

NVB responds to ECB consultation on its Guide on climate-related and environmental risks

In May 22, the European Central Bank (ECB) [published](#) a guide for consultation that explains how it expects banks to safely and prudently manage climate-related and environmental risks and disclose such risks transparently under the current prudential framework. With the Guide, the ECB calls banks to account for these risks given that they drive existing prudential risk categories and can substantially impact the real economy and banks.

The guide specifies how ECB Banking Supervision expects banks to consider climate-related and environmental risks in their governance and risk management frameworks and when formulating and implementing their business strategy. It also outlines how the ECB expects banks to become more transparent by enhancing their climate-related and environmental disclosures. The Guide aims to foster banks' preparedness for managing climate-related and environmental risks under current prudential rules, in accordance with the European Commission's Action plan on financing sustainable growth and the European Banking Authority's Action plan on sustainable finance.

The Dutch Banking Association welcomes the possibility to respond to the ECB consultation and has provided its comments using the designated template. Derived from these comments, the Dutch Banking Association has developed six main priorities with respect to the Guide on Climate-related & Environmental risks. First, the NVB would like to stress the need for further clarification of the applicability and implementation timelines of the guide, while asking the ECB for a phasing-in approach of the guide's expectations. Second, the NVB requests the ECB to clarify on the application and proportionality of the Guide. Third, the NVB emphasises its concern on the lack of (historic) data with regard to climate and environmental risks. Fourth, the NVB asks the ECB to clarify on the definition and positioning of climate risk, in relation to other environmental risks, to avoid misunderstanding and possible double-counting of risk. Fifth, the NVB invites the ECB to provide clearer expectations in this aspect and asks the ECB to share the expected changes to take place in the current prudential framework. Lastly, the NVB asks the ECB to clarify on the prescriptivity of the additional clarifications and illustrative examples that are in the draft guide.

The Dutch Banking Association has also contributed to a consultation response by the European Banking Federation (EBF), which represents the European banking industry.

Nederlandse Vereniging van Banken

De Nederlandse Vereniging van Banken behartigt de gemeenschappelijke belangen van de bankensector. Banken zijn van belang voor iedereen. We zijn de verbindende schakel tussen de bankensector, politiek en stakeholders. Samen met deze partijen werken we proactief aan: een dienstbare, stabiele en competitieve bankensector.

NVB's priorities with regard to the ECB consultation

A. Timelines

The NVB would like to stress the need for further clarification of the ECB applicability and implementation timelines of the guide.

- ECB is requested to avoid frontloading of upcoming EU legislation.
- Date of application: The ECB is requested to clarify the status of application date. Institutions are expected to face issues when compliance with all recommendations is required as from that date. A phased-in approach is suggested where prioritizing the development of common definitions and taxonomies would be particularly helpful. This will support institutions in determining data requirements, IT system changes etc.
- Implementation timelines: To accommodate alignment, ECB is requested to align the implementation of its recommendations with the implementation timelines of the regulations that the Guide is linked to (e.g. NFRD).
- The Guide refers to existing regulation, meaning it will be the legal basis used by supervisors in their review. We are still awaiting the EBA to fulfil its mandate given by CRR 2 to include ESG factors in SREP and reflect on the prudential treatment of sustainable finance assets. Such roadmap includes several mandates spread from 2020 until 2025. The inclusion of ESG factors is a new regulation field, meaning that both regulators and banks should benefit from appropriate time to integrate such requirements.
- To request significant institutions to inform ECB of any divergences of their practices from this guide, which is still on the consultation phase, as from end-2020 can be a challenging timeline. The NVB request the ECB to consider whether the timeline is feasible for the Banks to fulfil such a request. The ECB is also requested to clarify the legal status (per expectation) and how divergence from the recommendation is considered in the Supervisory Dialogue.
- The full and complete integration of climate-related and environmental risks into banks risk management framework will need robust quantification methodologies, which are still at a very early stage. The NVB proposes the Guide should explicitly reflect a) that a staged approach (phasing -in approach) will be adopted based on the outcome of the Supervisory Dialogue and b) that pending such dialogue no capital consequences will be imposed.

As confirmed by the ECB in the public hearing on 2 September 2020, the ECB is invited to explicitly state in the guide that the ECB will grant reasonable time to adapt and discuss the phasing-in of the guide's expectations on a bank-by-bank basis, while taking the specific profile of that institution into account.

B. Application & proportionality

- The NVB finds that the Guide should be applied at a consolidated level. Only if relevant, some perimeters could be explored more deeply, instead of applying the Guide at a sub-consolidated level.
- To maintain a level-playing field, it is important that the Guide also applies to any inbound companies, including inbound financial institutions, hedge funds, asset managers and their global activities.
- The ECB Guide applies to significant institutions that are supervised by the Single Supervisory Mechanism, while National Competent Authorities are recommended to apply the expectations set out in this guide in their supervision of less significant institutions. The NVB would like to stress that it is important that the Guide should be equivalently applied to both Significant Institutions and Less Significant Institutions. While taking the principle of proportionality with regard to the risk profile and business model of an financial institution into account, this equivalence would ensure

Nederlandse Vereniging van Banken

De Nederlandse Vereniging van Banken behartigt de gemeenschappelijke belangen van de bankensector. Banken zijn van belang voor iedereen. We zijn de verbindende schakel tussen de bankensector, politiek en stakeholders. Samen met deze partijen werken we proactief aan: een dienstbare, stabiele en competitieve bankensector.

that -in general- the same approach with regard to monitoring climate and environmental risks in the EU banking sector is pursued.

- The NVB request the ECB to clarify on the applicability of the principle of proportionality on the side of the financial institutions as well on activity side of these institutions. With regard to the activity side, the ECB is invited to clarify on the application of the principle of proportionality by for example differentiating between market sectors, company size and emission factors. The EU taxonomy could be helpful in that differentiation.

C. Data availability

One of the main concerns regarding climate and environmental risks is the lack of (historic) data.

- More availability of corporate and retail data will be a key factor for adequate banks' risk management, for the development of new financial products and for helping consumer and businesses to transition. Available, reliable, and standardized environmental and social data (E&S) data and non-E&S data on clients are a prerequisite for the development of quantification methodologies.
- With regard to modelling and scenario developing, the lack of (historical) data also provides challenges to test the resilience of the business model or to judge the possible impact of climate-related and environmental risks and the time horizon over which these effects are expected. The ECB is requested to provide examples and more detailed guidance on scenario developing, quantifying assumptions and analysis methodology.
- Banks should not be expected to have quantification methodologies developed until the NFRD, which will for instance support availability of such data, is finalized. With regard to requirements for modelling, scenario developing and backtesting, the NVB would like to stress that the meeting of these requirements should be aligned with the availability of relevant data.
- It would be helpful if the data availability would be improved by policy makers providing more data to financial institutions. Hence, in its response to the [NFRD](#) and European Commission's [Renewed Sustainable Finance Strategy](#), the European banking sector has asked the European Commission to develop an open source data space by supporting the development of a centralized data register that would facilitate building of ESG disclosures and the access to relevant and reliable data at the EU level in an open source format.

D. Definition of climate and environmental risks

- To establish an all-inclusive and mutually exclusive risk framework, a clear definition and positioning of climate risk, in relation to other environmental risks, is essential to avoid misunderstanding and possible double-counting of risk.
- Climate and environmental risks are being understood as a risk driver that effects known risk categories like credit, market, and operational risk. The NVB shares this opinion and think that it is the right way to consider this kind of risk as a risk driver and not a separate risk category.
- However, we feel that the application of this understanding is not well reflected throughout the guide. The NVB believes that ECB should be clearer in that respect and expectations should reflect climate risk as a risk driver and not a separate risk type.
- Since as the guide states climate and environmental risks are drivers of conventional risk types, the ECB is asked to clarify how explicit are banks expected to assign roles and responsibilities for climate-related and environmental risks within the organisation and specifically in the risk appetite. For instance, within the credit committee or in the risk appetite, there is not a list of all the specific risk drivers that need to be taken into account. For instance, concentration risk can lead to credit risk, however not all forms of concentration are spelled out at the level of buyer/supplier

Nederlandse Vereniging van Banken

De Nederlandse Vereniging van Banken behartigt de gemeenschappelijke belangen van de bankensector. Banken zijn van belang voor iedereen. We zijn de verbindende schakel tussen de bankensector, politiek en stakeholders. Samen met deze partijen werken we proactief aan: een dienstbare, stabiele en competitieve bankensector.

concentration of borrowers. The ECB is requested to clarify this further to avoid that the Guide requires parallel frameworks.

E. Prudential framework & disclosure

- The ECB expects institutions to assess the impact that climate and environmental risks will have on capital adequacy. The NVB invites the ECB to provide clearer expectations in this aspect and asks the ECB to share the expected changes to take place in the Pillar 1, Pillar 2, and Pillar 3.
- The NVB suggests that any amendments to ICAAP requirements are consistent with the EBA CRR2 mandate to include in ESG factors in SREP and reflect on the prudential treatment of sustainable finance assets, since this inclusion would have significant implications for the regulatory ratios such as Pillar 2 capital requirements, and potentially on liquidity ratios.
- The guide states that for the purposes of their regulatory disclosures, institutions are expected to publish meaningful information and key metrics on climate-related and environmental risks that they deem to be material. Currently, EBA is still working on the of the EC guidelines into Pillar 3 framework. Therefore, the NVB recommends avoiding risk of inconsistency in light of regulatory disclosures that are still under development and to align with EBA's work.

F. Further clarifications and inclusion of examples in the Guide

- The NVB has mentioned various points where the ECB requested to provide additional clarifications and illustrative examples to the expectations.
- With regard to examples and the boxes explaining existing practices, the NVB believes these provide useful views. However, these should remain explicitly examples as bank specificities should also be taken into account.

Nederlandse Vereniging van Banken

De Nederlandse Vereniging van Banken behartigt de gemeenschappelijke belangen van de bankensector. Banken zijn van belang voor iedereen. We zijn de verbindende schakel tussen de bankensector, politiek en stakeholders. Samen met deze partijen werken we proactief aan: een dienstbare, stabiele en competitieve bankensector.