Pills
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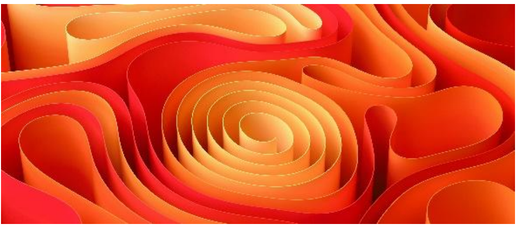

TOPICS:
ESG risk

SOURCE
European Central Bank

ECB: From Charting the Course to Staying the Course - the Path Ahead for Climate and Nature Risk Supervision

- In this keynote speech, ECB Executive Board Member Frank Elderson outlines the ECB's evolving supervisory approach to **climate and nature-related** (C&N) **risks**. Delivered at an industry dialogue, the speech reflects on **progress made** since 2019 and reaffirms the ECB's commitment to embedding C&N risks into prudential supervision.
- Elderson emphasises that **European banks have made substantial progress in integrating C&N risks into governance, risk management, and stress testing frameworks**. Many banks now recognise C&N risks as financially material, with defined risk indicators and capital quantification frameworks in place. **However, inconsistencies remain** in the application of sound practices across portfolios, risk categories, and geographies.
- The ECB's **supervisory strategy** is transitioning from a foundational to a business-as-usual phase. Joint Supervisory Teams will incorporate C&N risks into routine supervisory activities, including on-site inspections and stress tests. Banks are expected to make continuous, self-sustained improvements, especially in under-addressed areas such as physical risks in mortgage portfolios and nature-related risk quantification.
- **Data availability remains a significant challenge**. The ECB warns that excluding firms from the Corporate Sustainability Reporting Directive (CSRD) could limit access to essential, comparable sustainability data. This may hinder effective risk management and transition planning.
- Looking ahead, **the ECB plans a gradual implementation of prudential transition planning requirements** in line with upcoming EBA ESG guidelines, effective from 2026. Additionally, the ECB will expand its repository of good practices to help banks strengthen C&N risk management without creating new obligations.