vestedImpact

Circular CSSF 21/773

On the Management of Climate-related and Environmental Risks

Vested Impact Data & Analytics mapping of assessment methodology and data

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V1.2

Contents

Introduction

The Circular CSSF 21/773 was introduced by the Commission de Surveillance du Secteur Financier (CSSF) to raise credit institutions' awareness on the need to consider and assess climate-related and environmental risks and to increase awareness of members of the management body and institutions' staff about these risks.

The following document shows the Vested Impact data that is aligned to the various CSSF 21/773 requirements, and the calculation methodologies used to generate the reporting values, accessible through Vested Impact's API or exports.

Physical risk refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water and land pollution, water stress, biodiversity loss and deforestation. Physical risk is categorised as "acute" when it arises from extreme events, such as droughts, floods and storms, or "chronic" when it arises from progressive shifts, such as increasing temperatures, sea-level rises, water stress, biodiversity loss and resource scarcity. It may directly result in, for example, damage to property or reduced productivity, or indirectly lead to subsequent events, such as the disruption of supply chains.

Transition risk refers to an Institution's financial loss that may result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. It could be triggered, for example, by a relatively abrupt adoption of stricter climate and environmental policies, technological progress or changes in market sentiment and preferences.

22. In their **credit risk management**, Institutions are expected to consider climate-related and environmental risks at all stages of the credit-granting process and to monitor the related risks in their portfolios.

23. In their **operational risk management**, Institutions are expected to consider how climate-related events could have an adverse impact on business continuity and the extent to which the nature of Institutions' activities could increase reputational and/or liability risks.

24. In their **market risk management**, Institutions are encouraged to monitor on an ongoing basis the effect of climate-related and environmental factors on their current market risk positions and to evaluate potential investments in respect of these risks.

25. Institutions with material climate-related and environmental risks are expected to assess whether those risks could cause net cash outflows or depletion of liquidity buffers and, if so, incorporate these factors into their **liquidity risk management**.

Circular CSSF 21/773 Key Requirements & Calculations

Requirement	Statement of alignment and Vested Impact data items used (if data not from company information)
12. The CSSF expects Institutions to regularly assess the materiality and relevance of climate-related and environmental risks for the Institution in the short, medium and long term, covering more than five years.	Vested Impact allows for year-on-year monitoring and assessment, and assesses the short/medium/long term time horizon associated with the realisation of each impact and defines the time horizons with the EU CSRD and EBA definitions.
13. Institutions shall identify their exposure to climate-related and environmental risks drivers, considering risk concentration by sector, geographies, products and services, as relevant, and using a forward-looking perspective taking into account their business model	Vested Impact classifies activities as Physical or Transition risks as per the EU Taxonomy classification.
19. Institutions are expected to incorporate climate-related and environmental risks as drivers of existing risk categories into their risk management framework, with a view to managing and monitoring these over a sufficiently long-term horizon, and to review their management and monitoring arrangements on a regular basis. 20. Institutions are expected to identify and quantify these risks within their overall process of ensuring capital and liquidity adequacy. The risk identification shall be documented in writing by the Institutions. A high-level summary of this risk identification shall be provided in the ICAAP and ILAAP reports issued each year.	
21. Institutions are expected to understand the ways in which material climate-related and environmental risks affect the different regulatory risk categories, including credit, operational, market and liquidity risks.	