

De Nederlandsche Bank
Spaklerweg 4
1096 BA Amsterdam
VIA E-MAIL: consultatie@DNB.nl

Date: 25 March 2025
Subject: **Consultatie geactualiseerde Gids beheersing van klimaat en milieurisico's**

Dear Sir, Madam,

The Dutch Association of Proprietary Traders (APT) appreciates the opportunity to provide comments on the consultation of the updated February 2025 [Gids beheersing klimaat- en milieurisico's](#) ("the Gids").

APT represents 22 independent proprietary trading firms based in the Netherlands, trading professionally in financial instruments for own account and risk, contributing to price discovery and providing continuous liquidity on centrally cleared exchanges and trading platforms, hereby improving market efficiency, stability and transparency. This is often done in the capacity of designated *market maker*, to the benefit of all market participants, retail and institutional investors alike.

Principle of proportionality; further development of framework needed

We understand and welcome that DNB approves of proportional application in relation to the specific risk profile of proprietary trading firms set out below. Next to some larger members, there are also many mid-sized and smaller trading firms trading for their own account and risk where a less granular approach is warranted. We would welcome that the possibility of proportional application is explicitly incorporated in the text of the Gids, as was the case in the March 2023 version of the Gids (page 6).

We also welcome that it is acknowledged that the framework around environmental risks needs to be further developed. Prudential requirements should accurately reflect the risk profiles of exposures and support institutions' resilience to such risks. Areas where we see a particular need for further development are in the establishment of a sound, standardised ESG classification where derivatives are taken into account appropriately as they play a crucial role in risk transfer.

General comments on Risk Profile of proprietary traders

Proprietary trading firms/market makers facilitate the trading interest of other participants wishing to invest or divest. Market makers facilitate both sides (buy/sell) and do not necessarily take an underlying directional view of the market. This activity is often referred to as liquidity provision and facilitates the transfer of risk. Providing liquidity leads to positions (typically held for short periods, not for investment purposes) and since market makers do not necessarily take a directional view, the resulting positional risk is hedged. As such, proprietary trading firms tend to be market risk neutral. Thus, they have very limited environment and climate risk exposure at a portfolio level, if any at all.

The nature of liquidity provision with short holding period for positions, the hedging of directional position risk and access to multiple trading platforms and exchanges leads to an ideal position for proprietary firms/market-makers to trade in and out of positions rapidly in normal and volatile market circumstances. This differs significantly from banks, asset managers, pension funds or insurance companies who invest for the medium/longer term, for themselves or for their clients.

For example, a retail investor buys a share of Shell on the exchange. The seller is a proprietary trading firm X. Subsequently, X buys a related future or option to offset the market risk in case the price of Shell starts to move. This will make sure a gain or loss on a share price move is offset with an equal but opposite gain or loss on the derivative position. Where an exact hedge is not possible, proprietary trading firms have access to various exchanges and trading platforms such that they can offset the risk in highly correlated instruments. In this example, environmental risks contained in the instrument will be cancelled out by an opposing derivative position.

Relevant environmental risks for proprietary trading firms

The Gids provides a helpful framework to assess whether climate and environmental risks are prevalent and exposing/transmitted to the proprietary trading firm. Following such analysis, firms can establish whether these risks are sufficiently mitigated otherwise, and if not, whether these are sufficiently covered by existing Pillar 1 requirements. If uncovered material residual ESG-risks remain, firms can assess how these may be quantified using the framework in the Gids.

For many proprietary trading firms, material climate and environmental risks (beyond common market risk or operational risk) may not arise. In that case, we believe a proper analysis should suffice, without the need for elaborate quantitative data or extensive scenario analyses. We appreciate that in such case DNB deems an analysis sufficient to explain why these factors do not affect the company's risk profile. We would appreciate that this is explicitly incorporated in the text of the Gids again (cf. page 34 of the March 2023 version of the Gids: *“Indien klimaatgerelateerde en milieurisico’s niet als materieel worden gezien, volstaat een analyse waarin is opgenomen waarom deze factoren geen invloed hebben op het risicoprofiel van de onderneming.”*).

Such analysis could include

1. identifying possible acute and or/chronic physical risks and transition risks in line with the Gids;
2. identifying transmission channels that transfer ESG-risks to the business, such as loss of asset value, volatile commodity prices, disrupted production processes and value chains and stranded assets;
3. identifying market risk, liquidity risk, interest rate risk, operational risk, strategic/business model risk, credit risk, insurance technical risk and second-order effects;
4. identifying whether these risks are sufficiently mitigated;
5. if not, identifying whether existing prudential requirements adequately cover these risks (e.g. the market risk and operational risk frameworks in IFR); and
6. if not, how to quantify whether and to what extent material, residual ESG-specific risks remain and how these should be managed or capitalized over a <10 and >10 years period. e.g. by using an exposure, concentration, scenario and/or sensitivity analysis, portfolio alignment and third-party data/scores. This may, in some cases, lead to a Pillar 2 addition for ESG-risks not covered otherwise.

In addition to the assessment set out above, a few good practices for proprietary trading firms with respect to environmental risk are worked out further in the final section of this letter.

Less relevant environmental risks and good practices for proprietary trading firms

Proprietary traders do not offer portfolio management services for clients, so testing the suitability of products or investment is not pertinent; due diligence and concentration limits and assets exclusion policy and dialogue with individual issuers is not relevant for proprietary traders.

Given the lack of clients and lack of product offering, reputational risk, e.g. relating to “greenwashing” or funding ESG-sensitive assets, is very remote. This also minimizes liability claims and legal fees. Given the risk profile of proprietary traders, evaluating the portfolio of a proprietary trader from an environmental perspective at a single point in time does not make much sense as positions change materially from day to day and positions are not held for investment purposes over a long period.

We would also caution against labelling TCFD reporting a best practice for climate reporting in the EU for proprietary traders. Whilst the TCFD disclosure standards are an industry standard for client businesses, the EU is developing bespoke reporting standards linked to the CSRD under the auspices of EFRAG. These standards should form the benchmark for climate related (non) financial disclosures to avoid duplicative reporting requirements.

Many environmental risks related to the traded instruments will only fully materialise over a relatively long time-horizon, spanning several years/decades. Exposure to such climate risks is therefore nearly non-existent for proprietary traders.

Comments on the Good Practices for investments firms

Because of the risk profile described above, many of the Good Practices mentioned in the Gids are not relevant. In our view, the following Good Practices would be relevant for proprietary traders/market makers that are affected by material residual ESG related risks:

Good Practice #1: Market Risk

The existing market risk framework of proprietary traders should be evaluated if it adequately captures physical and transition risks. Practically this means evaluating which commodities/equity/ETF/indices are most subject to physical and transition risk. Subsequently, the impact of transition and physical risks materializing on these commodities/equities/ETFs should be estimated in terms of potential underlying moves (market risk). Finally, it should be assessed if these impacts (i.e. the potential underlying moves) are covered by the market risk framework. It is important not to double count. If the market risk framework already covers the underlying moves one can expect due to transition and physical risks, there is no need to take additional steps and the framework can be considered adequate. If the market risk framework does not cover the underlying moves one can expect due to transition and physical risks, then there is a need to evaluate the adequacy of the market risk framework for environmental risks.

Good Practice #2: Operational Risk

Under MiFID RTS6 and prudential rules proprietary traders have an obligation to operate a redundant operations infrastructure. This already covers acute climate risks pertaining to the infrastructure, such as flooding of datacentres and/or premises. If necessary, proprietary trading firms should further evaluate their dependency on data centers and co-locations. A scenario whereby a core data center is abruptly unavailable due to the materialization of a physical climate risk (flooding/electricity blackout) could be used. For such a scenario it makes sense to define a risk appetite. This risk appetite should reflect the desire for a redundant set-up and the maximum allowed downtime and costs involved.

Outcomes should be embedded in the firms business continuity planning and disaster recovery planning. Firms should also assess their energy dependency in the changing market circumstances

We are happy to provide you with further information with respect to these comments and answer any questions you might have in more detail. We would also appreciate to discuss this in more detail with you during an in-person meeting.

Best regards,

Matthijs Pars,
Director APT