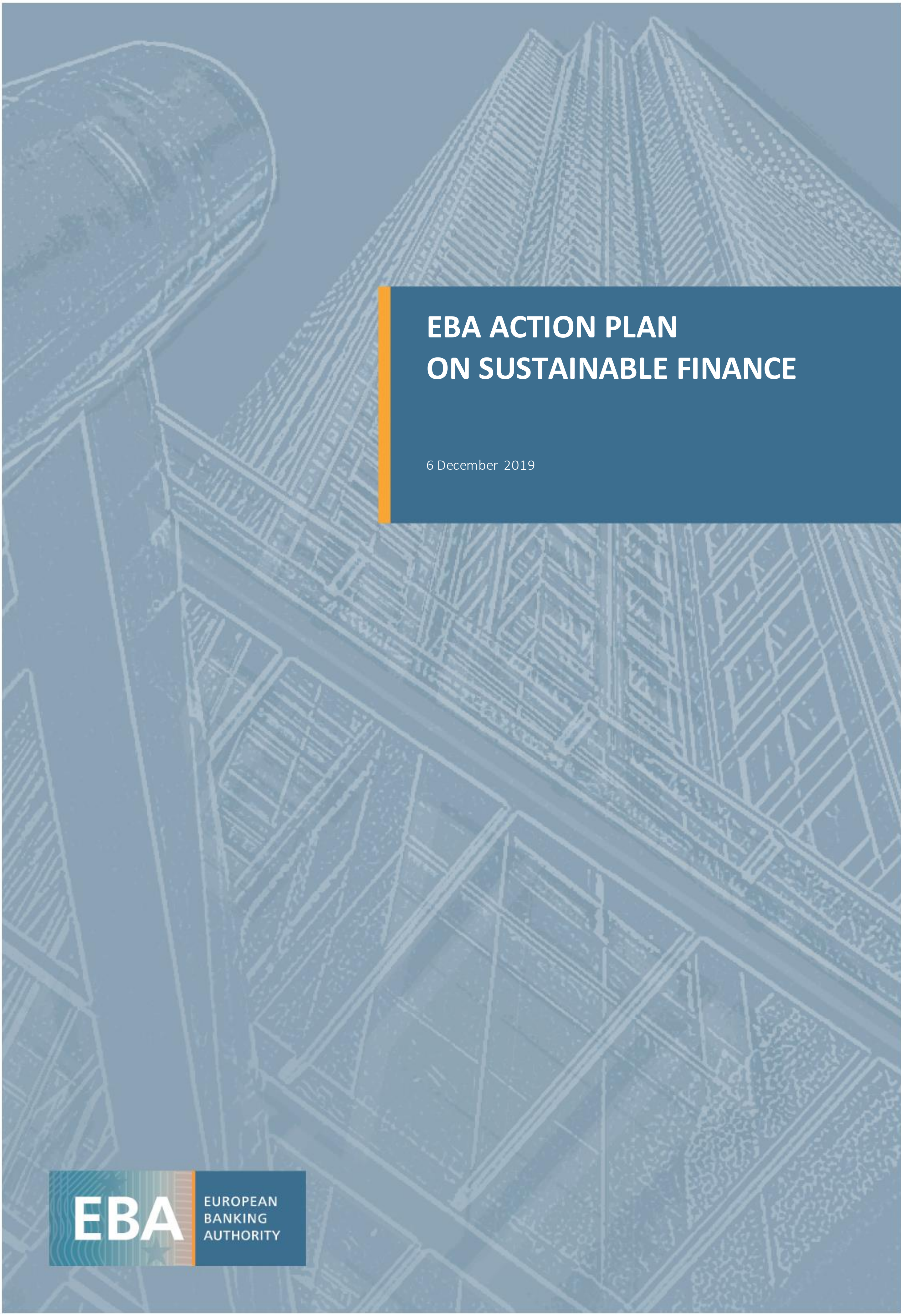


# EBA ACTION PLAN ON SUSTAINABLE FINANCE

6 December 2019

EBA
EUROPEAN
BANKING
AUTHORITY

# Contents

# 1. About this action plan

1. The objective of this action plan is to outline the EBA's plans on deliverables and activities related to environmental, social, and governance (ESG) factors and ESG risks. The action plan explains the phased approach and associated time-lines for the reports, advices, guidelines and technical standards mandated to the EBA.

2. The action plan also highlights some key policy messages on the topic of sustainable finance to provide some clarity to relevant financial institutions on the EBA's high-level policy direction and expectations about ESG risks. These expectations emphasise three areas where institutions are encouraged to consider taking steps, (strategy and risk management, disclosure, and scenario analysis), before the EU legal framework is formally updated and the EBA regulatory mandates delivered. They have been agreed by the EBA Board of Supervisors and will serve as the basis for the EBA's work.

3. The mandates given to EBA cover ESG related factors and ESG risks. In the initial phase of work of the EBA, risks stemming from environmental factors and especially climate change will be more specifically analysed, in order to account for their materiality and other ongoing initiatives.

# 2. Background

4. Many governments around the world adopted the Paris Agreement on climate change and the UN 2030 Agenda for Sustainable Development in 2015, aiming to find a more sustainable path for our planet and our economy. In the EU context, following the Report of the European Commission's High-Level Expert Group on Sustainable Finance[1] published in January 2018, the European Commission published an Action Plan: Financing Sustainable Growth[2] on 8 March 2018 setting an EU strategy on sustainable finance and a roadmap for future work across the financial system.

5. 'Sustainable finance' can be broadly understood as financing and related institutional and market arrangements that contribute to the achievement of strong, sustainable, balanced and inclusive growth, through supporting directly and indirectly the framework of the Sustainable Development Goals[3]. As included in the European Commission's Action Plan, 'sustainable finance' also refers to the process of taking due account of environmental and social considerations in investment decision-making, leading to increased investments in longer-term and sustainable activities. 'Environmental considerations' refer to climate change mitigation and adaptation, as well as the environment more broadly and related risks (e.g. natural disasters). 'Social considerations' may refer to issues of inequality, inclusiveness, labor relations, investment in human capital and communities. Environmental and social considerations are often intertwined, as especially climate change can exacerbate existing systems of inequality. The governance of public and private institutions, including management structures, employee relations and executive remuneration, plays a fundamental role in ensuring the inclusion of social and environmental considerations in the decision-making process.

6. Climate change and the response to it by the public sector and society in general have led to the identification of new sources of financial risk to which the regulatory and supervisory community is paying increased attention. Notably, climate change gives rise to both transition risk and physical risk. Transition risk in particular is directly correlated with policy choices by governments and the expectations of key stakeholders, notably shareholders and customers. Physical impacts of climate change may also affect the financial performance of companies and of institutions' assets. Legal risks for those deemed responsible for climate change and potentially their financiers may arise. In this context, both public sector policy choices and the expectations of stakeholders are likely to change over time. This makes it essential that financial institutions be able to measure and monitor their exposures in order to deal with transition and physical risks and understand how they can be affected by changes in societal expectations.

[1] https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en

[2] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52018DC0097&from=EN

[3] http://www.g20.utoronto.ca/2018/g20_sustainable_finance_synthesis_report.pdf

7. The Commission's Action Plan on sustainable finance is part of broader efforts to connect finance with the specific needs of the European and global economy related to sustainable development, and has three main objectives:

    - reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth;
    - manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and
    - foster transparency and long-termism in financial and economic activity.

8. In the short term, the Comission's Action Plan calls on the ESAs to provide direct support to its implementation by performing specific tasks. Notably, the ESAs should provide guidance on how sustainability considerations can be effectively taken into account in relevant EU financial services legislation and help to identify existing gaps. They should also promote convergence on the implementation of sustainability considerations in EU law.

9. In addition, the ESAs' founding regulations were amended accordingly. The ESAs are also entrusted with specific mandates in sectoral legislation and with calls for advice.

# 3. Overview of EBA mandates on sustainable finance

10. The EBA's remit and mandates on ESG factors and ESG risks are set out in the following legislative acts:

- amended EBA Regulation
- revised Capital Requirements Regulation (CRR 2) and Capital Requirements Directive (CRD 5)[4]
- new Investment Firms Regulation (IFR) and Investment Firms Directive (IFD)
- Commission's Action Plan: Financing Sustainable Growth and related legislative packages.

11. As laid down in the EBA's founding regulation, the EBA has to take into account sustainable business models and the integration of ESG factors when acting within its scope of action and when carrying out its tasks. The EBA should also develop a monitoring system to assess material ESG risks, taking into account the Paris Agreement. In addition, the EBA should develop common methodologies for assessing the effect of economic scenarios on an institution's financial position taking into account, inter alia, risks stemming from adverse environmental developments.

12. The revised CRR 2/CRD 5 package includes three mandates for the EBA in the area of sustainable finance. The first one (Article 98(8) of CRD 2) calls on the EBA to assess the potential inclusion of ESG risks in the supervisory review and evaluation process performed by competent authorities. To that end, the EBA's assessment must comprise, inter alia:

- the development of a uniform definition of ESG risks including physical risks and transition risks;
- the development of criteria for understanding the impact of ESG risks on the financial stability of institutions in the short, medium and long terms;
- the arrangements, processes, mechanisms and strategies to be implemented by the institutions to identify, assess and manage these risks; and
- the analysis methods and tools to assess the impact of ESG risks on lending and the financial intermediation activities of institutions.

[4] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2019:150:FULL&from=END

13. The second mandate is related to Article 449a of CRR 2, which requires large institutions with publicly listed issuances to disclose information on ESG risks, physical risks and transition risks as defined in the report referred to in Article 98 of the CRD. In this context, Article 434a of CRR 2 includes a mandate to the EBA according to which the EBA shall develop a technical standard implementing the disclosure requirements included in Part Eight of CRR II, including Article 449a on ESG risks. Following this mandate, the EBA will specify ESG risks' disclosures as part of the comprehensive technical standard on Pillar 3.

14. Lastly, the third mandate (Article 501c of CRR 2) requires the EBA to assess whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified (as a component of Pillar 1 capital requirements). In particular, the EBA must assess:

    - methodologies for the assessment of the effective riskiness of exposures related to assets and activities associated substantially with environmental and/or social objectives compared with the riskiness of other exposures;

    - the development of appropriate criteria for the assessment of physical risks and transition risks; and

    - the potential effects of a dedicated prudential treatment of exposures associated substantially with environmental and/or social objectives and activities on financial stability and bank lending in the Union.

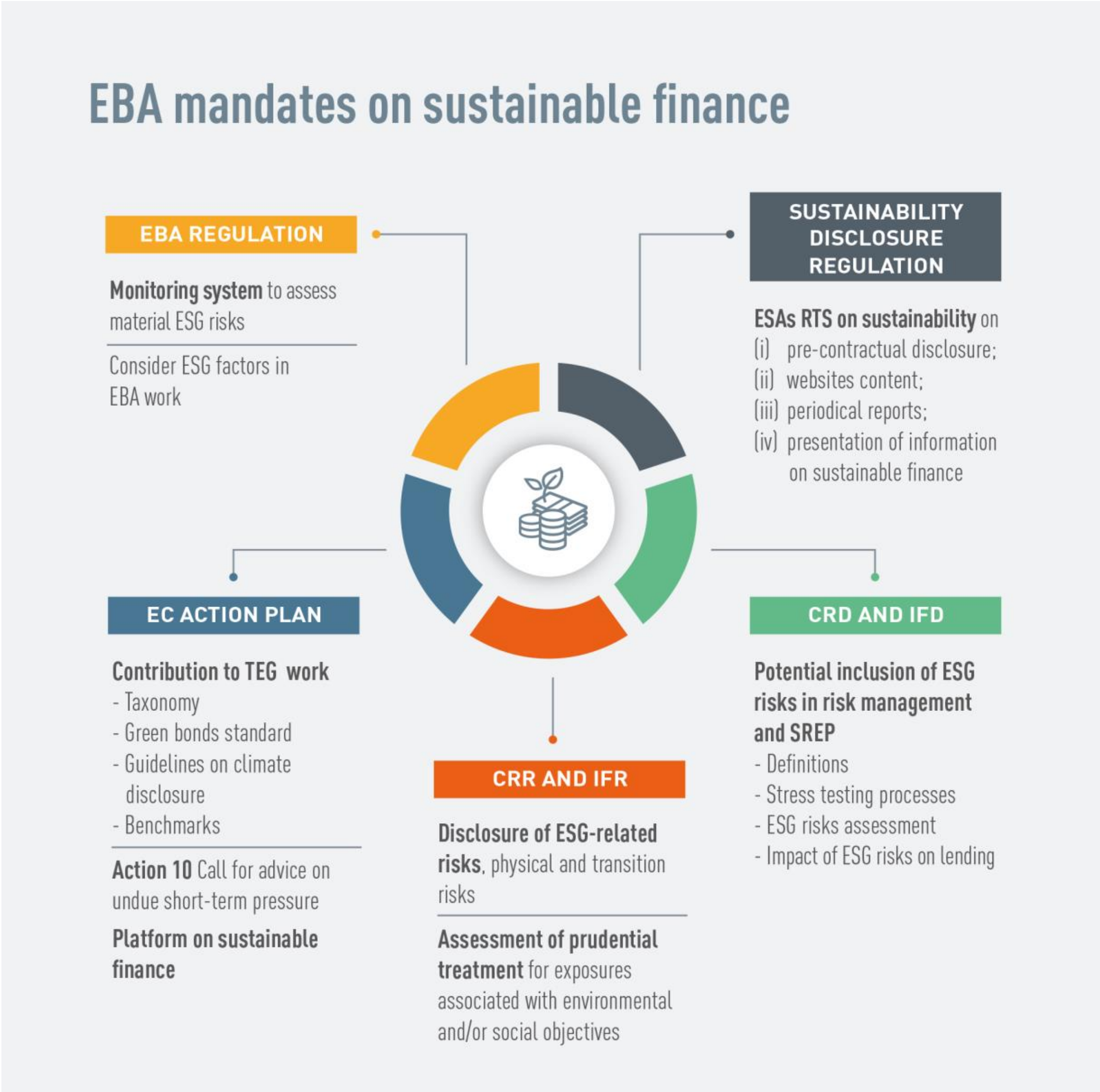
15. Similar mandates are expected to be included in the IFR and IFD package, which are currently awaiting publication. Article 35 of the IFD currently contains a mandate for the EBA to report on the introduction of technical criteria related to exposures to activities associated substantially with ESG objectives for the supervisory review and evaluation process of risks, with a view to assessing the possible sources and effects of such risks on investment firms. The IFR (Article 32a) include a mandate for the EBA to report on its findings of whether a dedicated prudential treatment of assets exposed to activities associated substantially with environmental or social objectives, in the form of adjusted K-factors or adjusted K-factor coefficients, would be justified from a prudential perspective.

16. As part of the third objective of the Commision's Action Plan, and in particular based on Action 10 (i.e. fostering sustainable corporate governance and attenuating short-termism in capital markets), the three ESAs have been asked to collect evidence of potential undue short-term pressure from capital markets on corporations. The EBA received a specific call for advice on 4 February 2019 and the advice is due to be delivered by the end of 2019. The focus is on the time horizon in corporate decision-making and the undue short-term pressures that financial market participants may exert on corporate managers. The underlying concern is that for companies to consider and address relevant long-term risks and opportunities, such as those related to climate change, and invest in long-term value drivers, short-term pressures from the financial sector could be a problem.

17. In May 2018, the Commission also adopted a proposal for a regulation on disclosures relating to sustainable investments and sustainability risks[5] aimed at integrating ESG considerations into financial market participants' investment and advisory process in a consistent manner across sectors and informing their clients in this respect, strengthening protection for end-investors and improving disclosures to them. The proposed regulation sets out ESG disclosure requirements for a broad range of financial market participants (including banks providing portfolio management), financial advisers (including banks providing investment advice) and financial products. The proposal also envisages mandates for the ESAs to develop technical standards based on this regulation covering (i) public due diligence policy statements (at entity level); (ii) pre-contractual disclosure (for products); (iii) website disclosure (product level); and, (iv) periodic reporting requirements (product level). The final text of the regulation is still to be published.

[5] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0354

*Figure 1: Overview of EBA mandates on sustainable finance (dates based on known legal mandates)*



# 4. Timeline and milestones of the EBA's work on sustainable finance

18. The objectives of the EBA work on sustainable finance are linked with the overall objectives of contributing to the short-, medium- and long-term stability and effectiveness of the financial system and include:

    - improving the current regulatory framework for institutions to foster their operations in a sustainable manner (contributing to sustainable development objectives and managing ESG risks) and introduce sustainability considerations in institutions' strategy and risk management; and
    - providing supervisors with adequate tools to understand, monitor and assess ESG risks in their supervisory practices.

19. Considering the given and planned mandates of the EBA from legislation and the Commission's action plan, the complexity of the topic and the deadlines, the EBA is expected to deliver a significant amount of work between 2019 and 2025. In addition to the specific mandates, there is a general mandate included in the EBA Regulation on ESG risk monitoring, which fits well into its overall work of improving the stability of the banking sector. The ESAs will also participate on the work of the EU platform on sustainable finance. The EU platform should have a role in maintaining the EU Taxonomy, an EU classification system based on technical screening criteria for economic activities that can make a substantial contribution to climate change mitigation or adaptation, while avoiding significant harm to other environmental objectives[6], and it should monitor the flow of capital into economically sustainable activities. This work, particularly the EU taxonomy, will support other related work that the EBA will undertake, notably in its definitions of economically sustainable activities that would be referenced in other policy products.

20. The EBA will follow the sequence reflected in the mandates, which can be summarised as:

    - strategy and risk management;
    - key metrics and disclosure;
    - stress testing and scenario analysis ; and
    - prudential treatment.

[6] https://ec.europa.eu/info/publications/sustainable-finance-teg-taxonomy_en

21. The rationale for this sequence is the need firstly to understand institutions' current business mix from a sustainability perspective in order to measure and manage it in relation to their chosen strategy, which can then be used for scenario analysis. The classification of assets considering the sustainability perspective too, will then enable institutions and regulators to conduct empirical assessments of appropriate prudential treatment.

## 4.1 Strategy and risk management

22. In line with the expectation that consideration of ESG factors will be incorporated into all regulatory products, the EBA included references to green lending and ESG factors in its Consultation paper on draft guidelines on loan origination and monitoring which will apply to internal governance and procedures in relation to credit granting processes and risk management. Based on the guidelines the institutions will be required to include the ESG factors in their risk management policies, including credit risk policies and procedures. The guidelines also set out the expectation that institutions that provide green lending should develop specific green lending policies and procedures covering granting and monitoring of such credit facilities. These guidelines are the first specific policy product developed by the EBA incorporating sustainability considerations.

23. Based on the mandate included in Article 98 (8) of the CRD 5, the EBA shall assess the development of a uniform definition of ESG risks , the development of criteria and methods for understanding the impact of ESG risks on institutions, the arrangements and strategies to be implemented by the institutions to evaluate and manage the ESG risks, and the potential inclusion of ESG risks in the supervisory review and evaluation process. The scope of this mandate is very wide and in fact includes a comprehensive proposal, in the form of a report, for the management of ESG risks and their integration into governance, risk management (including scenario analysis and stress testing) and supervision.

24. Given the complexity of this mandate, the EBA will first publish a discussion paper in Q2-Q3 2020 seeking stakeholder feedback before completing the final report by the deadline of 28 June 2021. As envisaged in Article 98(8) of CRD 5, based on the outcome of this report, the EBA may issue guidelines regarding the uniform inclusion of ESG risks in the supervisory review and evaluation process performed by competent authorities, and potentially also amend or extend other policy products including provisions for internal governance, loan origination and outsourcing arrangements. The exact timing and nature of guidelines to institutions and supervisors will be determined by the report.

## 4.2 Key metrics and disclosure

25. The society's expectations are likely to be the key fact that guides banks in their strategies for sustainable finance. Public policies and societal expectations are likely to inform policy choices and investors' expectations of banks' own strategies for sustainable finance. In this context, it is also likely that market discipline will have a substantial impact on banks' future strategies for sustainable finance and its delivery. To that end, the identification of key metrics (qualitative

and quantitative) and associated disclosure will be a key component of the EBA's work on sustainable finance.

26. Following the mandate in Article 434a of CRR 2, the EBA is developing comprehensive technical standards to implement the disclosure requirements included in Part Eight of the CRR. The deadline to submit the technical standards to the Commission is June 2020. Although most of the disclosure requirements in Part Eight of the CRR are applicable from June 2021, there are some exceptions, such as the ESG-related disclosure, that will be applicable from June 2022.

27. The ESG-related disclosure will build on existing work such as the Guidelines on non-financial reporting: Supplement on reporting climate-related information[7], the EU taxonomy and the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD) recommendations[8]. These products will be used for an update of the technical standards planned for 2021.

## 4.3 Stress testing and scenario analysis

28. Article 23 (Identification and measurement of systemic risk) of the EBA Regulation includes a specific reference to the potential environmental-related systemic risk to be reflected in the stress-testing regime. The EBA should develop common methodologies assessing the effect of economic scenarios on an institution's financial position taking into account, inter alia, risks stemming from adverse environmental developments and the impact of transition risk stemming from environmental policy changes. The mandate in Article 98 of CRD 5 also requires from the EBA to develop appropriate qualitative and quantitative criteria, such as stress testing processes and scenario analyses, to assess the impact of ESG risks under scenarios with different severities.

29. The EBA aims to develop a dedicated climate change stress test with the main objective of identifying banks' vulnerabilities to climate-related risk and quantifying the relevance of the exposures that could be potentially hit by physical risk and transition risk. Since climate risk stress-testing frameworks are developing, there are multiple constraints on designing a robust framework.

30. In the short term, as part of the regular risk assessment of EU banks, a sensitivity analysis for climate risks could be undertaken in the second half of 2020 for a sample of volunteering banks. The exercise would focus on transitional risks and consider a longer time horizon.

31. The sensitivity analysis will help to get a better understanding of banks' vulnerabilities to climate risk and provide a first estimate of the amount of brown and green exposures held by banks.

[7] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019XC0620(01)

[8] https://www.fsb-tcfd.org/publications/final-recommendations-report/

32. In addition, the EBA will provide guidance to banks and supervisors regarding banks' own stress testing as part of the report developed under the mandate in Article 98 of CRD 5. As part of this work, the qualitative and quantitative criteria to assess the impact of ESG risks under scenarios with different severities will be explored. Following this report the EBA might update relevant guidelines related to risk management and stress testing.

## 4.4 Prudential treatment

33. The mandate from Article 501c of CRR 2 asking the EBA to assess if a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified. The findings should be summarised in a report. The scope of this mandate is also quite comprehensive and it will require substantive data and quantitative analysis.

34. Considering the complexity and potential impact of this work, the EBA also plans to conduct this work in two phases, first publish a discussion paper and then consider feedback received to finalise the report. As the deadline for the report is in June 2025, this will give the EBA more time to collect relevant data and possibly benefit from the use of the new EU taxonomy on sustainable activities.

35. Milestones for the EBA policy products are included in the Figure 1 below. The work of the EBA is closely linked with, and will leverage, the work done by other workstreams, either under the umbrella of the Commission, supervisory or industry initiatives. The most relevant initiatives are summarised in Figure 2.

*Figure 2: Milestones for EBA regulatory mandates on sustainable finance*

# 5. Key policy messages and expectations under the remit of EBA mandates on sustainable finance

36. ESG factors can affect the business model of institutions and be a source of both risks and opportunities. On the one hand, the potential consequences of climate change and related physical and transition risks bring new challenges for risk management and the supervisory review process, which currently in general do not consider time horizons and scenarios relevant for the impact of climate change. At the same time, implementation of the Paris Agreement on climate change and the UN 2030 Agenda for Sustainable Development in 2015 will result in policy changes designed to reorient capital flows towards sustainable investment and will affect the trajectory of transition risk. Such reorientation of capital flows and the need for revised risk management frameworks, combined with the objective of transparency and long-termism in financial and economic activity, need to be broadly considered in the financial sector and may require a shift in the business strategies of some financial institutions.

37. Although there remains uncertainty about the precise manifestation of both transition risk and physical risk, financial institutions will need to have in place metrics, strategies and risk management to deal with these changes. This requires consideration now (i.e. before the EBA completes its mandates included in this action plan) and action as early as possible notably on (i) strategies and risk management, (ii) disclosure of key metrics and (iii) scenario analysis.

38. The need for early actions to be undertaken in these areas is driven by the following three factors:

- The long lead-time on the EBA mandates creates a risk that policy makers and the broader public might perceive a lack of specific action in identifying key sustainability risk, metrics and their use for effective strategy and risk management;

- Experience of the approaches and practices developed by institutions will usefully inform the EBAs work ahead of the finalisation of the legal mandates; and

- Some aspects such as disclosure metrics will be new to some market participants and the broader public, so work at an early stage to inform market participants and the broader public about the context and use of such metrics will help to inform their use and understanding when the legal mandates come into force.

## 5.1 Expectations on strategy and risk management

39. **The EBA encourages institutions to act proactively in incorporating ESG considerations into their business strategy and risk management**. Proactive strategies and forward-looking approaches that aim to build resilient and sustainable business models in the long-term, and adequate governance arrangements, should be understood, if appropriately designed, as tools mitigating the potential impact of environmental and social risks, and in particular, the transition and physical risks related to climate change.

40. **The EBA encourages institutions to integrate ESG risks into their business plans, risk management, internal control framework and decision-making processes.** Institutions can demonstrate the presence of these arrangements to stakeholders, for example by identifying key metrics, associated balance sheet targets, and governance arrangements. For competent authorities, the institutions can incorporate the details of their sustainability strategy and ESG considerations into risk management and internal governance in their internal capital adequacy assessment process, which can include at least qualitative information on business strategy and risk management, supported by key metrics and targets.

## 5.2 Expectations on disclosure

41. Institutions' Pillar 3 disclosures constitute an important tool to promote market discipline. The provision of meaningful information on common key risk metrics contributes to making market participants aware of those risks. The disclosure of common and consistent information also facilitates comparability of risks and risk management between institutions, and helps market participants to make informed decisions.

42. The attention of institutions is drawn to a number of existing sources that are relevant today and will be used to inform the EBAs work on standards on ESG-related disclosure:

    - In June 2019, the Commission published Guidelines on non-financial reporting: Supplement on reporting climate-related information, focused on reporting of climate-related information. These guidelines provide guidance to companies that is consistent with the Non-Financial Reporting Directive (NFRD) (2014/95/EU)[9], and include disclosure recommendations for companies in all sector, and an annex with additional disclosure guidance specifically addressed to banks and insurance companies; and

    - The Commission's work on an EU taxonomy.

43. In particular, and as a starting point, **the EBA encourages institutions to continue their work on NFRD disclosures as well as participation in other initiatives. As part of this work the EBA encourages institutions to prioritise the identification of some simple metrics that provide**

[9] The Financial Stability Board's TCFD recommendations were integrated into these guidelines.

**transparency on how climate change related risks, including transition risk, are embedded, into their business targets, strategies, decision-making processes, and risk management.** This will also usefully inform the EBA's work. Key metrics, even if these necessarily come with caveats (e.g. regarding definitions used and early stage estimates) and are possibly identified in terms of ranges rather than specific data points should help institutions in their adaptation to new challenges. For example, key performance indicators that show targets in terms of volume/percentage of green assets in institutions' balance sheets and in their different portfolios, or green asset ratios (GAR), and show the progress achieved towards those targets are very relevant to understanding the transition of the balance sheet.

44. In this regard, the Guidelines on non-financial reporting include some specific indicators in the Annex I for banks for the disclosure of information on both targets and actual data such as:

- volume of financial assets funding sustainable economic activities contributing substantially to climate mitigation and/or adaptation (absolute figures and compared with total exposures, i.e. green asset ratios); institutions are welcome to describe how they plan to implement the EU taxonomy for this type of disclosures, which will provide good information on their exposures to corporates;
- volume of collaterals related to assets or activities in climate change mitigating sectors. This information would provide relevant information on, for example the retail mortgages portfolios; and
- total amount of the fixed income portfolios invested in green bonds.

45. In addition, the guidelines provide first attempts at identifying carbon-related exposures. They are also useful for better understanding the institution's risk profile by disclosing amount or percentage of carbon-related assets/exposures in each portfolio or as a percentage of the current portfolio value.

46. The EBA will work with institutions to identify ways of bringing consistency in disclosure approaches, will work to provide feedback on estimates and ranges identified and may publish reports on existing practices and lessons learnt.

## 5.3 Expectations on scenario analysis and stress testing

47. Scenario analysis is an important tool to understand the potential impact of climate change and ESG risks on institutions' financial positions (in particular in the long term but also in the short and medium terms), including the impact of transition risk stemming from environmental policy changes regarding industries or companies they finance. While scenario analyses may not provide precise forecasts, such analyses can help to explore the resilience and vulnerabilities of institutions' business models and inform strategic thinking and decision-making.

48. While recognizing that there are methodological questions and data gaps, **the EBA encourages institutions to adopt climate change related scenarios and use scenario analysis as an explorative tool to understand the relevance of the exposures affected by and the potential magnitude of physical risk and transition risk.** The EBA notes that many initiatives are ongoing to support institutions in this. The outcome of the scenario analysis can enhance the

understanding of ESG risks and therefore also inform the formulation of strategies and business models that take these risks into account. In this context, the EBA encourages institutions to actively participate in the voluntary sensitivity analysis for climate risks as part of the regular risk assessment of EU banks in 2020.

# 6. Industry initiatives supporting understanding of ESG risks

49. Understanding ESG risks and translating that knowledge into data understandable to the financial industry is a challenge for the public and private sectors. In addition to the work of the Technical Expert Group on Sustainable Finance, there are other industry led initiatives, such as the United Nations Environment Programme Finance Initiative (UNEP-FI) Principles for Responsible Banking[10,] UNEP-FI's pilot project on implementing the TCFD recommendations for banks[11], the Energy efficient Mortgages Action Plan (EeMAP)[12,] European Banking Federation (EBF) and UNEP-FI project on usability of the taxonomy for banks[13], or scenario analysis methodologies and tools reconciling environmental and financial data, aiming to better understand, collect or share data among financial institutions. The need to improve data availability and quality is agreed by both the industry and the regulatory world.

50. The EBA welcomes the sharing of data and industry initiatives aimed at providing new types of data to facilitate the understanding of the impact of ESG risks. Such types of initiatives can also help to inform the EBA's work on and understanding of the performance of green and/or social assets (especially those aiming to be aligned with the EU taxonomy) or assets exposed to transition risk or physical risk from climate change.

[10] https://www.unepfi.org/banking/bankingprinciples/

[11] https://www.unepfi.org/banking/tcfd/

[12] https://eemap.energyefficientmortgages.eu/services/

[13] https://www.unepfi.org/wordpress/wp-content/uploads/2019/07/EBF-UNEP-FI-concept-note-Banking-Taxonomy.pdf

## Annex: Other workstreams and initiatives[14]

1. The European Commission set up a technical expert group on sustainable finance (TEG) to assist it particularly in the development of a unified classification system for sustainable economic activities, an EU green bond standard, methodologies for low-carbon indices, and metrics for climate-related disclosure. The TEG consists of members from civil society, academia, business and the finance sector, as well as additional members and observers from EU and international public bodies. The TEG published its technical report on EU taxonomy in June 2019. The report provides technical screening criteria for 67 economic activities. The TEG at the same time also published the report on an EU Green Bond Standard and the report on EU climate benchmarks. The Commission will use the outcome of the TEG's work for further legislative and non-legislative work.

2. The Network for Greening the Financial System (NGFS) is a group of central banks and supervisors willing, on a voluntary basis, to exchange experiences, share best practices, contribute to the development of environment and climate risk management in the financial sector, and mobilize mainstream finance to support the transition toward a sustainable economy. Its purpose is to define and promote best practices to be implemented within and outside the membership of the NGFS and to conduct or commission analytical work on green finance. The NGFS published its first comprehensive report 'A call for action', in April 2019, supplemented by a report on macroeconomic and financial stability implications of climate change, published in July 2019. The work of the NGFS is now focused on preparing practical best practice tools for supervisory authorities and financial institutions on climate and environment-related risk management, including scenario-based climate risk analysis.

3. A number of competent authorities in the EU have already undertaken preliminary work on climate-related risks and some of them have published reports or supervisory statements. ESMA and EIOPA have also started to deliver on some mandates included in the Commission's Action plan (such as clarifying institutional investors and asset managers' duties in relation to sustainability considerations, or incorporating sustainability under the Solvency II Directive).

4. The Principles for Responsible Banking were launched by 130 banks from 49 countries, representing more than USD47 trillion in assets, on 22 and 23 September 2019 in New York City, during the annual United Nations General Assembly. The principles provide the banking industry with a single framework that embeds sustainability at the strategic, portfolio and transactional levels and across all business areas. The principles aim to align banks with society's goals as expressed in the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. Target setting in the most material areas is a key feature of the principles. Participating banks are required to set and publish targets in line with society's goals, as expressed in the sustainable development goals, the Paris Climate Agreement and relevant national frameworks, in the areas where they have the most significant positive and negative

[14] Other initiatives at global, regional or national level are also ongoing. For the sake of conciseness, they cannot all be named here.

impacts. The principles require banks to be transparent and accountable. Banks are required to report publicly on their positive and negative impacts, their contribution to society's goals and their progress in implementing the principles, and to engage with key stakeholders on their impacts.

5. UNEP FI, together with 16 banks, set out a project to pioneer and further develop transition and physical assessment models and metrics to enable scenario-based, forward-looking assessment and disclosure of climate-related risks and opportunities. The pilot should better equipped participating banks and the banking industry at large to implement the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

6. The EBF and UNEP FI proposed launching a project to assess the application of the EU taxonomy and identify sustainable activities in banks' lending portfolios for banks that wish to apply the taxonomy on a voluntary basis. The objective of the project is to develop and promote high-level voluntary guidelines that will facilitate the identification of sustainable activities in banks' portfolios based on the EU taxonomy, including use cases, disclosure guidance and recommendations.

7. EeMAP is a market-led initiative led by the European Mortgage Federation focussed on the design and delivery of an energy efficient mortgage, which is intended to incentivise and channel private capital into energy efficiency investments. The EeMAP Initiative aims to create a standardised energy efficient mortgage, by which building owners are incentivised to improve the energy efficiency of their buildings or acquire an already energy efficient property by way of preferential financing conditions linked to the mortgage. This initiative also aims to collect relevant energy efficiency data from the participants.


**EUROPEAN BANKING AUTHORITY**

20 avenue André Prothin CS 30154
92927 Paris La Défense CEDEX, France

Tel. +33 1 86 52 70 00
E-mail: info@eba.europa.eu

https://eba.europa.eu/