

European regulator urges banks to evaluate climate risks

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The European Banking Authority called Wednesday upon banks to better take into account climate-related risks when setting their business goals and strategies.

The EBA, which is responsible for setting the rules for regulating and supervising [banks](#) in EU countries, issued a report on environmental, social and governance (ESG) risks.

ESG criteria are used to measure the impact and sustainability of

companies and a growing number of investors are requiring commitments.

In its report, the EBA said both regulators and [financial institutions](#) need to explicitly take into consideration ESG risks.

"The management of ESG risks by institutions, in addition to the incorporation of ESG risks in supervision should, in an initial stage, give particular prominence to climate-related and broader [environmental risks](#)," said the EBA.

It urged financial institutions to incorporate ESG risks when setting business strategies, and to extend the time horizon for [strategic planning](#) to 10 years and test the resilience of strategies to different scenarios.

The EBA also urged banks to set and disclose their ESG risk-related strategic objectives, including any related performance indicators.

The authority called on banking regulators in EU countries to look at ESG risks when they assess the business models of banks, and urged them to extend the time horizon for review to 10 years.

The EBA carries out annual "stress tests" of European banks to evaluate whether they would be able to withstand adverse events.

Last month it released the results of a pilot review of the climate risks of banks, which found the need for a harmonised approach and common metrics to address and mitigate potential disruptive impacts upon lenders from environmental risks.

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