EUROPEAN CENTRAL BANK

BANKING SUPERVISION

ECB-Confidential

2022 SSM climate risk stress test – industry dialogue

FURTHER TECHNICAL RESPONSES FROM THE EURO CRO GROUP

Instructions: Please fill in the below table to provide your feedback on the methodological note and templates for the 2022 SSM climate risk stress test. For those items for which you would like to provide your feedback, please also enter the bank JST code. Use Calibri size 11, spacing 1.0 and do not change the size of the question box. Please write your comments to the point and as concise as possible.

No.	Module	Reference in methodology	Item	Bank JST code	Comment
1	Module 1	3.1.1	Blocks 1-10		Are only banking activities of conglomerates considered within the overall scope of the exercise?
2	Module 1	3.1.1	Block 11		
3	Module 2	3.2.2	Explanatory note on past actions		What should be included in the explanatory note on climate-related actions, that should be provided with climate metrics in module 2. Could it be confirmed that a set of references to banks disclosed information (i.e. Climate report) will be sufficient?
4	Module 2	3.2.2.1	Metric 1		Are tolerance buffers envisaged in the consistency checks with FINREP and COREP (e.g., 90% reconciliation or reconciliation through “other” residual bucket)? Same comment applies to Metric 2 and module 3 as well.

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					Is the data request for this template same as the one for Pillar 3 template? Are asset management fees to be included in the calculation? Is the aggregate of customer data at the country of residence level or at booking level (preferred option for simplicity reasons). Same comment applies to Metric 2 and module 3 as well.
5	Module 2	3.2.2.2	Metric 2		Banks must enter revenues from counterparties for the past 3 years (2019 to 2021). Given 2021 revenue data is not available can revenue data for 2018 to 2020 be used instead. The ECB itself acknowledges this by also offering alternative options, but this does not include an option to request 2018 to 2020. Metric 2 is at counterparty level and does not consider separately loans financing the green transition of enterprises in high GHG emission sectors, resulting in penalization of banks with such exposures. This comment is valid also for Metric 1 as well as Module 3 Transition risk for Credit Risk (green loans) and Market Risk (investment in green bonds). For green financing exposures, the ECB could consider allowing banks to provide a tag to exclude them from the metric calculation.
6	Module 3	3.3.1.1	Vulnerabilities in a disorderly transition; exposure classification and starting point values		EPC data and mapping corporate real estate, by EPC and non-EPC, will be challenging. At minimum, the use of proxies based on other available data

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					samples should be allowed. Comment also relevant for LT strategic response. The exposure classification does not consider separately loans financing the green transition of enterprises in high GHG emission sectors, resulting in penalization of banks with such exposures.
7	Module 3	3.3.1.1	Vulnerabilities in a disorderly transition; methodological approach: short term tail risk		It would be helpful to receive data on turnover evolution by sector, in addition to value added by sector, as was the case in the 2020 ACPR Exercise. Comment also relevant for LT strategic response as well as the heat and drought scenario.
8	Module 3	3.3.1.1	Vulnerabilities in a disorderly transition; expected credit loss projections and fair value revaluation calculation		We don't understand the rationale / objective of running the impact of a market stress ignoring the hedges. Trading activities only exist because these hedges are possible and does not seem very relevant to assess client deals in isolation from the hedges. In addition, it appears that derivatives should only be included in the template if they hedge equity and corporate bond holdings. It often happens that bank hold equity/credit derivatives as a result of a client-driven activity which are then delta-hedged with linear holdings (e.g. single stocks/equity or credit indexes) or with other derivatives. Need clarification on whether such exposures should be included in the exercise or not. Given the reference to the 2021 EBA stress test methodology, should the impacts of the scenario be computed using a full revaluation approach as for

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					the EBA stress test, or can banks use a sensitivity-based approach? It is not clear if for mortgages the impact should only be reflected on the LGD, or also on the PD of those mortgages. Comment also relevant for the LT strategic response. How will banks transfer sectoral disaggregation of GDPs, equity prices and real estate prices by EPC to impacts on PDs and LGDs? Can banks rely solely on macroeconomic scenarios which already embed the climate scenario? Will the ECB provide benchmarks for the exercise, similar to the ECB path generator for credit risk parameters? Comment also relevant for the LT strategic response.
9	Module 3	3.3.1.2	Long-term strategic response: exposure classification and starting point values		
10	Module 3	3.3.1.2	Long-term strategic response: methodological approach: long-term transition pathways		It would also be desirable to provide a (conservative) generic proxy/benchmark model for transition rates, lifetime loss rates, etc., so that a small bank without a waiver can make use of this. This also has the advantage that there is no great diversity between (work) assumptions between all banks, and that there is a clear mindset.
11	Module 3	3.3.1.2	Long-term strategic response: dynamic balance sheet development		Will the outputs be used to challenge bank net-zero strategies in case of dynamic balance sheet option? What dynamic balance sheet targets should banks use if no official/formal commitment has been made? Regarding dynamic balance sheet constraints, how should banks consider if "enough

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					suitable clients will potentially be available” by sector? It is unclear if the expectation for long term credit risk scenarios is to project PDs and LGDs (as the oral presentation and memo seem to suggest) or also the stock of provisions (performing and non performing) as the template could suggest.
12	Module 3	3.3.2.1	Drought and heat risk: exposure classification and starting point values		
13	Module 3	3.3.2.1	Drought and heat risk: methodological approach		
14	Module 3	3.3.2.1	Drought and heat risk: expected credit loss projections		
15	Module 3	3.3.2.2	Flood risk: exposure classification and starting point values		
16	Module 3	3.3.2.2	Flood risk: methodological approach		
17	Module 3	3.3.2.2	Expected credit loss projections		
18	Module 3	3.3.3.1	Operational risk: conduct risk and physical risk		
19	Module 3	3.3.3.2	Reputational risk		It would also be difficult to differentiate between case studies as these have interconnections and may trigger one another.
20	Module 1	Template	Tab M1_Questionnaire		
21	Module 2	Template	Tab M2_Metric 1		
22	Module 2	Template	Tab M2_Metric 2		
23	Module 3	Template	Tab M3_TR_ST_CR		
24	Module 3	Template	Tab M3_TR_ST_MR		
25	Module 3	Template	Tab M3_TR_LT_OD_CR		
26	Module 3	Template	Tab M3_TR_LT_DO_CR		
27	Module 3	Template	Tab M3_TR_LT_HH_CR		
28	Module 3	Template	Tab M3_PR_DH_CR		
29	Module 3	Template	Tab M3_PR_FL_CR		

No.	Module	Reference in methodology	Item	Bank JST code	Comment
30	Module 3	Template	Tab M3_OR		
31	Module 3	Template	Tab M3_RR		