

EBA Discussion Paper on management and supervision of ESG risks for credit institutions and investment firms

The European Banking Authority (EBA) is seeking responses to its [Discussion Paper EBA/DP/2020/03](#) (the Discussion Paper).

The European Banking Authority (EBA) is seeking responses to its Discussion Paper EBA/DP/2020/03 (the Discussion Paper). The Discussion Paper focuses on the management and supervision of ESG risks for credit institutions and investment firms. Interested parties have until 3 February 2021 to submit their comments.

CRDV and the [Investment Firms Directive](#) (IFD) requires the EBA to assess the potential inclusion of [environmental, social and governance](#) (ESG) risks in national regulators' own review and evaluation of credit institutions and investment firms. The EBA is also required to prepare a report on ESG risks for those financial institutions.

The EBA has therefore prepared this Discussion Paper, to present for industry and market consultation, its understanding on the relevance of the ESG risks for the sound functioning of the financial sector. The EBA expects to deliver its post-consultation findings in June 2021 and then follow up with its final report by 26 December 2021.

Summary of the Discussion Paper

The Discussion Paper focuses on four areas:

- the common definition of ESG factors, ESG risks and their transmission channels
- the quantitative and qualitative indicators, metrics and methods used to assess ESG risk
- the management of ESG risks by institutions
- ESG factors and ESG risks in supervision.

The Annex to the Discussion Paper also provides a useful non-exhaustive list of ESG factors, indicators and metrics.

The Discussion Paper identifies three different approaches to assessing ESG risks:

- portfolio alignment method
- risk framework method
- exposure method.

All three essentially have the same objective to assess the alignment of institutions' portfolios with global sustainability goals and offer insights into the risk caused by exposures to certain sectors.

The Discussion Paper also highlights the importance of gradually incorporating ESG risks into institutions' business strategies as a progressive risk management tool. In doing so the Discussion Paper acknowledges the growing demand for action against the threat of climate change.

Next steps

The Discussion Paper takes into account previous studies and work done in this area by other financial market players. Feedback received will inform the EBA's final report. The report also forms part of the EBA's Action Plan on Sustainable Finance and will likely lead to legislative changes with EBA Guidelines and standards to follow.

Investment firms will be conscious of the social and legislative emphasis on ESG risk management, which is becoming a significant regulatory issue and may wish to contribute to the Discussion Paper.

Our dedicated [IFD/IFR webpage](#) hosts additional information and guidance on the implementation of the new prudential framework for investment firms.

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