



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Integration of climate change risks in the supervisory framework The ECB approach for 2022: state of play and initiatives

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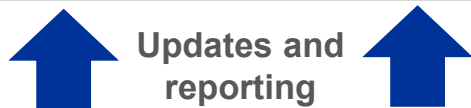


Climate change is a transverse risk that can affect every geography, every sector, every individual



ECB climate change centre: structure

Executive Board [Patron: President]



Regular alignments



Climate change centre

- 4 members (+ 1 admin. assistant)
- 6 workstream coordinators (seconded)

Financial stability & prudential policy*

Financial market operations and risk

Macroeconomic analysis & monetary policy

EU policy and financial regulation

Corporate sustainability

Data

Business areas

Financial stability

Statistics

International

Banking supervision

Market operations

Monetary policy

Economics

Risk management

Market infrastructure and payments

Banknotes

Research

Corporate services

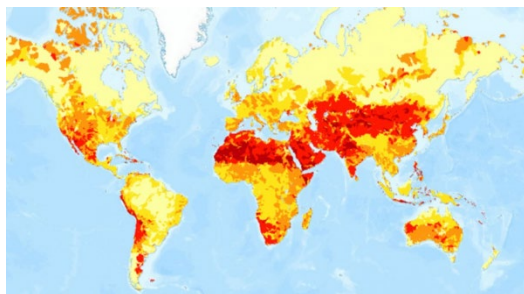
Legal

Secondments

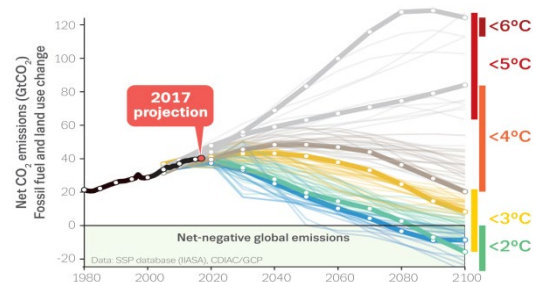
*Some initiatives will be subject to Supervisory Board input and decision making

Characteristics of climate-related and environmental risks

1. Far-reaching impact



2. Extended time horizon



3. Short-term action



The ECB is of the view that institutions should take a forward-looking, comprehensive and strategic approach to considering climate-related and environmental risks.

Putting the 2022 SSM climate risk stress test into context

- The 2022 climate stress test exercise is **part of a broader set of activities** that the ECB undertakes to assess supervised institutions' level of preparedness to properly manage climate risk.
- The climate risk stress test is complemented by an **ongoing full supervisory review** of banks' climate-related and environmental risk management practices, which will seek to comprehensively assess how banks have incorporated these risks into their **strategy, governance and risk management frameworks and processes**.
 - **Guide on climate-related and environmental risks:**
<https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf>
 - **Report on supervisory review** of banks' approaches to manage climate and environmental risks:
<https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202111guideonclimate-relatedandenvironmentalrisks~4b25454055.en.pdf>
- The 2022 supervisory climate stress test will help develop the response to a critically important issue. Our ambition is that it can **act as a catalyst to improve data quality and stress testing capabilities**.

ECB Supervisory expectations



Guide on climate-related and environmental risks

Supervisory expectations relating to risk management and disclosure

- The ECB Guide sets out supervisory expectations on climate-related and environmental risks
- Supervisory expectations:
 - i. Provide transparency about the ECB's understanding of a prudent approach to managing climate-related and environmental risks.
 - ii. Enhance the industry's awareness and preparedness for managing them
 - iii. Contribute to a level-playing field in the euro area, while ensuring consistency with existing and forthcoming guidance from NCAs
- Supervisory expectations exclusively deal with the management and disclosure of prudential risks under the current framework.
- The ECB Guide is consistent with EBA, NGFS and NCA publications

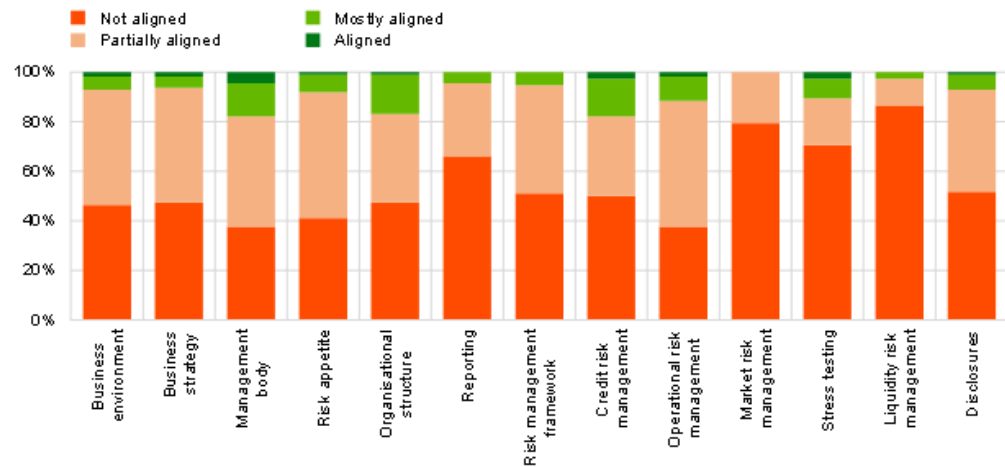


Banks' practices are not yet aligned with expectations

- **No SSM institution** is close to fully aligning practices to the expectations supervisory
- Most institutions consider C&E risks to have a **material impact** on their risk profile in 3 to 5 years
- Steps are taken to adapt policies and procedures, few institutions have practices with a **discernible impact** on their strategy and risk profile
- Less than half has taken first steps to **adjust their strategy**
- Most institutions have a **blind spot for physical and other environmental risk drivers**

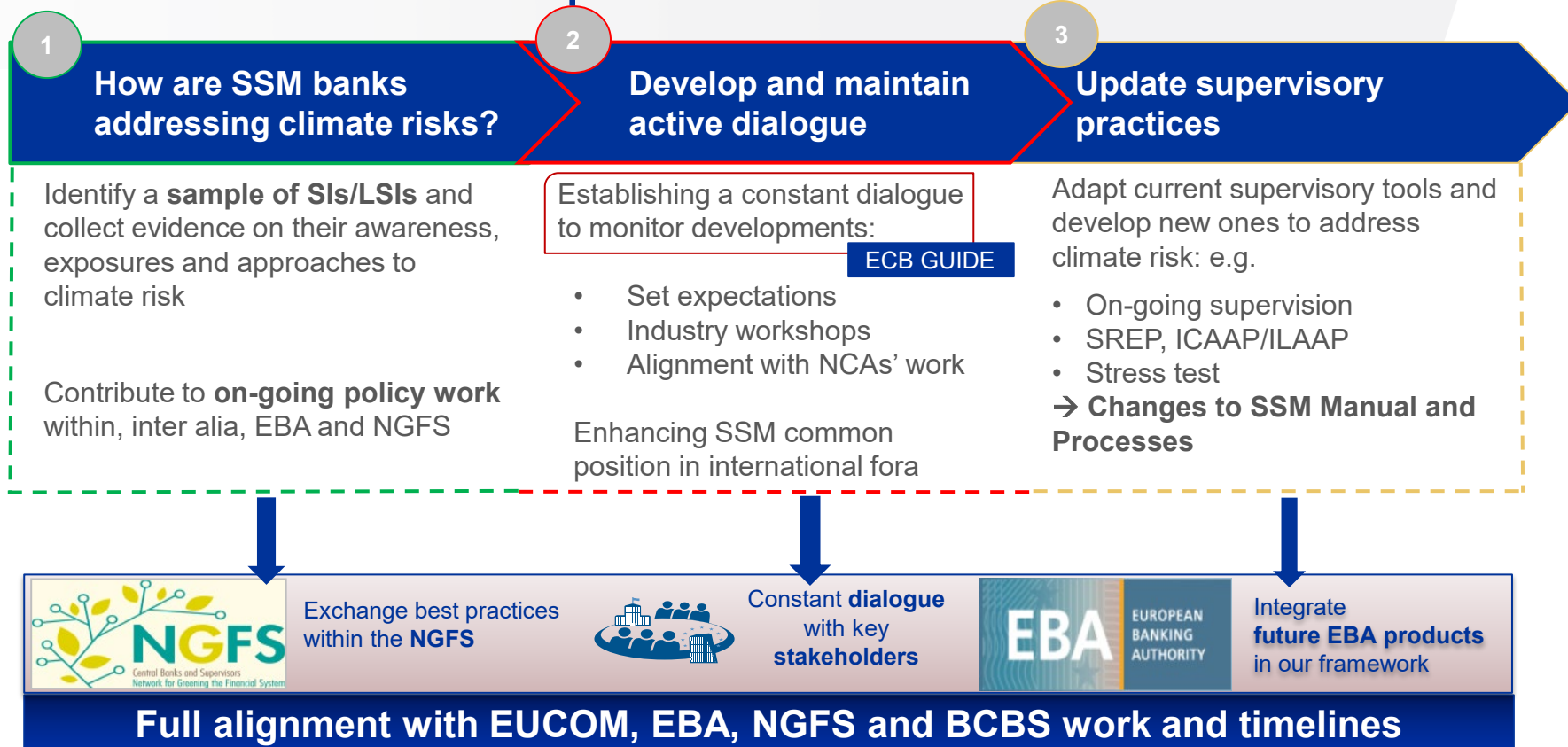
Institutions' alignment with the 13 supervisory expectations set out in the ECB's Guide

(percentages)



Source: ECB's supervisory assessment.

The SSM Road Map on Climate Risk: overview



Key climate-related prudential initiatives in addition to 2022 Climate Risk stress test

- **CRE deep dive:** Understand the preparedness of banks to integrate climate change risk into credit risk management practices in the sector of commercial real estate.
- **Thematic review:** Assess the soundness, effectiveness and comprehensiveness of banks' climate-related and environmental risk management practices.
- **Macroprudential scenario analysis:** Create climate scenarios built to account for the interplay between transition and physical risk over next 30 years relying on the work by the NGFS.
- **Onsite Inspection (OSI) pilots:** Deep dives to assess banks' preparedness and to validate OSI methodology.