

POSITION PAPER



Position Paper

ESBG considerations on the BCBS principles for the effective management and supervision of climate-related financial risks

ESBG (European Savings and Retail Banking Group)

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ESBG welcomes the opportunity to comment on the BCBS principles for the effective management and supervision of climate-related financial risks.

We would like to note that climate risks are associated with greater uncertainty than other types of risks, the banks have less experience assessing them and they do not have the historical data that is available for other types of risks that the banks are used to manage.

The BSBC paper and therein formulated recommendations give the idea that ESG risks are to be treated as a risk type that could be material and embedded into different processes. Instead, banks treat ESG as a driver factor that impacts well known risk types, i.e. credit, market and operational risk and hence it should not be treated separately. This understanding is particularly important for recommendations related to quantification, measuring risk concentrations and limit setting (see R2 Tz 16, R6, R7 Tz 31 and R8 Tz 34). We believe that climate risks should not be treated as separate risks, but they should be included in banks' risk management frameworks and taken into consideration when assessing other risks.

Different risk assessment horizons are required for different risk categories. The risk-bearing capacity to assess internal capital (ICAAP) runs usually for 1 to a maximum of 3 or 5 years, which is adequate for the existing risk types. In this case, detailed calculations are appropriate, but a longer time horizon is neither relevant or necessary. Due to the many uncertainties, concrete calculations over long-term periods of time are essentially impossible. As a result, the ICAAP's time horizon should not be extended only due to the impact of climate risks. The long-term impact of climate risks can be addressed in the strategy processes and in scenario analyses. Moreover, it should be noted that integrating climate risk management in an holistic manner across all bank activities creates the need for building competence in this area and an increased need for resources. Although the Basel-standards are meant for large internationally active banks, Basel standards are usually made applicable for all banks when implemented in the EU/EEA. Smaller banks do not have available the same resources as the larger banks and there is hence a need for standardization and simplification for the smaller banks.

In addition to this, banks need to have an overview of available information internally and the missing information that must be collected from clients or third parties. Therefore, banks must be given time to build experience and increase data quantity and quality to be able to use data in the management of these risks. Banks will also need time to obtain sufficient experience with climate related risk drivers and key risk indicators.



About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.



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