ECO-LAGARDE ON THE LOOK

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On July 31, the European Banking Authority (EBA) will publish the results of the stress test to which the banking sector is subjected on a biannual basis. The stress test consists of simulating different adverse economic scenarios to quantify how these hypothetical conditions would affect a bank. This year we will not see scenarios in which environmental and climate change risks are considered, although it is already beginning to be mentioned [its incorporation] in the stress test to be carried out in 2022.

Moodys published, along the same lines, [a report] at the beginning of March where he collected the results obtained from a survey carried out on 28 listed banks that add up to 41.6 trillion euros in assets. The report reveals that **only 32% of banks provide information on how an adverse climate change scenario would affect their activity**, despite the fact that the Financial Stability Board (FSB for its acronym in English) launched the recommendation three years ago. The positive part of the results is that **86% of those surveyed have committed to publishing (it is understood that in the short/medium term) their exposures related to climate change.**

The Moodys report also shows that banks comply with their environmental commitments in terms of their activity with third parties: *"Most of the banks analyzed integrate considerations environmental factors in their risk assessment frameworks and 79% have implemented exclusion policies for the financing of companies intensive in polluting emissions that pose a high risk to the climate transition"*

As for his own activity, on the other hand, he is orphaned and the performances are far from being desired. According to Moodys: *"less than a third of banks have provided a description of the methodology used to monitor climate risk and less than half of the surveyed has revealed the methodology used to carry out the exercises of stress in the face of climate risk."*

Not much proactivity has been observed from financial entities in developing reporting mechanisms that monitor and control the financial impacts derived from climate change. Allusion is made to the complexity of the calculations that would have to be made and the remoteness of the time horizon in which the negative effects would materialize.

Until now, this process of climate transparency seemed that it was not going to happen, at least in the short term, due to an increase in regulatory demands. But the arrival of **Christine Lagarde** to the presidency of the European Central Bank revived hope when **she pronounced at the end of last year on the need for risk assessment models to capture the risk of change climate**. It is not known if this idea is supported unanimously by the rest of the governors. Even so, the **growing requests from the market for greater transparency** in the estimation of the financial impacts derived from climate change **give some light to the fact that the process towards climate transparency is finally culminating.**

The environmental fence looms over the banks that see how the different stakeholders request a transparency for which they are not prepared today. Environmental awareness continues to grow at all levels of society and it seems that banks are trying to procrastinate a process that sooner or later will be inevitable if they do not want to be penalized, be it by the regulator, the market or society.

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There are no comments yet.