Zeist, 25 March 2025

Subject: WWF-NL response to Consultation updated DNB Guide for climate and environmental risk management

Our reference: 2503-01

The World Wildlife Fund (WWF-NL) would like to take the opportunity to respond to the consultation on DNB's updated Guide for Managing Climate and Environmental Risks. We appreciate your consideration of our response in your further decision-making around the final Guide.

We are pleased to see that the Guide includes more good practices that also cover nature-related risks, in addition to climate risks. We welcome the alignment with the conceptual framework of the Network for Greening the Financial System (NGFS), the references to the Taskforce on Nature-related Financial Disclosures (TNFD) and the fact that the Guide emphasizes that external and non-prudential regulation can affect the risk management of financial institutions. Finally, we are glad to see that management of social risks is also explicitly included.

Specifically, we would like to share our reflections and suggestions on the parts of the Guide that address nature-related risks. We have clustered this into a number of topics below.

Materiality analysis (p. 13)

The combination of a quantitative and a qualitative approach in determining materiality, using different time horizons, is positive. The same applies to the requirement for substantiation if nature-related risks are considered non-material. In terms of the recommendations in box 3, we would make the following additions:

- apply margins of conservatism (inspired by the ECB banks' internal ratings guidelines) and monitor and report the assumptions in the analysis (example: FINMA)
- importance of including and analyzing sources of concentration risk that may be, for example, sector-specific or ecosystem/location-specific

The Guide clearly identifies double materiality, but then focuses mainly on financial risks. Double materiality is only elaborated in relation to reporting and in some good practices. We strongly advocate to emphasise that a double materiality view is essential for holistic risk management purposes, that it should be fully embedded into nature-related risk management and to highlight in the best practice examples whenever institutions proactively assessed their impact on nature.

Data availability (p. 13)

We support the guideline in the guide that when quantitative data is unavailable or insufficient, qualitative indicators based on expert judgement can be used. For each risk indicator, analyses of probability and impact can be made, which can be used to assess whether the identified risk level falls within the risk tolerance and therefore within the risk appetite. It could be clarified in the text that financial institutions should adopt a precautionary approach when determining whether a certain risk falls within risk tolerance thresholds or not. Also, in the definition of whether a certain risk is tolerable or not we should err on the side of caution. Such decisions should be rooted in the assessment and any additional expert judgement needed. See also the margin of conservatism mentioned above.

Remuneration policy for nature-related risks (p. 16)

Although the inclusion of nature-related risks is mentioned in the remuneration policy, unfortunately, this does not seem to be made a requirement. Accountability at relevant levels of the organization is key to ensure incentive alignment for the proper governance of nature-related risk management. Without this incentive alignment, the assessment and management of nature-related risk risks falling through the cracks and will not be addressed as seriously as other more traditional risk drivers.

Risk tolerances (p. 18 and 19)

According to the Guide, financial institutions should set a risk tolerance for each risk, which has the effect of requiring them to mitigate only the risks that fall outside this. However, some nature-related risks may be linked to highly sensitive areas where irreversible 'tipping points' apply. In such cases, there should be no tolerance at all, as degradation of these vulnerable areas can lead to systemic risks once the tipping points occur.[1]

Frequency of monitoring (p. 19)

Regular monitoring of risks is recommended, but the Guide does not contain any specific requirement regarding the frequency of such monitoring.

Scenario development (p. 18, 33 and on, 59, 86)

The sections on scenario development focus on the NGFS methodology, which does not account for tipping points and short-term risks. These sections should be expanded to include these.[1] Nor does the

[1] See e.g. https://greenfuturessolutions.com/wp-content/uploads/2023/09/No-Time-To-Lose-New-Scenario-Narratives-for-Action-on-Climate-Change-Full-Report.pdf and https://www.ucl.ac.uk/bartlett/public-purpose/publications/2024/oct/financial-interactions-ecosystem-tipping-points

guide specifically discuss scenarios for nature. We would recommend to include nature related scenarios, even if they are qualitative, as we recognize that quantitative scenarios are still a challenge.

Transition plans and voluntary commitments (p. 21)

The Guide clearly states that DNB does not supervise voluntary commitments and transition plans. We would recommend better alignment with developments in the banking sector on this point. Transition plans are only mentioned as good practice. We recognize that credible (nature) transition plans are essential for credible risk management. We would also suggest including a separate good practice on nature transition planning, in line with global and local market developments, like the group of Dutch financial institutions piloting the TNFD transition plan guidance as part of the TNFD NL Working Group.