

RESPONSE TO THE EUROPEAN BANKING AUTHORITY'S CONSULTATION ON DRAFT GUIDELINES ON THE MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISKS

18 April 2024

Danmarks Nationalbank appreciates the opportunity to respond to the European Banking Authority's (EBA's) consultation on draft Guidelines on the management of Environmental, Social and Governance risks. In the questionnaire we have only answered those questions where we find that we can add value. In the following we present our response in full.

Danmarks Nationalbank finds the focus on environmental risks in the guideline with a primary focus on climate-related risks to be appropriate. As a driver of traditional types of risks, climate change and the green transition will affect the financial sector and can affect the stability of the financial system. Therefore, it is central that credit institutions identify, measure, and manage climate-related risks in line with other risks.

Danmarks Nationalbank has recommended that the Danish credit institutions include climate-related risks in their risk management and therefore welcomes a common European framework for managing climate-related risks. The suggested guidelines are comprehensive and equate climate-related risks with other types of risks in credit institutions. The proposed guidelines support that credit institutions across the EU should incorporate considerations of climate-related risks in all relevant parts of their internal processes and business.

Many credit institutions have already started to identify and address the climate-related risks, which are relevant to them. However, there is still much work to be done in managing these risks. Further, practices and expectations from the relevant authorities vary making it more difficult for credit institutions to meet these expectations – especially for credit institutions operating in several member states. With a common European

framework, equal conditions and a uniform approach across the EU are ensured.

Based on sound risk management, it is primarily up to the financial sector to finance the new investments in the green transition. Therefore, Danmarks Nationalbank agrees with the guidelines' focus on the identification and management of financial risks for each institution due to climate change and the green transition.

In accordance with the concept of double materiality, the guidelines emphasise that credit institutions in their risk management should consider both financial materiality (outside-in) and the environmental materiality (inside-out) to the extent that it involves a financial risk for the institution. Further clarification on how and to what extent the institutions' impact on environmental factors can entail a financial risk for the individual institution would be welcomed in the EBA's future work.

When a risk is identified, the regulation should contain options for it to be adequately addressed. Danmarks Nationalbank finds it appropriate that the microprudential minimum capital requirement remains risk and evidence based in accordance with the EBA's recommendations on the inclusion of climate-related risks, and that considerations about the individual institution's management of and exposure to climate-related risks are embedded in the determination of the institution-specific capital requirement and the institutions' stress test framework in accordance with the requirements in CRR3 and CRD6. Therefore, Danmarks Nationalbank looks forward to future pan-European guidance from the EBA on the inclusion of climate-related risks in the supervisory authorities' Supervisory Review and Evaluation Process and in the institutions' stress tests and scenario analyses.