German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

on the ECB Guide on climate-related and environmental risks

Register of Interest Representatives
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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

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General comments

- The German Banking Industry Committee (GBIC) welcomes the ECB's commitment to closely follow international and European developments in the field of sustainable finance and to support the financial sector on its path towards a sustainable economy. We believe that coping this issue is an important priority for the future direction of the credit institutions.
- We welcome the fact that, instead of establishing binding policies for institutions in regard of their approach to climate-related and environmental risks, the ECB's Guide merely formulates supervisory expectations. It should be stated more clearly that the Guide primarily serves, or is intended to serve, as a basis for the supervisory dialogue between the Joint Supervisory Team (JST) and the respective institution. The approach institutions take in regard of climate-related and environmental risks varies significantly according to size, business model, complexity and geographic location. The expectations formulated by the ECB, particularly in respect of the quantification of climate-related and environmental risks and systematic IT-based data collection and aggregation, may provide a **longer-term vision or guidance** regarding the standards the institutions will have to meet in the future. This aspect should be clarified in the Guide by allowing the institutions greater leeway in their development of suitable methods and processes, etc. Moreover, there is as yet a lack of data and/or recognised methods when it comes to climate-related and environmental risks. The Guide should moderate the expectations in this respect and take respective opt-out clauses (e.g. "where appropriate and possible") into account.
- Given the complexity of climate-related and environmental risks and the current lack of development of industry standards for their assessment, we consider the ECB's approach of launching a discussion paper to start the dialogue with the institutions to be appropriate. One of the main standards in the risk management field is the **identification of material risks,** including any concentration within and between those risks at the institution level, in the context of a risk inventory. Scores of European policies relate to the management of institutions' material risks. The Guide also explains at various points that the institutions should assess the materiality of the climate-related and environmental risks. In this context, climate-related and environmental aspects impact the risk drivers and affect the materiality of the risk types (no separate risk type). We therefore ask that the term "risk driver" be used consistently throughout the Guide and that no other terms be used. The assessment of the materiality of risk drivers is not a standard practice and does not seem appropriate in view of the standard supervisory practice. A determination of the quantitative contribution of climate-related and environmental risks, and hence a respective supervisory requirement, is only useful in the long term if climate-related and environmental aspects impact the respective risks. It should be clearly stated that, provided institutions determine the impact on the risk types that arises from climate-related and environmental aspects, they should systematically collect data points, for instance initially with respect to industries that are particularly affected. All in all, the aspect of the materiality of climate-related and environmental risk drivers should be given greater consideration in the future. In this context, we would also point out that the required data basis does not yet exist since both scenario design and modelling are still in their early stages. Reliable conclusions can only be drawn once correlations have been established, demonstrated and tested as part of a comprehensive risk management process over a longer period of time.

- We do not think it is effective that the institutions have to proactively notify the ECB if their approach to coping climate-related and environmental risks deviates in any way from the supervisory expectations set out in the Guide. It is our opinion that such an obligation (in the sense of a disclosure requirement) contradicts the non-binding and forward-looking character of the Guide. Moreover, there is no legal basis for this. We therefore propose that the respective policy in Chapter 2.2 ("As part of the supervisory dialogue, significant institutions … will be asked to inform the ECB of any divergences ...") be deleted. It would be more effective if the institutions discuss the current situation and further course of action during talks with the JSTs and the auditors.
- From the institutions' perspective, we consider the **scheduled date of applicaton** to be unrealistic. Given that the consultation period lasts until 25 September 2020 and we subsequently expect an intensive debate about the final form of an ECB Guide, it is unlikely that a final version could be published before the beginning of the fourth quarter of 2020. The few remaining weeks until the supervisory dialogue at the "end of 2020" would be too short for a specific stocktake and the identification of required measures and implementation strategies, especially with substantial risk management resources, which would be required for implementation, remaining committed to tackling the consequences of the COVID-19 pandemic.
- A concrete deadline for the implementation of all measures by the institutions should not be set. Instead, an ongoing dialogue on progress made in the implementation of the Guide should take place with the supervisor /JSTs at appropriate intervals. If any deadlines are to be set at all, the institutions must be allowed a sufficient transition period since they are still occupied with the consequences of the COVID-19 pandemic. The highly ambitious timetable is also incompatible with the prudential simplifications regarding the publication of new requirements that is granted elsewhere, or with the handling of existing supervisory policies that were intended to provide the institutions with the (necessary) support to deal with the current Corona crisis.
- "In substance", the NCAs are also expected to apply the Guide in their **supervision of less significant institutions**, proportionately to the risk profile and business model of the respective institutions. We are critical of such application of the Guide to less significant institutions. A number of NCAs have already published guidelines that take due account of the supervisory needs in each country with regard to less significant institutions. Moreover, the EBA has dealt or will deal with ESG risks in the context of various guidelines. Parallel regulations of varying depth and content that are issued by different institutions in the same subject area would be very disadvantageous in terms of practical implementation. We therefore recommend that the reference to application of the Guide to LSIs be deleted.
- We would like to ask for a significantly streamlined and substantively balanced version of the Guide that synchronizes with future policies issued by the EBA, inter alia on SREP, and with the EBA mandates. At this point, excessive focus on quantification appears premature. A balanced approach to climate-related and environmental risks will meet with broad support among the German banking industry and elicit the cooperation of the borrowing businesses as well as doing justice to the important role and high standing of the ECB. Furthermore, the focus of the supervisory review could (initially) be more on governance, a qualitative approach and the first step towards top down reporting and could be worded accordingly in the Guide.

Detailed notes

ID	Chapter	Paragraph	Expectation or box number	Page	Type of comment [1]	Detailed comment	Concise statement as to why your comment should be taken on board
1	Chapter 2	2.1		7	Clarification	We welcome the fact that the ECB has placed its publication in the broader context of the numerous existing regulations issued by various standard setters at the international and the European level. Although the Guide's introduction states that the expectations are "not binding", a disclosure requirement in the case of deviations could be inferred from the wording in paragraph 2.2. In numerous places, reference is made to existing policies, guidelines or regulations which have been binding for a considerable time. The examples of observed practice per se are not part of the expectations. We rather regard the examples of observed practice as a list of possible approaches to implementation, and hence as examples of good practice or guidance. In no case a kind of minimum standard or best practice should be derived from it.	Fundamental positioning of the Guide
2	Chapter 2	2.2		8	Amendment	In our opinion, the scheduled date of application is too short term since the consultation period does not end before 25 September 2020 and it may be assumed that the draft Guide will be amended in the context of the consultation. We believe that, instead of submitting detailed GAP analyses, banks should notify the ECB of the progress they have made in the development of their climate-related and environmental risk framework and thus describe the steps they have taken towards implementation.	Problem of time and policy content of other standard setters

[1] Options: amendment, clarification, deletion

						Moreover, there is no particular urgency since the last ECB risk assessment (risk constellation in the SSM, period 2020 to 2022) classified the impact and probability of occurrence of risks arising through climate change as low (on the grounds that their relevance is higher over the longer term; cf. SSM Risk Map dated 7 Oct. 2019). According to the rationale of the Guide (Chapter 2.1: Application to significant institutions), the institutions are encouraged to duly consider other relevant publications in their implementation of the Guide. Relevant publications include the final EBA Guidelines on Loan Origination and Monitoring of 29 May 2020 which include explicit policies regarding the handling of ESG risks. The institutions should be granted a sufficient transitional period to allow them to implement of all of the measures. The European Commission will publish delegated acts or RTS on the legislative packages of the Commission action plan on 30 December 2020 respectively 30 June 2021 (in particular on the EU Taxonomy Regulation, EU Disclosure Regulation and MiFID II). Therefore, there is no obligation by the ECB to hasty set rules in this area, nor the ECB should anticipate the results of these significant requirements. Furthermore, the mandates the EBA will deliver in the context of CRR II and CRD V in regard of Pillars II (SREP) and III (Disclosure) should be awaited first. The EBA contents show significant overlaps with the contents of the ECB Draft Guide on Climate-Related and Environmental Risks. With the ECB Guides to the ICAAP and ILAAP already containing comprehensive requirements concerning risk management, a repetition including a general reference to climate-related and environmental risks (which do not represent separate risk	

						types) is not useful. For institutions, an internal review or a de facto definitive implementation by the end of the year is thus unrealistic. Moreover, the statement "to make fully informed decisions on risk-taking" is misleading since the decisions will also be based on forward-looking data. Since the figures used are merely estimates or projections, we believe that an information gap will be unavoidable in this context.	
3	Chapter 2	2.3		8	Deletion	Comparison of the contents of the draft ECB Guide with the BaFin Guidance Notice published on 20 December 2019 shows clear discrepancies that are justified on proportionality grounds. In contrast to the BaFin Guidance Notice, "quantification" in the ECB Guide is rather geared to the circumstances of significant institutions or internationally active major banks - not to less significant institutions. In contrast to the ECB Guide, due to potential negative spill-over effects on less significant institutions, the BaFin Guidance Notice does not include any disclosure requirements. We therefore reject the intended application of the Guide, albeit in indirect form, to less significant institutions. At most, as far as disclosure is concerned, the ECB could be guided by the scope of application of Art. 449a CRR II that does not include less significant institutions.	Discrepancy with the policy content of other standard setters and relevance of the proportionality approach
4	Chapter 3	3.1 / 3.2		10	Clarification	In general, we would like to point out that there is significant variation in the dynamics of climate-related and other environmental risks as well as the associated models, data analyses and narratives. From a methodological point of view, they cannot simply be covered in the same way. Thanks to the concentrated research conducted in the field of climate change, science is undoubtedly most advanced in this area. At	Lack of policy detail and/or discrepancy with the policy content of other standard setters

						present, initial narratives are forming on the basis of this scientific research which also facilitate a comprehensive approach by the institutions. However, this is not yet true for the other environmental risks. Hence, it should be possible to address individual risk drivers at different levels of thoroughness depending on the respective scientific and methodological progress. The ECB refers to separate liability risks that may arise from climate-related and environmental risks. This could result in unnecessary complexity in the institutions' risk inventories, which already include legal risks, conduct risks and compliance risks. The introduction of additional liability risks appears to be of little benefit.	
5	Chapter 3	3.1 / 3.2		10	Clarification	As yet, the Draft Guide fails to consistently distinguish between the concepts of risk perspective and impact perspective. Since sensitive credit exposures do not necessarily have to be critical from both a risk and an impact perspective (e.g. loans granted to a company that manufactures EU taxonomy compliant products but has its production site in a flood-prone location), we are concerned that the implementation of the examples of observed practice falls short. Further clarification of the policies would be welcome.	Lack of policy detail
6	Chapter 4	4.1	Expectation 1	16	Deletion	In the context of their risk inventories, institutions already assess the materiality of the risks in existing risk categories, ensuring that materiality is included in the respective reporting and strategic processes. However, without consideration of the materiality of these risks for individual institutions, we reject an audit assessments in the sense of formalised compliance checks. We are also of the opinion that the recommendation to	Inappropriate level of policy detail

						monitor appropriate energy efficiency standards in real estate portfolios goes too far. What does "taking up-to-data scientific insights into account" mean? Does this involve extensive regular analysis of the current state of scientific insights (if so, which one?)? The term "materiality" is used in the context of assessments of risk types (e.g. counterparty risk) and their underlying parameters (e.g. PD, LGD). By contrast, a separate assessment of the materiality of risk drivers is not standard practice and appears to be unreasonable. In our opinion, the note referring to the monitoring of energy efficiency standards in individual jurisdictions and their impact on real estate portfolios also goes too far. Moreover, the respective source mentioned in Footnote 30 refers to the potential impact of tougher energy efficiency standards on financial risks rather than their supervisory impact. The Guide states at various points that the institutions are expected to assess the materiality of the environmental and climate-related risks. As we understand it, climate-related and environmental risks are considered to be risk drivers that have an impact on respective risk types (for instance credit risk, operational risk, market risk) and hence do not constitute a separate risk type. However, we are of the opinion that it is not sufficiently clear under which conditions key figures such as KRIs and risk data should be determined and pricing adjustments made. A determination of climate-related and environmental risks only makes sense, and can only be required by the supervisor, if these risks impact the respective risk type. It should be clarified that, if institutions identify impacts on the risk types that arise from climate-related and environmental risks, they should proceed to collect specific	

						data points, e.g. initially with regard to particularly affected sectors.	
7	Chapter 4	4.1	Expectation 1.1	16	Clarification	As stated in the document, the EBA requires banks to scan the business environment capturing a broad range of external factors and trends that shape the business conditions in which an institution operates. These include macroeconomic variables, the competitive landscape, policy and regulation, technology, societal/demographic developments, and geopolitical trends. Climate-related and environmental risks are not separate risks but may influence all of these areas. Hence it would make no sense to analyse such risks separately and in isolation. Moreover, this would not fit into the existing framework. It would be preferable if climate and environmental risks were highlighted during the analysis of the above-mentioned dimensions (if relevant). Furthermore, this analysis should rather focus on external factors instead of "at the level of key sectors, geographies and related to products and services they are active in". Rewording suggestion: When scanning their business environment, institutions are expected to identify the effect of risks arising from climate change and environmental degradation on external factors and trends that shape their business conditions (if relevant).	Wording in the Guide not consistent with current risk management standards
8	Chapter 4	4.1	Expectation 1.2	17	Clarification	Due to the fact that strategic horizons are long-term and that the effects of climate and environmental risks are also long-term ,as well, and difficult to break-down on a yearly basis, it would make more sense to have only two time dimensions: 1. short to medium 2. long-term. Rewording suggestion: Institutions are expected to understand how climate-related and environmental risks affect their business environment in	Due to the long-time horizon, policies should be staggered into two large time blocks.

						the short to medium term and in the long term to inform their business strategy process. It is our understanding of the requirement in interaction with the scenario analyses as set out in Expectation 1.2 that the management body's engagement with the results and guidance relating to stress tests may be sufficient. We ask for further clarification of this point.	
9	Chapter 4	4.2		17	Clarification	We support the call for institutions to integrate short, medium and long-term climate-related and environmental risks into their business strategies, employing tools such as stress tests and scenario analysis. Nevertheless, we would like to draw attention to the fact that the envisaged course of action will require a respective development and transition period. The performance of scenario analysis and stress tests is still new to competitors and the market. At present, initial empirical findings are being collected and different tools and procedures tested. Moreover, as we understand it, a quality database and the respective IT support are still outstanding; both the availability and the quality of environmental and climate-related data still pose a significant challenge for the financial sector. The implementation per se will also take considerable time. Realistically speaking, any business strategy adjustments resulting from the findings of the tests and analyses can only be carried out after the fact. We therefore ask the ECB to take this time horizon into account.	Implementation not possible within the envisaged time horizon
10	Chapter 4	4.2	Expectation 2.1	18	Clarification	The employment of scenario analysis over various time horizons for inclusion in the business strategy should be based on the extent to which the business model is affected by the climate-related and environmental risks and the resulting	Lack of policy detail

						findings and guidance should be referred to. We ask for clarification of this point.	
11	Chapter 4	4.2	Expectation 2.2	19	Clarification	In our view, the example of observed practice in the Draft Guide focuses exclusively on KPIs relevant to the impact perspective. Although the KPIs allow for conclusions to be drawn on the climate harmfulness or friendliness of the business activities, they do not provide any information on the risk content of the exposures. In this instance, business strategy aspects and risk strategy aspects are being mixed up. At this point, KRIs relevant to the risk perspective should be supplemented. Insofar as climate-related and environmental aspects are drivers that lead to the risk type being classified as material, they may need to be monitored with the help of KRIs (key risk indicators). Where aspects such as comparability do not play an important role and KPIs are to be selected solely on the basis of the strategic orientation, the ECB should explicitly state this again. The reference to "fully informed decisions on risk-taking" in the context of the definition and monitoring of KPIs may be misleading, not least because "information gaps" cannot be avoided in risk management estimates or projections. We ask the ECB to add KRIs relevant to the risk perspective to the example of observed practice in the final Guide. In our view, the Draft merely includes KPIs relevant to the impact perspective. This distinction should be made since not every “green” investment is less risky than a “brown” one. For instance, transition risks vary from sector to sector, irrespective of the impact-relevant KPIs. A steering effect on the risk in respect of ICAAP or ILAAP is therefore not automatically evident for the institution. Moreover, it would be helpful to know which key indicators the ECB considers to be	Lack of policy detail

						particularly relevant both from an impact and a risk perspective (not least in terms of comparability).	
12	Chapter 5	5.1	Expectation 3.1	21	Deletion	The establishment of any additional committees other than those pursuant to CRD or the EBA Guidelines on Internal Governance is at the sole discretion of the institution and is clearly guided by the principle of proportionality. The risk committee is responsible for the oversight and implementation of the institution's risk strategy as a matter of principle.	Interaction with other standard setters and relevance of the proportionality approach
13	Chapter 5	5.1	Expectation 3.2	22	Amendment	We also consider the recommendation that the management body should explicitly consider the institution's response to various international or national agreements at the political or economic level to be non-binding. In our opinion, the expectation of any specific monitoring and extensive analysis of the above-mentioned KPIs and KRIs in respect of climate-related and environmental risks goes too far. We also consider the envisaged special status of these risks to be unjustified and, in line with its character, it should also be considered as a possible risk driver of established risk types, not least in regard of the role played by the supervisory board or governing board in their oversight of the management.	Inappropriate level of policy detail
14	Chapter 5	5.2	Expectation 4.2	23	Clarification	The text in Expectation 3.3 (managing body) and Expectation 4.2 (risk appetite) refers both to so-called Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs). However, no clear distinction is made between the two types of indicators. The difference should be clearly defined and the terms should be properly distinguished from each other. Pursuant to Expectation 4, "institutions are expected to explicitly include climate-related and environmental risks in their risk appetite framework". In order to have a steering	Inappropriate level of policy detail

						effect and to be feasible at the management level, any risk appetite statement should be brief and succinct. The Expectation should therefore be reworded such that the brief statement on risk appetite should be based on a thorough description of the risks. The explanations to Expectation 4.2 also contain the requirement that the "risk appetite agreements and boundaries are decided **before** commercial targets". However, at the institutes, it is standard practice that the order is reversed, i.e. the commercial targets are set first, or at least at the same time. The sentence creates confusion and should be deleted. At the moment, at least, we believe that the Draft's mandatory future expectation of a quantification of risk indicators and limits is not suitable for all significant institutions due to a lack of uniform assessment definitions, data and models. This expectation also depends on the question whether climate-related and environmental risks impact certain risk types in their capacity of risk drivers. Furthermore, it also contradicts the above-mentioned character of a risk driver of established risk types (as stated in Expectation 5.4 of the Draft Guide and elsewhere). Separate quantification is therefore virtually impossible and also unreasonable. We expect clarification of the relevance aspect and more transparency in the sense of greater openness to qualitative approaches. On top of this, in the overall consideration of possible ESG effects, it does not seem conducive to restrict management to the climate-related and environmental aspect. In our view, the only sensible approach is economic management that takes into account all risk drivers and identifies all material risks. According to the Draft Guide, the ECB calls for climate-relevant metrics	

						although there is no general consensus which metrics should be employed and the banks have no comprehensive climate-relevant data from their client – at least for a large portion of the portfolio (paragraph 4.2). The wording should reflect the fact that climate-related metrics are currently being developed but may not yet be available for large portions of the portfolio at the end of 2020. The "sudden and unanticipated transition towards a low-carbon economy" is a stress scenario that has a low probability of occurrence and hence is unsuitable for the definition of key indicators. The example of observed practice no. 4 is also unsuitable since it focuses on a business target instead of the risk perspective.	
15	Chapter 5	5.3	Expectation 5	26	Clarification	We consider it inappropriate to duplicate the general risk management requirements of the EBA Guidelines on Internal Governance in respect of climate-related and environmental risks. This creates redundancies and increases the complexity of the regulatory framework. For instance, there is no added value to be expected from managing bodies allocating separate roles and responsibilities for climate-related risks (Exp. 3.1). If the climate-related risk is a risk driver for an institution, the general rule would ensure that roles and responsibilities are allocated appropriately. We would therefore recommend streamlining the entire Guide to a significant extent and focus more on the requirements where the climate-related and environmental risks differ from the known prudential risk types. Therefore, Chapter 5.3 could be deleted entirely due to their significant redundancy with the EBA Guidelines. In specific, the reference to the three lines of defence model should be deleted. In its governance and loan origination guidelines, EBA has done without any concrete references or attributions to the three lines of defence model.	Guide should be streamlined and redundancies eliminated

						We also require further clarification in respect of the performance of climate-related and environmental risk assessments at the level of the individual borrower, i.e. what aspects such assessment involves at the start of the business relationship and throughout and which role it should play in the lending process. The term "due diligence" should not be used in the Guide. It does not appear in the EBA Guidelines on Loan Origination and Monitoring. The term could be misinterpreted as meaning that a highly detailed assessment should be carried out for each individual borrower. The proportionality principle should also apply at the transaction level, i.e. less stringent requirements should apply to smaller loans (e.g. retail). According to Expectation 5.3, 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, according to Expectation 7.4. This is not feasible for all loan sizes and is above all not expedient. The Expectation should therefore be fleshed out and the principle of proportionality should be referred to. Expectation 5 (organisational structure) calls for the assignment of responsibility in accordance with the three lines of defence model. The subsequent explanations merely refer to the "responsibilities for identifying, assessing and managing climate-related and environmental risks". Since this should probably also include the independent audit, the section should be reworded to read: "identification, monitoring and management as well as independent assessment".	

16	Chapter 5	5.3	Expectation 5.5	27	Amendment	The extensive monitoring and assessment tasks relating to sustainability risks lead to unnecessary ambiguities and legal uncertainties, e.g. the question why the approach to climate-related and environmental risks should, or must, affect the entire business organisation. The identification and management of material risks is essentially the responsibility of the risk management function. A binding assignment of the compliance activities is, in our opinion, neither appropriate nor technically feasible - especially in medium-sized or smaller institutes.	Inappropriate level of policy detail and relevance of the proportionality approach
17	Chapter 5	5.4	Expectation 6.2	29	Amendment	Given the lack of data and the required work on the IT systems and data sources, if no transition period for implementation is granted, the application of the ECB Guide in prudential dialogues as of late 2020 appears entirely unrealistic. Expectation 6.1 should refer to KRIs (not KPIs). We would welcome the inclusion in the final ECB Guide of an example of observed practice for Expectations 6.2 and 6.3 that demonstrates which data in which type of report the ECB would consider suitable for reporting on climate-related and environmental risks.	Problem of time and lack of policy details
18	Chapter 5	5.4	Expectation 6.4	30	Amendment	We consider up-to-date reporting and aggregated risk data beyond the risk types that are classified as material in the risk inventory at the group level and are included in any case to be too far-reaching since climate-related and environmental risks have a cross-sectional impact as a driver for all of these risks. As regards the requirement of ad hoc reporting (6.4), it should be taken into account that this will require changes to IT systems that will require a certain amount of time, and that	Inappropriate level of policy detail and additional example of implementation

						this process is unlikely to be completed in the course of 2021 due to the necessary release and test cycles in the IT systems. However, if the requirement is still retained in the final version of the ECB Guide, we would welcome the inclusion of an example of observed practice that demonstrates which data in which type of report the ECB would consider suitable for reporting on climate-related and environmental risks. Pursuant to Expectation 6, "for purposes of internal reporting, institutions are expected to report aggregated risk data that reflect their exposures to climate-related and environmental risks". Since climate-related and environmental risks are considered to be drivers of the prudential risk types, it appears to be more expedient if the reporting on climate-related and environmental risks were integrated into the reporting on the individual risks. This should be expressly reiterated at this point of the Guide.	
19	Chapter 6	6.1	Expectation 7.1	31	Amendment	Stress tests are not as a rule deployed directly to quantify risk. The reference should be deleted. In addition, in accordance with the previous comments (see in particular the general comments), the Guide should make it clear at this point that the intensity of the risk management measures depends on their materiality. We regard the requirement for a (documented) justification at management level in the event that climate-related and environmental risks are viewed as not material as being too far-reaching. Rather, climate-related and environmental risks represent a risk driver with effects on existing types of risk, not a separate type of risk. In the interest of consistency, the right to opt for regarding climate-related and environmental risks as an independent type of risk should be deleted.	Inappropriate level of policy detail

20	Chapter 6	6.1	Expectation 7.2	32	Clarification	We do not (at least at the present time) regard a separate quantification of climate-related and environmental risks apart from the customary financial and non-financial risks as being necessary in each case, and such quantification would currently have weak chances of success in view of the poor quality of the data and the historical data at the present time. A review of whether in the case of each type of risk the modelling appropriately captures the parameters influenced by climate-related and environmental risks as risk drivers should be carried out in the context of model validation and/or adequacy assessment. Our experience indicates that a separate quantification using a poorly conceived procedure could even be counterproductive for the future acceptance by institutions of similar risk management approaches to climate-related and environmental risk in general and could lead to misallocations of capital. In general, there should be a sufficient lead time for relevant data to be collected and processes and methods developed in research and practice that could then usefully be applied at a later date. With regard to the quantitative consideration of climate-related and environmental risks, we request specific clarification or an example of observed practice. The example of observed practice in box 7 describes the preparation and steering effects of environmental ratings and hence above all external effects; however, it does not describe the institution's perception of risk. The appropriateness of translating this into increased risk weights in the ICAAP is, however, not apparent to us. Expectation 7.2 should be limited to the case of materiality.	Inappropriate level of policy detail and additional example of application
21	Chapter 6	6.1	Expectation 7.4	33	Clarification	With regard to a risk audit at the level of individual borrowers, we require further clarification as to what this assessment should include, in the inception of a transaction and on an	Lack of policy detail

						ongoing basis, and what role it should play in the granting of loans. With regard to the so-called “due diligence” referred to in Expectation 7.4, we wish to point out that proportionality criteria are lacking and that the concept is inappropriate (cf. our comments on Section 5.3). This requirement should depend on the nature and scope of the business relationship and the materiality of any risks. In our view, it would not be appropriate to conduct such an audit in the case of every client relationship; in view of the very considerable effort and expense associated with such an audit, it should be presented in a more nuanced way. That is, the requirement should not only take a risk factor into account (depending on the sector and geographical location of the customer); instead, the general requirement of such an audit should also be linked in general to materiality, e.g. the extent of the commitment.	
22	Chapter 6	6.1	Expectation 7.5	34	Amendment	We do not regard an assessment of the impact of environmental and climate-related risks on institutions’ capital adequacy as appropriate since the grounds stated above indicate that separate quantification is not a suitable approach, valid effects on capital development are difficult to grasp and the capital resources can only be assessed in relation to the aggregate risk. In addition, inclusion in the economic perspective should depend on the assessment of the impact of the risk drivers related to climate and the environment and on the effects of the risk types as part of the risk inventory. Nor do we regard it as useful to repeat in this document statements of the ICAAP Guideline of the ECB, in some cases using different terminology.	Inappropriate level of policy detail

23	Chapter 6	6.2	Expectation 8	35	Amendment	The comments are dispensable. A reference to the EBA Guidelines on Loan originating and Monitoring would be sufficient, especially since these Guidelines take proportionality aspects into account and make an appropriate distinction between a – voluntary – lending practice that is ecologically sustainable on the one hand and risk management on the other. Example of observed practice 9 deals with the first of these aspects and hence is not appropriate here. Many of the expectations reflect the current requirements contained in European or national rules and thus represent a duplication that increases complexity. We assume that the adjustment of the rating classification prescribed in Expectation 8.2 refers to an adjustment of the credit rating. The credit rating should in any event take into account all the aspects of the borrower that are relevant to creditworthiness; it cannot reflect ESG aspects that go beyond this. In particular, the requirement that "the climate-related and environmental factors material to the default risk of the loan exposure are to be identified and assessed" by the individual institutions is inappropriate given that this cannot currently be based on fundamental and recognised academic studies drawing on quantitative data sets for the institutions. Individual institutions are hardly in a position to establish climate-related risks and environmental factors whose quality is sufficiently assured and that are clearly definable on the basis of historical portfolio data and demonstrably increase the loan risk in comparison with the procedures that are currently established. This is all the more the case given that management of the factor "regulatory risk" plays a not insignificant role with regard to the effect of transition risks on a company's cash flow. The increased data requirements for	Linkage with other standard setters

						the borrowing company in order to take the requirement of a significantly deeper understanding of the borrower's business model into account does not seem appropriate in the context of the current debate on the provision of business data. On the other hand, the supervisory expectation of inclusion of climate and environmental risks in the processes should focus on the main levers of grants of credit and portfolio management. The general demand that climate-related and environmental risks should be considered at all stages does not appear useful here. Expectation 8.2 states the requirement that institutes should adjust their risk classification procedures in order to identify and evaluate climate-related and environmental risks. Climate-related and environmental risks are often risks that take effect in the medium or long term and are hence not explicitly demonstrable in the relevant historical data on ratings / default. However, the default rate (PD) is generally assessed for the coming year (on the basis of long-term averages). According to Article 174 CRR II, the forecasting quality of the procedures the institution may employ in accordance with Article 180 CRR II must be assured. If additional factors (such as climate-related and environmental risks) with no statistical relevance were to be included in the procedures, their forecasting quality could be reduced. In addition, climate-related and environmental risks (such as earthquakes, floods etc.) should only be taken into account in the rating where the lender is specifically affected. Our rating procedures already provide suitable opportunities for doing so, e.g. by overwriting. Expectation 8.2. should therefore be reformulated as follows: "Institutes should estimate the significance of climate-related and environmental risks for their major loan portfolios and	

						should monitor the associated risks. Insofar as climate-related and environmental risks are relevant to certain sub-portfolios, they must be taken into consideration at suitable points in the credit granting process." We also regard the example of observed practice (box 8) that envisages that account be taken of shadow probabilities of default as unhelpful. In specific cases, it may be that such a shadow probability of default can support the decision as to whether to grant credit. Climate-related and environmental risks should be analysed on a case related basis. In this connection, we also regard the previous example of observed practice (box 7) as problematic, according to which facilities with a negative environmental and climate impact are subject to a flat rate increase of 25% in their analytical risk-weighted assets. Capital requirements and risk calculation should not be mixed with (politically desired) incentive structures.	
24	Chapter 6	6.2	Expectation 8.5	36	Deletion	A pricing in of climate-related and environmental factors beyond the basic risk costs does not seem reasonable; it would represent interference in the business autonomy of the institutions and could lead to mismanagement impulses. Hence a further emphasis on automatic pricing demarcated from supply and demand, business policy and risk costs, is superfluous and possibly even counterproductive. Moreover, the requirements may in general potentially lead to unintended consequences, in particular for sectors faced with significant challenges in the transition to a low carbon economy that may already be affected by poor credit ratings. We would definitely prefer a setting of incentives rather than additional costs for the granting of credit.	Inappropriate level of policy detail

						The integration of climate-related and environmental risks in lending guidelines is in our view sufficient provided that, as stated above, there are general, standardised and rating-relevant factors that could ultimately be integrated into established pricing procedures. The expectation represents an unreasonable disadvantage for institutions and companies that operate at the regional or local level. The example of observed practice (box 9) according to which depending on energy efficiency, different prices for loans or a sector-specific or customer-specific fee is envisaged should be deleted. From the risk perspective, the relevant risk parameters (PD, LGD) are decisive for pricing. Qualitative premiums or penalties for climate-related and environmental factors should not be required here. As long as it has not been clearly demonstrated (by studies) that “green” loans are less risky, “green” cannot and should not be generally equated with “low risk”. In the view of the institutions, the loan offer depends on business policy and the costs of the risk. A further emphasis on any automatism as in Expectation 8.5 is hence superfluous and possibly even counterproductive and should therefore be deleted.	
25	Chapter 6	6.3	Expectation 9.1	40	Clarification	In footnote 85 there is a reference to note 31 of the EBA Guidelines on outsourcing (EBA/GL/2019/02) dealing with the evaluation of the outsourced function. However, in this context the evaluation and management of operational risks is related above all to the service provider and is covered by emergency plans or business continuity plans (see Sections 12.3 and 9 of the outsourcing Guidelines). We recommend that the reference be adjusted.	Inappropriate level of policy detail

26	Chapter 6	6.4	Expectation 10	40	Amendment	Like the ECB, we also see the need to include climate-related and environmental risks in the management of market risk positions. However, in the case of goods and commodity price risks, it is only necessary to consider and analyse key positions. Market risk positions are automatically taken into account on a regular basis since price changes of securities are determined by various parameters and hence also by climate-related and environmental risks. Isolated consideration restricted to climate-related and environmental risks alone does not meet the requirements of the risk management of market risk positions. Hence possible price changes (losses) of market risk positions must be understood as a whole. **There is as yet insufficient research on the extent to which climate-related and environment-related parameters have systematic effects on assets.** In this regard there is an urgent need for action. Initial approaches are already available in the market; however, they are not robust enough to permit clear conclusions to be drawn regarding the general evaluation of market risk positions in the future. This is because even enterprises for whom these parameters have little or no significance are not automatically a higher risk for this reason. We do not deny that climate-related and environmental risks could alter the availability of and the demand for financing instruments, products and services, which would also be reflected in their value. Nor do we deny that investments of institutions in companies with a business model that is not viewed as ecologically sustainable, or whose facilities are located in areas subject to a high physical risk, could lose value if there is a change in political measures, market sentiment or technology, or if major weather events occur or climate conditions gradually worsen. However, no	Problem of time and lack of policy detail

						specific findings in this regard are available. Even enterprises meeting all ESG criteria may experience difficulties for whatever reason. Nevertheless, it may be helpful to conduct sensitivity analyses on the basis of scenarios specifically geared towards climate-related and environmental risks in order to ascertain to what extent a market risk position is dependent on sustainability aspects. In the case of the interest-rate risk, we would expect that this would be related to climate-related and environmental risks only to a very slight degree, if at all. The same applies to foreign currency positions. The climate-related and environmental risk will be reflected in the market risk-induced credit spread of the interest-bearing bonds. The above-named sensitivity analyses would be useful in this regard. Risks from foreign currency and commodity positions should only be taken into account if the resulting risks are material. In particular, the introduction of threshold values should be considered in this regard. While we can in principle envisage an evaluation of the climate-related and environmental risks of listed shares subject to the limitations stated above, an assessment of these risks is not possible in the case of private equity or venture capital given the lack of valid data for judging these risks. A guide should take account of these limitations. In considering the transition risks of countries and states we point out that there is little or no information available on how such risks should be measured or managed. Hence transition risks can be taken into account qualitatively by means of scenarios.	

27	Chapter 6	6.5	Expectation 11	41	Amendment	Particularly in the case of climate-related and environmental risks it is by no means a minor task to develop a realistic narrative for a scenario, to model the interactions based on the scenario and to derive from this the impacts on specific key indicators (e.g. VAR, profit and loss account, capital ratio, etc.). Even the climate scenarios used as the basis are based on many assumptions. The following breakdown of the implications for individual countries, sectors and clients again requires assumptions to be made, the overall result of which is that the outcome of a scenario analysis is subject to corresponding uncertainties. The assumptions and limits of scenario analyses or stress tests, especially in the field of climate-related and environmental risk, should be taken into consideration. Hence it would be negligent for management to accept supervisory or internal stress tests without reflection. The recommendation to set a long term for the risks should be deleted. As far as appropriate, longer-term effects are already taken into account in the economic perspective. A view that is too long term would only increase uncertainty in the final analysis and would not generate reliable management impulses. The comments on Expectation 11 state inter alia that institutions "are expected to define the assumptions for their own risk profile and individual specifications, as well as consider several scenarios based on different combinations of assumptions." This places extremely high demands on banks. The selection of possible and above all relevant future scenarios is already difficult with regard to the classic types of risk. Hence the comments should be cut.	Problem of time and lack of policy detail
28	Chapter 6	6.5	Expectation 11	42	Deletion	We regard the expectation that institutions should take into account the relevance of scenarios relating to climate-related	Inappropriate level of policy detail

						and environmental risk when designing recovery planning processes as being too far-reaching. An effect so dramatic that banks come to require restructuring due to climate-related impacts appears to be possible only via the classical risks. However, these are already included in the existing requirements. This additional expectation should be deleted. Instead, the Guide could explicitly mention that climate-related and environmental risks can in principle also lead to greater losses via their impact on classical risks, and that such risks are already taken into account in the requirements for recovery planning processes.	
29	Chapter 6	6.6	Expectation 12	43	Clarification	Solving the problem of data is central to conducting various scenario analyses on payment outflows and the depletion of liquidity buffers. In Section 6.6, the ECB has articulated Expectation no 12, according to which institutions should assess whether material climate-related and environmental risks could cause significant net cash outflows or depletion of liquidity buffers. If this is the case, these factors must be incorporated into their liquidity risk management scenario. Building on the general principles of the Internal Liquidity Adequacy Assessment Process (ILAAP), the ECB gives various examples of a procedure to evaluate both direct and indirect impacts. The requirements set forth necessitate a new control process for the materiality audit of climate-related and environmental risks in the liquidity regime and hence fundamental extensions of the simulation process. New methodological and data technology solutions must be found for implementing the various scenario analyses. This means that in this sphere also, the institutions still have significant conceptional activities and implementation requirements.	Inappropriate level of policy detail

30	Chapter 7	7	Expectation 13	44-45	Amendment	It should be clarified that due to the lack of availability of data on the part of clients, the financial institutions are not yet in a position to report on all the indicators named in the non-binding guidelines of the EU Commission; that is, the real economy must first meet the requirements of these guidelines and Article 8 of the Taxonomy Regulation before the institutions will be able to do so. A convergence phase could possibly be introduced, so that disclosure of the indicators of the financial institutions would be required with a delay of e.g. 2 years from the time that the real economy meets these requirements. Additionally, a duplication of the information on the indicators in various reports (Pillar 3, NFE) of one institution is superfluous. We also propose the following modification: "The assessment of the materiality of climate-related and environmental risks ~~is therefore expected to~~ ***could therefore*** be performed using both qualitative and quantitative information". We explicitly reject the mandatory assessment of data as material on the basis of both qualitative and quantitative criteria as being utterly disproportionate since this is also not required by the corresponding EBA guidelines for other disclosure information. Furthermore, such an evaluation might not be consistent with a delimitation of materiality in the frame of non-financial reporting. The ECB calls for harmony with the non-binding guidelines of the EU Commission; however, these guidelines focus on broader perspectives. Prior to the ECB pursuing any "inside out" perspective, it would be vital to clarify, together with relevant stakeholders including legislative bodies, further supervisory authorities and standard setters, how supervisory	Inappropriate level of policy detail and in the time of application; linkage with other standard setters

						disclosure should dovetail with reporting under accounting rules (risk report in the management report) and non-financial reporting.	
31	Chapter 7	7	Expectation 13	44	Amendment	We are also strongly against any application of individual requirements of the ECB Guide, in particular the disclosure requirements, to less significant institutions; see also our general comments and the remarks on Chapter 2.3. Nor does the BaFin Guidance Notice on dealing with sustainability risks that is addressed to less significant institutions express any expectations in terms of disclosure. We therefore request the ECB, if less significant institutions are not to be completely removed from the scope of application of the Guide, to consider expressly limiting the comprehensive disclosure obligations to institutions within the scope of application of Article 449a CRR II.	Relevance of the proportionality approach
32	Chapter 7	7	Expectation 13.1	44	Amendment	In our view it is the task of the EBA and not the ECB to formulate specific requirements for supervisory disclosure (Pillar III). Article 449a CRR II provides for a binding disclosure of ESG risks for large capital market-oriented institutions as of 28 June 2022. We therefore regard it as inappropriate to restrict the scope of application and the implementation period. Nor should the elaborations of the EBA in accordance with its mandate pursuant to Article 434 CRR II be anticipated. We do not regard it as appropriate that even before the EBA has fulfilled its mandate to elaborate this disclosure obligation under Article 434 CRR II a corresponding disclosure obligation is created that according to the schedule presented by the ECB could even take effect as early as from 31 December 2020. The ECB may in the interim make selected information on climate-related and environmental risks the	Fundamental positioning of the Guide

						subject of a report to the Joint Supervisory Teams, but it should maintain a distance from a modification of Pillar III, since any differing requirements of various standard setters in the coming years will only cause confusion among the public and/or the addressees of the disclosure and will also not ensure any comparability of the information over time or in terms of content beyond the credit institutions.	
33	Chapter 7	7	13.2	45	Amendment	The ECB's expectation regarding the disclosure of relevant information on the degree of realisation and progress would certainly make institutions more accountable for backing defined targets with specific measures and enabling them to be monitored; it is, however, doubtful whether supervisory disclosure is the appropriate medium for this and whether the insight of the addressees of Pillar III with regard to their economic decisions will be improved. This applies in particular if one observes the further level of detail of the proposed disclosures. In particular, we regard information on Scope 3 greenhouse gas emissions as unrealistic from the present perspective given the lack of wide availability of analysable data relating to loan transactions. We strongly reject this level of detail of disclosure, also in view of the lack of elaborations of an EU taxonomy. If an institution regards climate-related risks as immaterial, it is expected to document this judgment with the available qualitative and quantitative information on which the assessment is based. The requirement should take into account the fact that quantitative climate-related metrics are currently being developed and hence quantitative information on materiality will remain limited to a certain degree.	Inappropriate level of policy detail

34	Chapter 7	7	13.3	46	Deletion	We propose that the following passage be deleted: ("in terms of dates and outstanding volumes by geographic area...") since the volume of excluded financing cannot be reported.	Inappropriate level of policy detail
35	Chapter 7	7	13.5	48	Amendment	The ECB expects greenhouse gas emissions (Scope 1, 2 and 3) for the whole group to be disclosed. However, the fact is that currently banks lack comprehensive climate-relevant data of their clients, at least with respect to a large part of the portfolios. Hence the ECB should take into account that climate-related data bases, together with climate-related metrics, are in the process of development and therefore will not yet be available for large parts of the portfolio by the end of 2020. We call for Scope 3 specifications to be deleted since they cannot be widely implemented in the short term.	Inappropriate level of policy detail
36	Chapter 7	7	13.5	48	Clarification	"This could, for instance, entail a project-by-project approach to measuring the carbon intensity of large corporate portfolios and the property-by-property measurement of actual energy consumption or energy efficiency classification for real estate portfolios." What is the volume of corporate portfolios that the ECB views as a "large portfolio"? It would be very helpful to specify a threshold value. What is the connection to materiality in view of Scope 1-3? "The amount or percentage of carbon-related assets in each portfolio in € millions or as a percentage of the current portfolio value… " From what (threshold) carbon value does the ECB regard assets as having a significant carbon component? Could, for	Lack of policy detail

						example, a higher-level, sector-specific allocation be made in this regard?	
37	Chapter	7	13.7	49	Clarification	“Institutions are expected to explicitly consider the need for further disclosures”. What is to be the basis for a decision on the climate and environment-related risks that banks should additionally take into account in their disclosures?	Lack of policy detail