

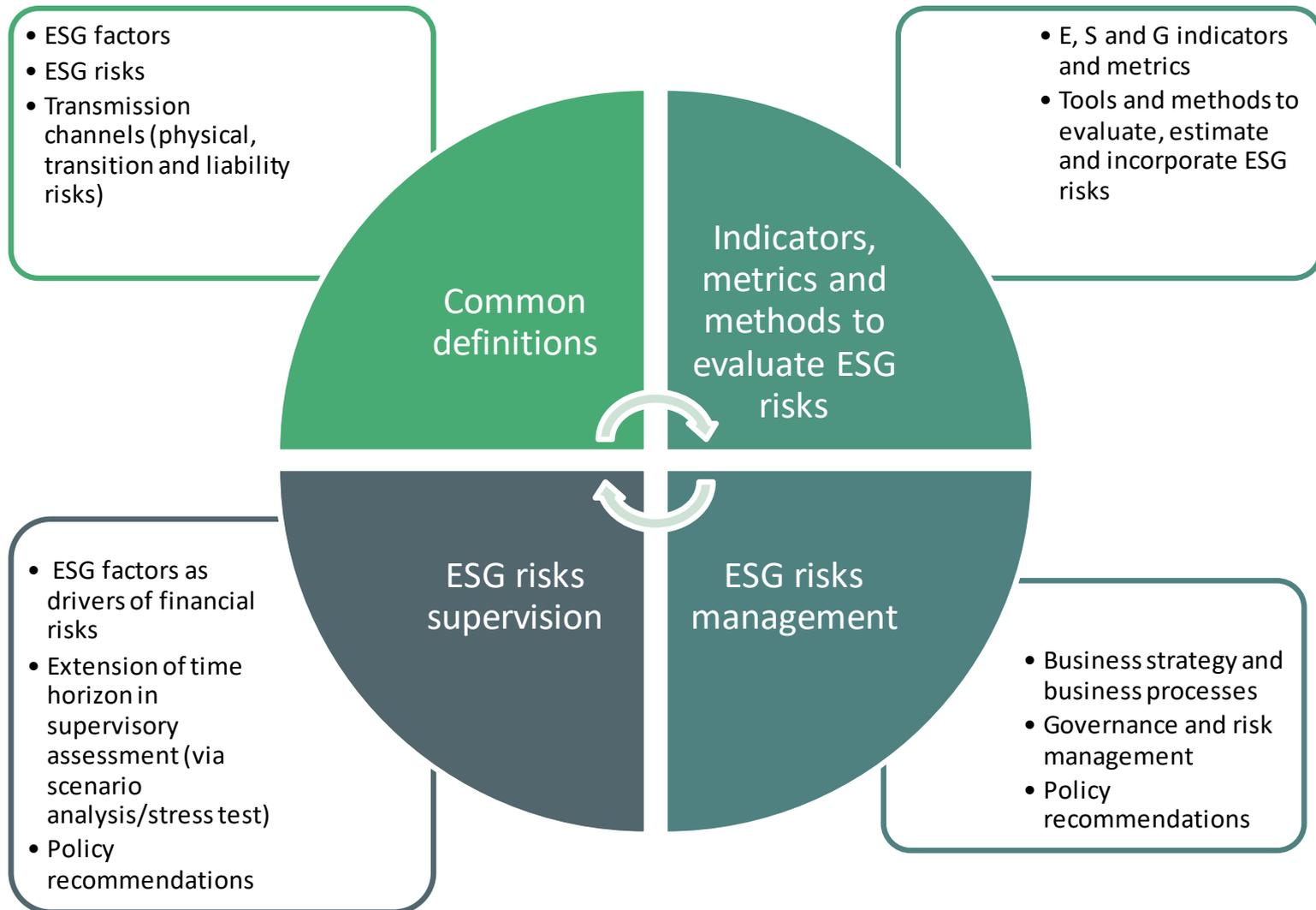


EBA Discussion Paper on ESG in risk management and supervision

PUBLIC HEARING

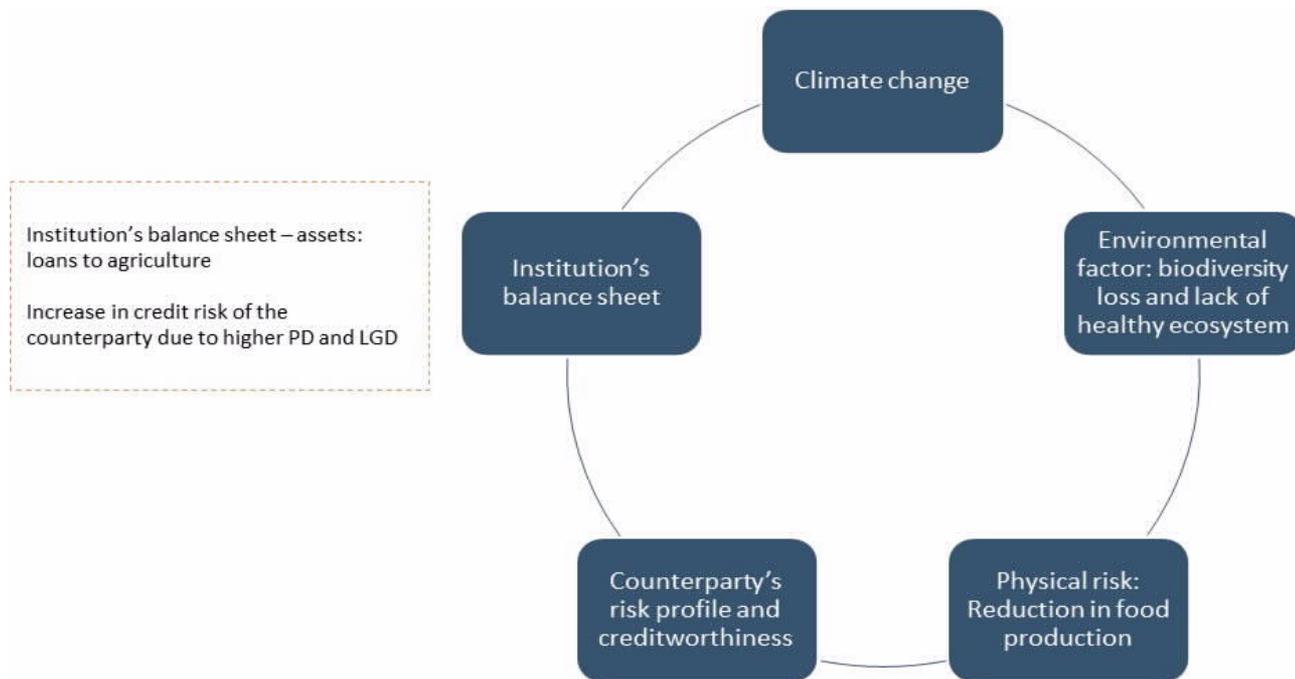
26 November 2020

Discussion paper on ESG risks management and supervision



Common definitions and transmission channels

- ESG factors are environmental, social or governance characteristics that may have a positive or negative impact on the financial performance or solvency of an entity, sovereign or individual.
- Focus of the report: While institutions are directly exposed to ESG factors, ESG risks materialise when ESG factors affecting institutions' counterparties have an impact on the financial performance or solvency of institutions



Indicators, metrics and methods to assess ESG risks

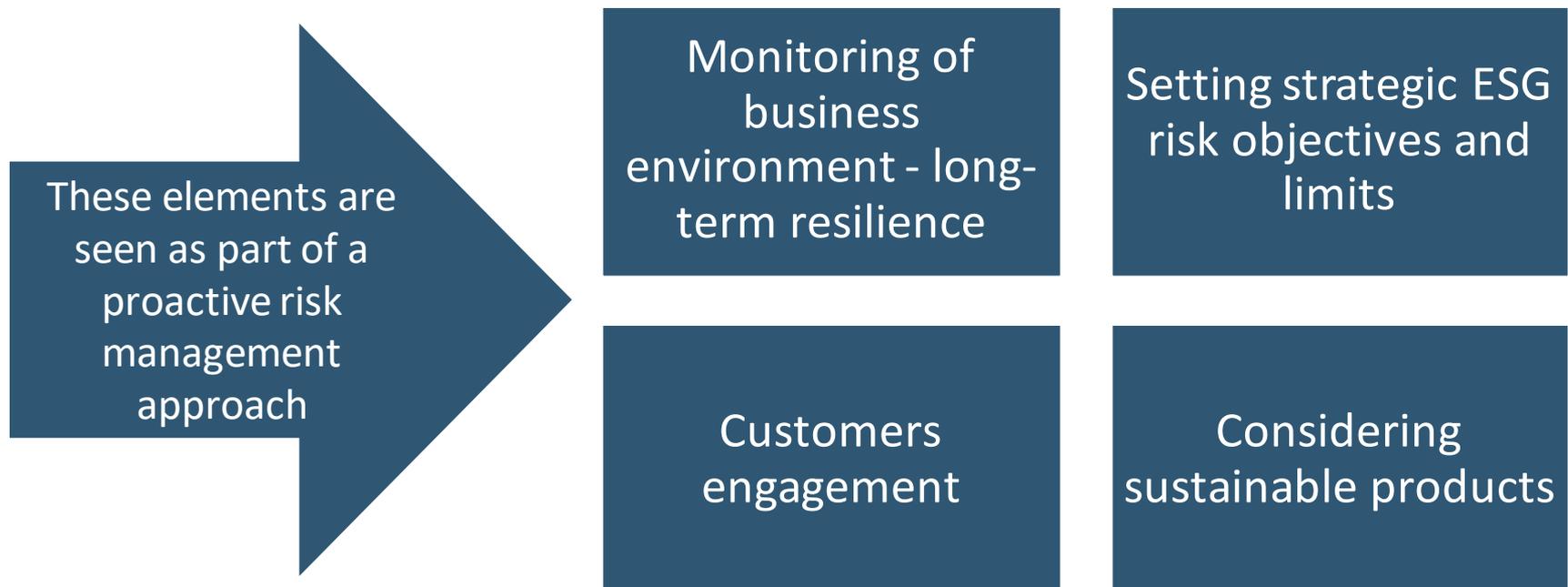
- Overview of existing methodological approaches based on research and stakeholders' interaction

Scope:

- ESG risk-related asset classification approaches – taxonomies, standards, principles, labels
- Indicative, non-exhaustive list of ESG factors, indicators and metrics
- Methodological approaches for assessing ESG risks:
 - (i) portfolio alignment,
 - (ii) risk framework methods and
 - (iii) exposure methods
- Comparison of methods and their application (pros and cons, no 'one-size-fits-all')

ESG risks management

- Current status of of integrating ESG risks into business strategies, risk management and governance (incl. recognition of challenges)
- Three main areas where ESG should be incorporated:
 - Business strategies and business processes
 - Governance arrangements
 - Risk management process, including stress testing



ESG risks supervision

Links between ESG factors and supervisory review



- Four main considerations for supervisors:
 - Incorporating ESG risks into the business model analysis;
 - Evaluating whether institutions sufficiently test the long term resilience of the business model against the time horizon of the relevant public policies or broader transition trends;
 - Enriching risk assessments: looking at prudential risks e.g. credit, market, operational, liquidity and funding link with the relevant ESG factors;
 - Proportionately incorporating ESG risk-specific considerations into the assessment of the institution’s internal governance and wide controls.

Consultation

- Discussion paper aims to collect feedback from stakeholders on preliminary proposal
- 29 specific questions have been formulated
- Some areas where input would be very much welcomed:
 - Proposed definitions
 - Relevance of direct impact of ESG factors to banks compared to indirect (ESG risks stemming from counterparties)
 - Methods used by banks to evaluate and measure ESG risks
 - Preliminary policy recommendations for institutions and supervisors
 - Proportionality
 - Granularity of report
 - Applicability for investment firms



EUROPEAN BANKING AUTHORITY

20 avenue André Prothin CS 30154

92927 Paris La Défense CEDEX, France

Tel: +33 1 86 52 70 00

E-mail: info@eba.europa.eu

<https://eba.europa.eu/>