Scope Ratings GmbH

Managing Directors:
Guillaume Jolivet
Matthias Böhm

Commercial Register Berlin:
HRB 192993 B

VAT ID: DE222618588

Lennéstraße 5
D-10785 Berlin

Phone: +49 30 27891-0
scoperatings.com

Berlin, 18 April 2024

The European Banking Authority

Public consultation
Online submission

Ref: EBA/CP/2024/02 - Scope Ratings' response to the European Banking Authority's public consultation on draft guidelines on the management of ESG risks

Dear Sir/Madam,

Scope Ratings welcomes the opportunity to provide comments to the European Banking Authority on the draft guidelines on management of ESG risks.

Scope Ratings welcomes the initiative to draft prudential guidelines on how institutions shall incorporate, document and communicate on ESG risks in their risk management processes. Given the absence of a generally agreed framework to cover this matter, this initiative represents a decisive step forward.

As a Credit Rating Agency with a large rating coverage of EU-based financial institutions, Scope Ratings would like to stress the importance of:

- **Enhancing public disclosures** on the matter, as part of the guidelines.
- **Adopting an all-encompassing approach** to cover all ESG factors, and expanding the analysis of ESG considerations on funding issues.
- **Reducing financial institutions' exposure to policy risks** by fostering the adoption of an international level-playing field in this area.
- **Limiting the possibility to address risk management considerations with qualitative statements only.**

A description of how these considerations relate to the specific questions raised in section 7.2 of the consultation is provided in appendix.

Scope Ratings hereby accepts that the Agency's comments may be publicly disclosed.

Yours Sincerely,

DocuSigned by:
1FC2CF09278E4BC...
Guillaume Jolivet
Managing Director

Appendix: Scope Ratings' comments in relation to the EBA's questions stated in section 7.2 of the consultation document

1. Importance of enhancing public disclosures

Comment made in relation to Question 1 (general approach), Question 14 (ESG risks in ICAAP and ILAAP), Question 15 (credit policies and procedures), Question 17 (monitoring), Question 18 (guidelines for plans).

Given the importance of long-term sustainability risks, such as risks related to climate change, Scope Ratings believes that transparency requirements and information shared in the public domain under the draft guidelines could be enhanced, in particular when it comes to assumptions (e.g. scenario-based analysis) specific risk indicators or metrics (e.g. indicators mentioned in paragraph 72 or metrics listed in paragraph 94) and how they can be articulated with non-prudential disclosures. Enhanced public disclosures would support effective oversight.

The proposed approach considers integrating ESG risk related sections into ILAAP and ICAAP reports. However, access to ILAAP and ICAAP reports are de facto restricted. There is no indication in the draft guidelines that transparency in the market would be enhanced, including with regards to plans.

Institutions could be required to publish a minimum set of key findings. The proposed risk management framework may also contribute to feed Pillar 3 disclosures on ESG risks. The EBA may consider publishing additional data in the form of regular publications (risk dashboards) or add ESG risk related sections to the existing periodic transparency exercises.

2. Importance of adopting an all-encompassing approach for ESG risk management

Comment made in relation to Question 3 (variety of factors under consideration), Question 5 (scope of the materiality assessment), and Question 16 (market, liquidity and funding, operational, reputational and concentration risks).

Given all the ongoing global initiatives, including in the EU, to refine and enhance analytical frameworks and disclosure on all ESG factors, Scope Ratings believes that a reduction of the scope of application of this prudential framework does not appear desirable.

The agency would like to highlight the need to continue to refine the approach regarding lending and other business activities but also expand the integration of ESG considerations in relation to funding issues, which could be further detailed in the guidelines (e.g. in paragraph 65), for instance by source of funding, and potentially more prescriptive (e.g. in paragraph 79).

3. Reducing financial institutions' exposure to policy risks

Comment made in relation to Question 1 (general approach), Question 4 (materiality assessment and use of the EU taxonomy as a proxy), and Question 9 (portfolio-alignment methodologies and reference to the IAE net zero scenario).

Scope Ratings acknowledges that the incorporation of ESG risks into prudential frameworks is a pioneering, critical and decisive step forward, which will materially improve risk management practices.

In the meantime, this approach also increases financial institutions’ exposure to policy risks. Policy objectives may vary over time and across jurisdictions. Fostering the adoption of an international level-playing field in this area remains highly desirable.

4. Limiting the possibility to address risk management considerations with qualitative statements only.

Comment made in relation to Question 6 (data processes), and Question 8 (exposure-based methodology).

Scope Ratings understands the need to balance quantitative and qualitative approaches for the identification and measurement of ESG risks.

In the meantime, the Agency believes that the possibility to rely on qualitative approaches to address risk management considerations could be further limited, given progress made with the identification of relevant ESG-related indicators and metrics, including for factors which are qualitative in essence, for example governance. Hence, for instance, the list provided in paragraph 23 could be amended to avoid the reference to generic statements such as ‘ii. Governance practices’, and point to more specific frameworks.