



POLISH BANK ASSOCIATION

Comments of the Polish Bank Association to the “Discussion Paper on management and supervision of ESG risks for credit institutions and investment firms”

1. Please provide details of other relevant frameworks for ESG factors you use.

It needs to be underlined that currently the involving ESG factors to the activity of financial institutions is developed therefore there are some frameworks but not completed and not fully covering the whole banking activity. While it is generally considered that the standards developed by the TCFD offer most comprehensive reporting perspective, there is a number of frameworks used by particular (non-regulated) ESG-assessment agencies, such as Sustainalytics and MSCI, which cover the topics mentioned in the discussion paper, but use various definitions leading to different assessment of the company depending on the rating. While these refer to GRI to a great extent, financial market participants from US, such as Bloomberg or BlackRock, look closely at the SASB methodology. In Poland the OECD Guidelines for multinational enterprises are well-renowned in scope of several “S” and “G” topics. Definitely we see more frameworks and global standards for “E” factors and less common and unified definitions form “S” and “G”. The report of Technical Expert Group (TEG) on sustainable finance and the Taxonomy Regulation could be also useful. From the market participants’ perspective it would be most beneficial for EBA to arrive at single, comprehensive network ideally as catalyst of the already pending convergence processes.

2. Please provide your views on the proposed definition of ESG factors and ESG risks.

The discussion paper is geared towards negative externalities and ESG-related risks. It is concerned with effects on enterprise value and its impact on natural, human and social capital. But in these given areas, some of the ESG-related activity of banks and their clients will have a positive effect, both from a societal perspective and the effect on valuation of companies. Therefore, the concept of ESG ‘risk’ should not only be

approached from a negative perspective, but it should also provide for potential positive externalities. If the integration of ESG risks for banks mean that they should also recognize R&D efforts undertaken by corporates to pursue taxonomy-aligned activities or to adapt their product suite accordingly, this will likely create positive effects.

Chapter 4 includes very broad and comprehensive definitions of ESG factors, manifesting in prudential risks. It defines ESG risks as negative financial impacts on the bank from ESG factors on the bank's counterparties and ESG risks as negative materialisation of all ESG factors on prudential risks.

Reflection and measurement of all of these factors and risks across all risk dimensions will become a significant challenge, as data availability is still limited for multiple factors, and tools to measure related risk metrics are still under development.

The development of a climate risk framework is already advanced, however, to be unambiguous and operable, the topics of broader environmental risks, and social and governance risks, in particular, need further clarification given existing gaps in terms of data, metrics and methodology. The EBA should therefore follow a staggered approach along the relative importance of these topics, and add implementation requirements once metrics have been defined and data is available. A target date for implementation requirements for broader environmental and social risks in 2024 would be appropriate, and for governance risks in 2026, respectively.

Furthermore, the EBA should ensure that the definitions, when enacted, will be aligned with all relevant European legislation, such as Recital 14 of the Sustainable Finance Disclosure Regulation.

In addition, "non-financial" remains a misleading attribute as it seems to deny financial impact of the described risks/factors. These, however, will consequently have financial impacts. E, S and G risks are interdependent. For instance, Governance constitutes the basis for the other categories, as this is the corporate steering function and the first channel through which investors can exert influence. Therefore, risks identified in the area of Governance factors may spill to other areas and cause further risks, making a clear distinction as the Discussion Paper suggests impossible. The interdependence, as well as the status of Governance as the basis for the other two categories, should be clarified.

It is needed to deliver the common and adequate definitions of ESG factors for all market participants. The unified definitions for all will guarantee level playing field for all market participants and will reduce potential interpretation doubts. Therefore we support the goal of establishing the common definitions of ESG factors which will also take into consideration the perspective of financial institution and usability those definition in their activity. It is understandable, that from the perspective of this discussion paper, internal ESG issues of the company are not taken into account in detailed deliberations, as explained for instance in point 39. However, the scope of the definition of ESG risks shall not be limited to the counterparties' impact on the

institution as this definition might be referred to and quoted in other sources afterwards. In case of a financial institution, e.g. money laundering might be a significant risk, representing an ESG issue, but from internal procedures' perspective. Therefore it would be recommended to amend the definition meaning that "**External** ESG risks materialize, when the ESG factors affecting institutions' counterparties have a negative impact on the financial performance or solvency of such institutions". This still leaves space for the existence of **internal** ESG risks. Definition delivered by EBA should help the financial institutions to make assessment which factors should be consider during assessment of ESG risks.

Regarding the "E" risk - a bank's activity has no significant direct impact on the climate and environment. The sector in which banks operate does not belong to sectors with high greenhouse gas emissions. This impact is primarily indirectly related to financing of clients. S and G factors have a larger dimension. The bank's internal approach should be consistent with the requirements for its clients, suppliers and outsourcers.

3. Do you agree that, for the purpose of assessing their inclusion in institutions' and supervisors' practices from a prudential perspective, ESG risks should be approached primarily from the angle of the negative impacts of ESG factors on institutions' counterparties? Please explain why.

For the reasons stated above, the EBA should broaden the scope towards the positive effects, i.e. opportunities that may arise from ESG factors. This would also be consistent with the approach taken by the TCFD or the product framework pursuant to Article 9 under the EU Sustainable Finance Disclosure Regulation (SFDR) (e.g. p12: reduction of "carbon emissions as its objective").

The perspective of a negative impact appears to be reasonable, given that the opportunities' side of the ESG issues will most probably be addressed by the companies in their business activity anyway. However, the counterparty, meaning external perspective shall be explained to those who might not read the entire paper, but look for definitions only. It shall be clear that ESG risks can arise both from the negative impacts of ESG factors on institutions' counterparties and from the internal sources. This does not need to be elaborated in the discussion paper, only clearly stated in the definition.

4. Please provide your views on the proposed definitions of transition risks and physical risks included in section 4.3.

The definition of transitional and physical environmental risks in section 4.3, and their transmission channels, are broader compared to other frameworks (such as the NGFS framework). The scope should be limited on the following points:

- Physical transmission channel: extension to environmental risks (other than climate risk) makes sense; however, this needs some specific description (there are no

examples given for "non-climate" related physical risks). Again, a staged approach would be necessary.

- Transition transmission channel: extension of transition channel to sovereigns is the right approach; however, the extension to private individuals does not appear adequate for these homogeneous portfolios, as relevant client data will not be readily available

Definitions are specific and broad enough to tackle ESG uncertainties. We would like to give some thoughts on sentence from 4.3. We agree with the approach proposed by the EBA and the identification of a direct link between environmental and climate factors. Treating these factors as interconnected will enable proper judgment by financial institutions.

We agree that environmental factors can be twofold, reflecting their potential double materiality. On the one hand, it has a negative impact on the counterparties' financial results. On the other hand, the counterparties activity may have a negative impact on the climate and the environment. However, we are considering the practical possibilities of taking these factors into account or assessing these factors by financial institutions. Certainly, financial institutions can make an overall assessment, pointing to possible negative consequences. However, it should be noted that all these assessments must be based on information about the counterparties that must be obtained by the financial institution.

In addition, to ensure consistency of approaches, the definitions and of adverse sustainability indicator contained in the SFDR delegated acts should be consistent with the approach proposed by the EBA.

5. Please provide you views on the proposed definition of social risks and governance risks. As an institution, to which extent is the on-going COVID-19 crisis having an impact on your approach to ESG factors and ESG risks?

We appreciate that the discussion paper includes social risks and governance risks.

However, the definition of social and governance factors and risks, in particular, is very broad whilst there remains a fair amount of ambiguity around measurement of social factors that need further clarification. Additionally, the definitions do not really relate to existing S and G risk definitions.

At present Covid-19 is not having a significant impact on our approach as such. However, we see that the Covid-19 pandemic and related political measures have become a catalyst for accelerated change in the economy and broader society, driving digitalisation (negatively affecting traditional retail businesses and commercial real estate markets), but also a rethink in terms of supply chains (affecting industrial activities) and consumer preferences (affecting travel and hospitality), although it is still too early to quantify these impacts in the medium to long term

We share the view that the COVID-19 pandemic may have a significant impact on the situation of many people, not only on their health, but also on living conditions and mental condition.

Definitions appear to be consistent with the environmental risk definition in their scopes of reference. The ongoing COVID-19 crisis proved the processes and procedures in the institution to be adequate, as they allowed e.g. for prompt digitalization of many activities, ensuring cybersecurity for home office mode and cooperation with public entities on the distribution of public aid. It could be observed however, that some situations cannot be predicted and therefore elasticity, as well as innovative approach towards challenges must remain.

It is impossible, to have procedures covering every aspect of the activity. Importantly, COVID-19 impacted all E, S and G areas (fewer business travels contributing positively to E, adequate employment of procedures being a test of good “G” management), the social area is where companies could truly test themselves in scope of discussing ESG risks stemming from the pandemic. How the society will change is the least obvious topic, but also giving most opportunities, which also belong to the risk assessment. The experience of the pandemic may be the beginning (the observed data already confirm the reduction of purchasing in some segments) of more permanent changes in consumer behaviour to more responsible ones, which in turn will be a huge challenge for banks to adjust their sales policies.

6. Do you agree with the description of liability transmission channels/liability risks, including the consideration that liability risks may also arise from social and governance factors? If not, please explain why.

It is understandable that liability risk might arise from social and governance factors, but, contrary to environmental impact, they might be more difficult to prove. Except for cases of deliberate breaches of the rule of law or best practices, the threat of liability risk might lead to a deadlock of running business activity in case any decision could be questioned afterwards even when at the moment it was taken there were no indications on its incorrectness. This applies also to the example from Box 7 in scope of environmental catastrophes such as the wildfire which occur spontaneously, meaning that no particular company or public entity can be held accountable in a straightforward way. The complicated interconnectedness of weather conditions across the globe is not analyzed deeply enough to always point into cause-effect chain. Consequently, companies which could not have had any idea their activity could be harmful, shall not be subject to claims years after proven they applied all precautionary measures at any time of their operations. This applies to all E, S and G factors, although for “E” the liability risk appears to be the most understandable.

7. Do the specificities of investment firms compared to credit institutions justify the elaboration of different definitions, or are the proposed definitions included

in chapter 4 also applicable to them (in particular the perspective of counterparties)? Please elaborate on the potential specificities of investment firms in relation to ESG risks and on how these specificities, if any, could be reflected in this paper.

The definitions of ESG risks for credit institutions vs. investment firms should not differ. Differences may arise in materiality of ESG risks between sectors (e.g. risks of adverse environmental impacts for metals and mining vs. software industry). Additionally, certain corporate governance considerations (e.g. in capital market transactions including M&A) may be viewed differently for shareholders vs. creditors.

In addition, for investment firms, the concept of counterparties is manifold: these could be creditors in terms of bond holdings or the clients that the firm manages assets for. In case any ESG risks bring an asset manager's client base into (financial) distress, this could lead to a termination of the mandate or to a re-allocation of assets. This should be reflected within the EBA's final report.

In order to ensure a level playing field, it would be best to maintain common definitions that will allow credit institutions and investment firms to operate and cover the specifics of these groups. It should also be noted that banks often play a dual role as a credit institution and an investment firm, therefore one common definition will facilitate action.

8. Please provide your views on the relevance and use of qualitative and quantitative indicators related to the identification of ESG risks.

As already indicated in the response to Q2 above, given expected process duration we recommend applying a staggered approach to arriving at each consecutive step only after corporate engagement with investees as required by Shareholder Rights Directive. We also note that availability and quality of underlying data for related reporting might be problematic for SMEs in countries like Poland.

We believe that we cannot limit to quantitative factors, as they in some cases do not show the specificity of a particular situation and do not justify the approach taken. Therefore the common definitions and understanding is so essential. Qualitative and quantitative ESG indicators appear to be necessary to adequately assess ESG risks and make companies comparable between each other in such terms. Moreover, establishing of common, uniform taxonomies and standards makes more sense budget-wise and allows to incorporate the best, state-of-art knowledge in given ESG topics. Still, some extent of flexibility should be maintained, reflecting local specifics

such as weather conditions present in given geographic location or starting point of the economy in scope of its reliance on fossil fuels.

9. As an institution, do you use or plan to use some of the ESG indicators (including taxonomies, standards, labels and benchmarks) described in section 5.1 or any other indicators, inter alia for the purpose of risks management? If yes, please explain which ones.

The Polish Bank Association is a self-government organization of banks therefore we can't answer directly on this question. However, we see the significant impact of the new legislation on sustainable finance on banking operations. EU Taxonomy concerning climate matters is going to be embraced by the banking sector along with corresponding regulations. GHG protocol is also a standard which is already common on the market and should be kept. EU Green Bond standard is also expected to be a common guide for market participants. Still, all those regulations should be accompanied with extensive market research, so determining which assets are sustainable, could be relatively easily done by the company itself and not require employment of costly specialized consultants. Also, it should be underlined that although rating agencies are entitled to their own methodologies, some level of basic, principal information sources should be determined for all market participants. Current situation, when a company might be rated totally differently by various agencies which theoretically look at the same non-financial disclosures is not only ambiguous to the third parties, but also makes it nearly impossible for companies to improve themselves when their assessments bring sometimes even contrary conclusions. This matters not only within EU, but also globally, taking into account the interest of US or Asian funds in EU companies.

10. As an institution, do you use or plan to use a portfolio alignment method in your approach to measuring and managing ESG risks? Please explain why and provide details on the methodology used.

NOT APPLICABLE

11. As an institution, do you use or plan to use a risk framework method (including climate stress testing and climate sensitivity analysis) in your approach to measuring and managing ESG risks? Please explain why and provide details on the methodology used.

NOT APPLICABLE

12. .As an institution, do you use or plan to use an exposure method in your approach to measuring and managing ESG risks? Please explain why and provide details on the methodology used.

NOT APPLICABLE

13. As an institution, do you use or plan to use any different approaches in relation to ESG risk management than the ones included in chapter 5? If yes, please provide details.

NOT APPLICABLE

14. Specifically for investment firms, do you apply other methodological approaches, or are the approaches described in this chapter applicable also for investment firms?

NOT APPLICABLE

15. Please provide your views on the extent to which smaller institutions can be vulnerable to ESG risks and on the criteria that should be used to design and implement a proportionate ESG risks management approach.

Small institutions may encounter a number of difficulties resulting from the need to take into account ESG risks in their activities. First of all, it should be emphasized that the awareness of ESG risks in smaller organizations may be lower, which means that they will not be able to perform a complete risk assessment and the impact of ESG factors on their operations. Growing regulatory requirements related to ESG may also generate additional costs for small enterprises (including the need to expand staff).

They should be encouraged to excel in ESG in any possible form, starting with education. This shall be provided by the supervisor or other regular point of contact with public bodies. Moreover, the quantitative advantages of being ESG compliant could bring the best effects for small institutions, following the example of tax exempt of donations, given the fact that reputation among investors might not be of crucial importance to small institutions and therefore give little incentive for improvement. Any contests organized by sector associations for the companies of similar size and scope of operations, promoting their ESG attitude, could also be beneficial.

Also in the environment of financial institutions there are both large entities and smaller ones (especially cooperative banks), and it is particularly important to maintain proportionality.

To keep the standards manageable for credit institutions, it is advisable to consolidate subsidiaries on a group level. This will both provide a better overall view on the institution, as well as ensuring feasibility over banking groups.

16. Through which measures could the adoption of strategic ESG risk-related objectives and/or limits be further supported?

First of all we would like to recommend the Report of European Banking Federation: “ENCOURAGING AND REWARDING SUSTAINABILITY. Accelerating sustainable finance in the banking sector”(<https://www.ebf.eu/wp-content/uploads/2019/12/ENCOURAGING-AND-REWARDING-SUSTAINABILITY-Accelerating-sustainable-finance-in-the-banking-sector.pdf>). This is a complexed document on the role of banks in achieving the sustainable development goals and on possible incentives for banks.

A recommended measure could surely be a better communication of Taxonomy application in the strategies, but meaning that it might not be the only adequate tool for strategic management. Although the Taxonomy is undoubtedly the key instruction for selecting best prospective business opportunities among the discussed sectors, it might hamper other positive developments in the traditional strategic horizon of 3-5 years. The Taxonomy addresses mostly approaches “A” and “F” from the point 164 and ignores to a great extent the transition activities. Such zero-one approach can cause some companies to resign from any strategic changes, in case they see no chance for taxonomy compliance often due to factors, which are independent from them, such as lack of eligible assets on the market of legislation, which does not promote certain solutions and poses a risk for a bank. Moreover approach presented in Taxonomy also raises many doubts among some member states. Ultimate taxonomy compliance is desired, but better effects could be reached, when the transition period would also be better translated into practical steps.

We share the concerns articulated in the GARP survey (May 2020) on the mismatch between long-term consequences of climate change (>10 years) and current risk management practices (focus on short / medium term analyses). As an organisation we would appreciate EBA guidance for the development of reliable / standardized models to underpin such long-term analyses going forward.

17. Please provide your views on the proposed ways how to integrate ESG risks into the business strategies and processes of institutions.

The ways proposed in the document are comprehensive and shall successfully lead to the ESG popularization among organizations. However, it should be underlined once again that harmonization is crucial in order to prevent greenwashing and other forms of “ESG-washing”/ “green washing”, as well as to boost comparability among organizations. Otherwise ESG management could be turned more into a marketing tool and lose its credibility. Own initiatives should be praised, but the incorporation of ESG risk-related considerations in directives and regulations, applicable to the banking sector (e.g. CRD and CRR), should be as prompt as possible, not to waste banks’ resources on the development of individual approaches, if another standard would replace them in the near term, potentially doubling the total cost of adjustment.

However, we would like to underline the need for a proportionate approach. Among financial institutions we have large globally operating institutions and small cooperative

banks, which also need to be involved in achieving the goals of sustainable development, but to a degree proportional to the scale of their activities.

18. Please provide your views on the proposed ways how to integrate ESG risks into the internal governance of institutions.

It should be promptly specified if the regulatory framework is going to determine the ESG skills and tools to be applied to the Management Boards' members and internal audit employees. In case this will remain to be the subject to organizations' own assessment, this should be clearly communicated, not to cause any uncertainty on the market. In case any standards are going to be introduced, a reasonable transition period should be allowed to train and educate the specific persons accordingly.

19. Please provide your views on the proposed ways how to integrate ESG risks into the risk management framework of institutions.

It is important to leave some flexibility in the selection of tools for assessing ESG factors and risks, in particular in the context of a currently very variable regulatory environment, often resulting from social pressure and publication by various institutions.

The selection of tools should be adapted to the risk profile and characteristics of the local portfolio. Nevertheless, the effort to standardize the approach to ESG evaluation (especially in terms of definitions), while maintaining an appropriate level of generality, will allow for greater comparability within the sector and dissemination of ESG-related topics and thus, increase awareness in this area.

It is reasonable that all portfolios and their underlying products should be assessed to identify any products that pose a higher environmental risk and therefore trigger any enhanced monitoring. Enhanced monitoring should only be required for investments that pose a higher environmental risk.

Running comprehensive ESG due diligence for every client relationship is not viable, as comprehensive data is not readily available in many sectors and sizes of business. The wording should emphasize the importance to differentiate by sector and, potentially, location, meaning to (i) develop sector-specific policies/regional approaches; (ii) engage with clients; and (iii) undertake enhanced due diligence (including escalation to committee) only for clients/transaction that have material environmental and/or climate related risk; and define exposure thresholds for the proposed risk assessment and enhanced due diligence, to limit the analysis to exposures that have some significance.

Especially SMEs and non-EU-based clients will not have disclosure requirements, making it very challenging for banks to conduct climate-related and environmental due diligence in these cases. Moreover, it remains unclear how client categories such as banks and sovereigns are to be treated.

A large problem of this is the availability of data. This fact should be reflected by the upcoming EBA guidelines.

There is no dedicated climate / environmental risk reporting in place today, but existing risk reporting does reflect some aspect of this. We are developing relevant reporting, utilising our internal risk taxonomy referred to above, for senior management. Reporting will commence in the third quarter of 2020.

Regarding 19(f), all companies are exposed to governance risks so “assets exposed to governance risks” would be equivalent to all corporate customers. Referencing our remarks on question 5, the wording should be changed to remove requirements or further clarification and adding of substance which would enable specific actions to be taken, should be added.

We agree that EBA is addressing the right issues, namely allocation of risk indicators and limits within the group and different business lines; focus of institutions on the development of risk monitoring metrics at exposure-, counterparty-, and portfolio-level, and their categorisation by their ESG characteristics; and the need for reflection of ESG factors and associated risks as relevant parameters in institutions’ credit risk analysis and in loan origination procedures. However, the details on these are too granular and prescriptive. Specifically:

- The details of paragraph 222 should allow for some flexibility in terms of aggregation levels to account for institutions’ specifics and complexity.. , The contents of paragraph 226 are too prescriptive and granular. They should allow for some flexibility to account for institutions’ and counterparties’ specifics, e.g. when analysing global corporates or banks that require a higher aggregation level in our view.
- The wording of paragraph 6.4.2 (233) needs some clarification, as there is no guidance on how this should be approached. ESG-risk can be reflected within existing models and scorecards.

The examples raised in para 238 are most likely not the most common ones. Risk drivers that are more prominent to have an impact on financial performance and as such on PD are regulatory policies, costs of transitioning for names with high transition risk etc. It should allow qualitative input, but no statistics-based input. This also applies to the methodology constraints raised in para 93. With regard to EAD and LGD, modelling such components is challenging. The loan origination guidelines only refer to climate being reflected in collateral. A direct linkage into LGD does not seem appropriate. The upcoming EBA report should contain an alignment.

With reference to paragraph 253, ESG risk will be adequately reflected in pricing via the counterparty and portfolio risk assessment, but EBA should abstain from additional charges for less sustainable activities, since

(i) institutions have a strong incentive to align portfolios to the Paris Agreement targets anyhow, whilst (ii) need to avoid unintended negative consequences for companies and sectors that face the most significant challenges to transition to a low-carbon economy.

As stated before in our response to question 12, regarding retail portfolios, the focus should be from individual client due diligence to portfolio specifics (e.g. employment sectors, collateral, product suitability) with a specific focus on mortgage valuation as the main lever for ESG relevance in retail apart from investment products. We want to emphasise the importance of aligning EU taxonomy with national building codes and certifications, which is currently lacking. Without the latter, a standardised classification for further usage in data and models across Europe and within countries will be impossible.

20. The EBA acknowledges that institutions' approaches to environmental, and particularly climate-related, risks might be more advanced compared to social and governance risks, and gives particular prominence in this report to the former type of risks. To what extent do you support this approach? Please also provide your views on any specificities associated with the management of social and governance risks.

Taking into account the standards currently used on the market, it should be noted that environmental issues are the most extensive and best described. Management of social and governance risks could be primarily based on the already existing market standards, such as GRI indicators or metrics proposed under SFDR.

21. Specifically for investment firms, what are the most relevant characteristics or particularities of business strategies, internal governance and risk management that should be taken into account for the management of the ESG risks? Please provide specific suggestions how could these be reflected.

NOT APPLICABLE

22. Please provide your views on the incorporation of ESG factors and ESG risks considerations in the business model analysis of credit institutions.

All actions taken by banks should be supported by appropriate regulations, supervisory expectations and support from public authorities. The involvement of banks in the use of public funds and programs allocated to achieving the SDGs could also be considered. Banks, as institutions of public trust, should, first of all, develop the offer of responsible financing (especially RES financing) and at the same time, support the transformation of the client in ESG direction (e.g. better margin, covenants in agreements). A bank is a "barometer of socio-economic change". Banks conduct many educational activities through corporate foundations and social campaigns, in which they take up topics related to ESG factors, e.g. social responsibility, customer financial education, the possibility of running a business online, security, and promoting eco-behaviour. Transactional systems of banks are platforms, where information is easily and quickly available to the customer (e.g. services: dedicated tax transfer, set up a trusted profile).

23. Do you agree with the need to extend the time horizon of the supervisory assessment of the business model and introduce as a new area of analysis the assessment of the long term resilience of credit institutions in accordance with relevant public policies? Please explain why.

Prolonged time horizon of supervisory assessment addresses the specifics of ESG in their long-term characteristics, but should be preceded with a macroeconomic analysis and only afterwards implemented into the assessment metrics. The intellectual exercise of ESG analysis, in the long term, should not be fully shifted to particular organizations.

24. Please provide your views on the incorporation of ESG risks considerations into the assessment of the credit institution's internal governance and wide controls.

ESG risks considerations should be analyzed from the perspective of the processes already existing in the banks, such as a variety of compliance and internal control mechanisms. Where possible, those aspects should be integrated. It would allow not only for doubling the works on similar topics, but also enhance assignment of responsibilities in the organizations. Such guidelines could be issued by the supervisory bodies, who control the already existing practices and would also benefit from the simplified structure of ESG incorporation, where possible.

25. Please provide your views on the incorporation of ESG risks considerations in the assessment of risks to capital, liquidity and funding.

The ESG risk considerations shall be incorporated into liquidity and funding risks after a comprehensive analysis is performed. Sole observation of investors turning more

attention into green bonds might not be sufficient for the full rearrangement of the liquidity risk assessment. This aspect shall not be ignored, but introduced proportionally to actual developments on the market given the relative novelty of the topic. In particular, green bonds are already accompanied by ESG or sustainability bonds, therefore the liquidity and funding risk assessment should grasp the whole picture before reforming it.

26. If not covered in your previous answers, please provide your views on whether the principle of proportionality is appropriately reflected in the discussion paper, and your suggestions in this respect keeping in mind the need to ensure consistency with a risk-based approach.

NOT APPLICABLE

27. Are there other important channels (i.e. other than the ones included in chapter 7) through which ESG risks should be incorporated in the supervisory review of credit institutions?

NOT APPLICABLE

28. As an institution, do you use or plan to use some of the indicators and metrics included in Annex 1? If yes, please describe how they are used in relation to your ESG risk management approach.

NOT APPLICABLE

29. If relevant, please elaborate on potential obstacles, including scope of applicability, granularity and data availability, associated with the indicators and metrics included in Annex 1.

NOT APPLICABLE

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