that geographical and sectoral concentrations are a necessary component of climate risk management, we also believe that single-name analysis is important because different companies are likely to fair better or worse in any country / sector combinations.</p> <p>We would therefore suggest to consider encouraging institutions to manage climate risk in their portfolios at the single-name level too.</p>	Raising the level of expectation 8.4.	LUNSFORD, DAVID	Publish
4	Chapter 6	6.1	7	28	Clarification	<p>The guide requests to monitor climate risks over "a sufficiently long-term horizon". We suggest to clarify the meaning of "sufficient". As an example, the Bank of England's BES on climate change recommended a 30-year time horizon, i.e. 2020,2050 and 2080 assessments. We think that clarity would benefit any stress test regulation at the point of implementation and reporting. We however suggest to look at various modeling time horizons, assessing potential scenario impacts in the years 2020, 2030, 2050,2080 and 2100.</p>	Clarifying the stress testing time horizon	LUNSFORD, DAVID	Publish
5	Chapter 6	6.5	11	37	Deletion	<p>The text states that physical risk scenarios should be in line with "with scientific climate change pathways, such as IPCC or IEA scenarios." We suggest deleting "or IEA" because the IEA does not operate physical risk scenarios. The IEA operates models for assessing transition risks. We would alternatively suggest to reference climate research institutes such as the Potsdam Institute for Climate Impact Research or the Woodwell Climate Research Center.</p>	Improving the accuracy of a reference made in expectation 11.	LUNSFORD, DAVID	Publish
6	Chapter 6	6.5	11	37	Clarification	<p>In bullet point three, "short, medium and long term" are referenced. In accordance with our comments on time horizon, we suggest to change this to "years 2020, 2030, 2050, 2080 and 2100".</p>	Clarifying the stress testing time horizon	LUNSFORD, DAVID	Publish

7	Chapter 6	6.1	7.2	29	Amendment	The current text mentions "quantification methodologies" are subject to further developments. We would like to note that the NGFS scenario recommendations concretely mention several Integrated Assessment Models (IAMs) in their report: GCAM 5.2, REMIND-MAgPIE 1.7-3.0 and MESSAGEix-GLOBIOM 1.0. We think that it would be helpful to add that "Integrated Assessment Models (IAMs) currently provide a substantial set of tools, methods and data sets to adequately quantify climate-related and environmental risks."	Add details of acceptable IAMs to be used for stress testing.	LUNSFORD, DAVID	Publish
8	Chapter 5	5.2	Box 4, Chart A	22	Amendment	Box 4 outlines "Observed practice" for setting carbon intensity targets within a Bank's portfolio. We suggest to also give an example (as Chart B) of how physical climate impacts may be mapped to a bank's portfolio. A recent report by the UNEPFI, titled "Charting a New Climate" (September 2020), contains several cases where banks have applied physical risk data to bank portfolios. □	Add an example of how physical climate risks could be quantified and mapped to a bank's portfolio.	LUNSFORD, DAVID	Publish
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