EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Transition plans as a supervisory tool

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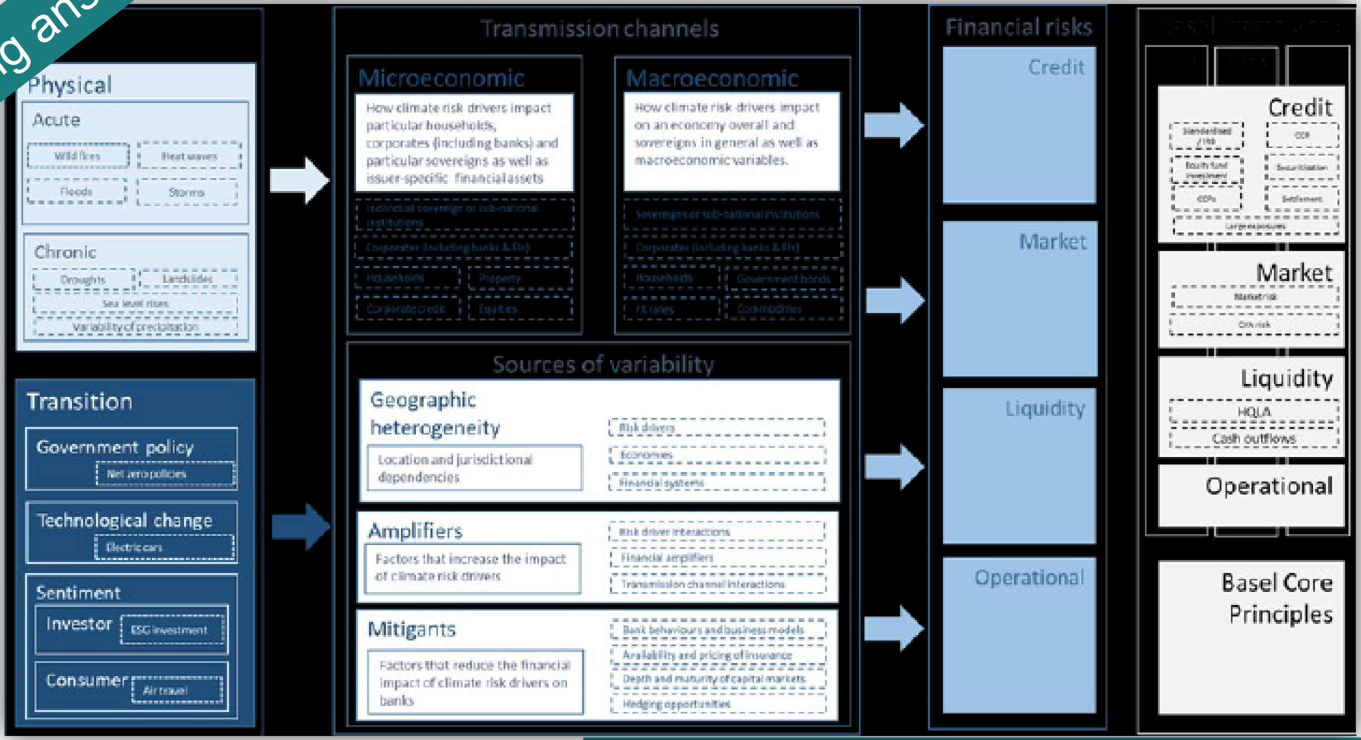
Why should banking supervisors care about climate related risks?

Long answer



In short: because climate related risks translate into financial risks for banks

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The ECB supervisory road map on climate and environmental risk management

2020
- **Publication of the ECB Guide on climate-related and environmental risks**

2021
- Banks’ self-assessment and development of implementation plans
- C&E disclosures assessment

2022
- Thematic Review on Climate-related and Environmental Risks
- Supervisory Climate Risk Stress Test
- Targeted review on CRE, C&E disclosures assessment, dedicated pilot on-site inspections

2023/4
- **Monitoring banks’ remediation of shortcomings and implementation plans,** taking follow-up and/or enforcement actions as needed
- Targeted deep dives, including on strategic and reputation risk, as well as dedicated on-site inspections

2024/5
- Roll-out of CRD6 mandates related to transition planning

Supervisory follow-up

- Feedback letters
- **Qualitative** requirements

- Remediation timelines
- **Qualitative** requirements and integration in SREP

- Progressive integration in SREP methodology and **qualitative and quantitative** requirements (including P2R)
- Follow-up and/or enforcement actions as needed

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State of climate risk management in the banking sector in 2022

Overall results of the ECB review

- Virtually all banks are now **out of the starting blocks** to identify and manage their C&E risks
- 59% of banks **have not integrated climate risk into their stress-testing** framework
- Overall, **much more information is disclosed,** but still **insufficiently substantiated**

In November 2022, the ECB set deadlines for banks to align their practices with expectations by end 2024

All significant banks received feedback letters with an average of 25 shortcomings.

The ECB has set institution-specific deadlines by when banks are expected to achieve alignment with the ECB Guide on Climate related and Environmental Risks, including the following milestones:

By March 2023

Adequately categorise climate and environmental risks and conduct a full assessment of their impact on bank's activities

By the end of 2023

Include climate and environmental risks in governance, strategy and risk management

By the end of 2024

Meet all remaining supervisory expectations, including on capital adequacy and stress testing

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What CRD transition plans are about?

CRD - Banks (Art. 76)	The Management Body (MB) is charged with managing ESG risks and reviewing their short, medium and long term impact. The MB shall develop plans and target to "monitor and address the risks arising in the short, medium and long-term from the **misalignment of the business model** and strategy of the institutions, **with the relevant Union policy objectives"** with respect to ESG.
EBA (Art. 87a)	The **EBA is mandated to set via guidelines the content of the transition plans.** These shall include timelines, targets and milestones. Other EBA mandates include minimum standards and reference methodologies, covering also ESG assessment criteria and ESG scenarios
CRD - Competent authorities (Art. 87a, 104)	Competent authorities (CAs) are mandated to **ensure that institutions manage ESG risks and test their long-term resilience** to negative ESG impacts. CAs shall consider a time horizon of at least 10 years. CAs are also mandated to **assess and monitor the plans to be prepared by banks, as well as the progress and the risks arising from the adaptation of their business model to the EU policy objectives.** Competent authorities are also empo**wered to require institutions to reduce the risks arising from the institutions' misalignment with relevant ESG policy objectives of the Union** relating over the short, medium and long term. CAs may require institutions to adjust their business models, governance strategies and risk management.

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Challenges in the context of managing environmental related risks

Data

Complexity of the analysis:
- Unprecedented events
- Non-linear
- Geographically diverse

Classification

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Thank you for your attention

Any comments or questions?