Climate related Financial Risk Management and Supervision

ANSWER TO BIS CONSULTATION PAPER

AUTHOR: MATTEO OLDANI
Date: the 17th of January 2022

BIS

Basilea

Switzerland

The AUTHOR

Matteo Oldani
Executive MBA Candidate
ESCP Business School

Linkedin: www.linkedin.com/in/matteooldani

- Working expertise and interested in Sustainability and ESG Strategy, Sustainable Finance, Investment Management, Capital Markets, Risk Management
- Business idea owner, main promoter, Business Development and implementation for the Business Line on Sustainability on ESG/SDG (Green Bond, Sustainable Linked Bond, Climate Bond, etc.) inside the current employer (Reply Avantage Italy).
- Feasibility study for a new integrated application, ESG investment process for Asset Management
- Capabilities to create a link through Non-Financial metrics with their economic value | 1 publication

Conferences, articles and Linkedin publications

- ABI Speaker: "The importance of ESG Data in the Banks process: from strategy definition to risk management until disclosure" (https://www.youtube.com/watch?v=WVuYM0iXEGg) | 2021
- Return on Sustainable Investment: Marketing framework | 2021
- Business Model Canvas integrated with Environmental, Social & Governance (ESG) factors | 2021
- Top Strategic Trends, 2021 Outlook: Sustainability, Smart Working, Leadership | 2021
- Sustainable Reporting: Answer to IFRS Consultation paper | 2020
- Sustainable Finance: Risk and opportunities for Banks and Institutions | 2020

1 Effective management and supervision of climate-related financial risks

Hereinafter, I report the answer to each Question reported on the BIS Consultation Paper on Climate-related Financial Risk Management and Supervision.

1.1 Question 1

Has the Committee appropriately captured the necessary requirements for the effective management of climate-related financial risks and the related supervision? Are there any aspects that the Committee could consider further or that would benefit from additional guidance from the Committee?

The principles are at very high level, so it seems almost all aspects are captured.

However, I would add the following point:

- expand the Governance framework, including principles for Reputational Risk, too;
- include a specific paragraph with principles for the comprehensive management of Market Risk.

Moreover, I believe it would be necessary defining a first version of a common framework model for Climate-related (and ESG; too;) Strategic, Reputational, Credit, Market, Liquidity and Operational Risk.

A first proposal has already been done by EBA, but I think it should be somehow integrated with common models; I would propose to start with less sophisticated as possible and move on mre complex model during next years.

1.2 Question 2

Do you have any comments on the individual principles and supporting commentary?

These principles and commentary are at very high level and generic, so I do not have any comments on these.

1.3 Question 3

How could the transmission of environmental risks to banks' risk profiles be taken into account when considering the potential application of these principles to broader environmental risks in the future? Which key aspects should be considered?

In my opinion, it is important to estimate how environmental risk has an impact on some sectors/companies, considering also the geographic location of the single company and its subsidiaries. So, I believe it is important define and implement a model (with different degree of sophistication) that links Climate change (e.g. rise in temperature) to performance metrics (e.g. Revenues, Costs and/or EBITDA) of production companies as first step. The second step could be to estimate an average impact for companies in the same sector and in the same geographic location for example; this my lead to a change in the covenant ratio for Credit Loan and/or to a change in the "market" credit spread for bond and/or to a change in the equity due to a reduction of future increase expectations.