EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Press release

2 November 2022

ECB sets deadlines for banks to deal with climate risks

- Despite improvements, banks still need to better identify and manage climate and environmental risks
- ECB sets deadlines for banks to progressively meet all supervisory expectations by end of 2024
- Good practices across banking sector show that swift progress is possible

The European Central Bank (ECB) today published the results of its thematic review, which shows that banks are still far from adequately managing climate and environmental risks. The ECB is now setting staggered deadlines for banks to progressively meet all the supervisory expectations it laid out in its Guide on climate-related and environmental risks in 2020. The ECB today also published a compendium of good practices observed in some banks, demonstrating that swift progress is possible and aiming to facilitate the improvement of practices across the sector.

The thematic review aimed to check whether banks adequately identify and manage climate risks as well as environmental risks such as biodiversity loss. It also delved into banks' risk strategies and their governance and risk management processes.

The review concluded that, even if 85% of banks now have in place at least basic practices in most areas, they are still lacking more sophisticated methodologies and granular information on climate and environmental risks. There is also supervisory concern related to the execution capabilities of most banks, where effective implementation of their practices is still lagging behind. As a result, banks continue to significantly underestimate the breadth and magnitude of such risks, and almost all banks (96%) have blind spots in identifying them.

The ECB has set institution-specific deadlines for achieving full alignment with its expectations by the end of 2024. While there can be exceptions in individual cases, the ECB has communicated its expectation to banks to reach, as a minimum, the following milestones. In a first step, the ECB expects

European Central Bank
Directorate General Communications, News Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.bankingsupervision.europa.eu

banks to adequately categorise climate and environmental risks and to conduct a full assessment of their impact on the banks' activities by March 2023 at the latest.

In a second step, and at the latest by the end of 2023, the ECB expects banks to include climate and environmental risks in their governance, strategy and risk management. Some banks have already started to plan for the transition to a low-carbon economy and to engage with their clients. However, a wait-and-see approach still prevails in most banks. For example, banks do not set interim targets or limits to their risk-taking with a view to fulfilling their long-term strategic commitments, or set them in such a way that the immediate impact on the bank's business is negligible.

In a final step, by the end of 2024 banks are expected to meet all remaining supervisory expectations on climate and environmental risks outlined in 2020, including full integration in the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing.

The deadlines will be closely monitored and, if necessary, enforcement action will be taken. Supervisors are already including bank-specific climate and environmental findings in the Supervisory Review and Evaluation Process (SREP). The ECB imposed binding qualitative requirements on more than 30 banks in its annual SREP. Moreover, for a small number of banks, the outcome of the 2022 supervisory exercises on climate and environmental risks had an impact on their SREP scores. These, in turn, impact their Pillar 2 capital requirements.

For media queries, please contact Simon Spornberger, tel.: +49 69 1344 17711 or Belén Perez Esteve, tel.: +49 69 1344 6215.

Notes

- The thematic review of banks' strategies and governance and risk management frameworks covered 107 significant banks under the direct supervision of the ECB and 79 less significant banks supervised by their national authorities.
- The ECB conducted this thematic review alongside its supervisory stress test on climate-related risks. In addition, a targeted review of commercial real estate drilled down into climate-related risks in commercial real estate portfolios. In 2022 the ECB also checked banks' management of climate-related and environmental risks through on-site inspections. It also completed a gap analysis of banks' disclosures of climate-related and environmental risks.

European Central Bank
Directorate General Communications, News Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.bankingsupervision.europa.eu