

per e-mail

**To:**

**Mr. Andrea Enria and Mr. Stefan Walter**  
Chair of the Supervisory Board and Director  
General  
**European Central Bank**  
Sonnemannstrasse 20  
Frankfurt am Main

June 25<sup>th</sup>, 2021

### **2022 SSM climate risk stress test – industry dialogue**

Dear Mr. Enria and Mr. Walter,

The EURO CRO Group is very thankful for your swift and constructive response to our concerns regarding the planned climate risk stress test. We appreciate very much the clarifications regarding the capital implications and disclosure you already made on this important exercise.

We are also very thankful for the additional two weeks time to review Module 3 (bottom-up stress test), which is challenging from methodology and data perspective. We have compiled a set of further technical questions from the twelve EURO Group banks. We hope the ECB can consider these in the continued development of the methodology. They are attached to this letter in the template provided by the ECB.

In addition, three additional conceptual questions on the purpose and process remain within the EURO Group, on which we would appreciate further clarification.

First, it would be useful to further clarify the relationship between the exercise and SREP and bank-level assessment for 2022 and beyond. For next year, it would be helpful to outline how indirect impacts may be considered in the SREP cycle 2022 via scores, as noted in your response letter. Going forward, will the exercise be recurrent and embedded in the 'traditional' stress test or always be separate? Would that mean quantitative integration to the SREP? And if so, how will the 30-year time horizon will be reflected in the 1-year SREP time horizon? Responding to these questions will help banks to understand better the progressive development of the ECB's climate change scenario analysis, including how results may be used to assess the reasonability of banks' long-term strategic targets and objectives, for example, in terms of net zero GHG emissions commitments. This is important given the numerous assumptions underlying long-term GHG emissions reduction projections, for example on industry trajectories, that are external to banks' own actions.

Second, the different modules of the exercise could be phased in time, providing a more sequential process for banks' submissions similar to the ECB's 2021 self-assessment. Communication of methodology updates based on industry's feedback prior to the year-end 2021 would also be helpful, as part of that phasing, to allow banks to better prepare and deliver on the exercise. In the same track, as not all banks will be requested to produce Module 3 data and projections, it would be useful for

resource planning to know as soon as possible and at the latest by end of August regarding the ECB's selection criteria for selecting banks to be included. Timing of the exercise overall should also account better for the expected disclosures of corporate counterparties on their GHG emissions. Currently, the timelines are based on FINREP and COREP publications, but corporate annual sustainability reports are usually published later than in the fourth quarter.

Finally, in disclosing the aggregate results of the exercise it would be important to differentiate between 'stress testing' and 'scenario analysis', as the latter is obviously less certain. That phrasing would be better aligned with the expected outcomes, as some components on e.g. dynamic balance sheet forecasting and reputational risks will be necessarily quite speculative.

We hope you will find these comments useful. We consider these open and constructive exchanges with the ECB extremely useful and stand ready to continue to contribute from the EURO Group to make this exercise a successful step towards developing robust data and methodologies to address climate risks. The paramount importance of making progress in this field is fully shared.

Should you wish so, we could have further exchanges on this topic in preparation of the next years exercise as the methodology will be finalized by the ECB team.

Yours sincerely,



on behalf of the EURO CRO Group

Appendix Further technical responses from the EURO CRO Group