Basel Committee on Banking Supervision Consultation on Principles for the effective management and supervision of climate-related financial risks

Position paper – Executive summary

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The Basel Committee on Banking Supervision has published a public consultation on principles for the effective management and supervision of climate-related financial risks. The document forms part of the Committee's holistic approach to address climate-related financial risks to the global banking system and aims to promote a principles-based approach to improving both banks' risk management and supervisors' practices in this area.

ESG RISKS ARE DRIVERS OF EXISTING RISK TYPES

ESG risks should not be treated as a separate risk category but as a driving factor that impacts well-known risk types, such as credit, market and operational risk. They should rather be included in banks' risk management frameworks and taken into consideration when assessing other risk types.

RISK ASSESSMENT TIME-HORIZONS

Different risk assessment horizons are required for different risk categories. Time-horizons of 1 to a maximum of 3 or 5 years are adequate for the existing risk types; however, a longer time horizon would not be relevant and necessary. Thus, risk assessment time horizons should not be extended only due to the impact of climate risks to the existing risk types.

NEED OF INCREASED COMPETENCE AND RESOURCES

Integrating climate risk management in a holistic manner across all bank activities creates the need for building competence in this area and an increased need for resources. Although the Basel-standards are meant for large internationally active banks, Basel standards are usually made applicable for all banks when implemented in the EU/EEA. Smaller banks do not have available the same resources as the larger banks and there is hence a need for standardization and simplification for the smaller banks.

DATA AVAILABILITY

Banks need to have an overview of the information available internally and the missing information that must be collected from clients or third parties. Therefore, banks must be given time to build experience and increase data quantity and quality to be able to use them in the management of climate-related risks.

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Your contact: Myrto Pargana – myrto.pargana@wsbi-esbg.org