



EBA Consultation paper – ITS on Pillar 3 disclosures on ESG risks

Public hearing - 26 March 2021

Agenda



EBA staff presentation

- Overview of the draft ITS
- Quantitative and qualitative disclosures proposed

Floor for discussion

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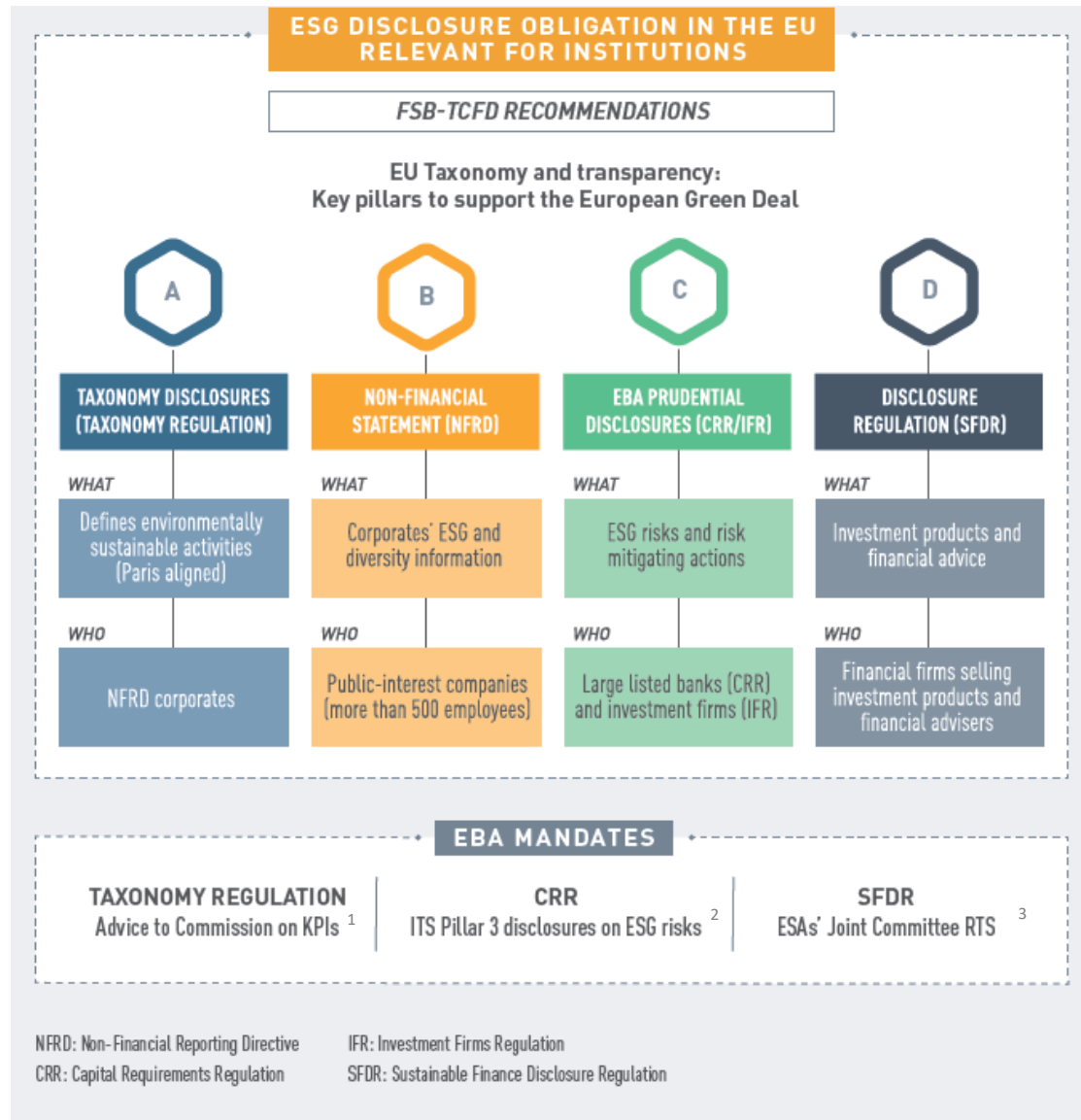


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ESG disclosures in the EU: financial institutions

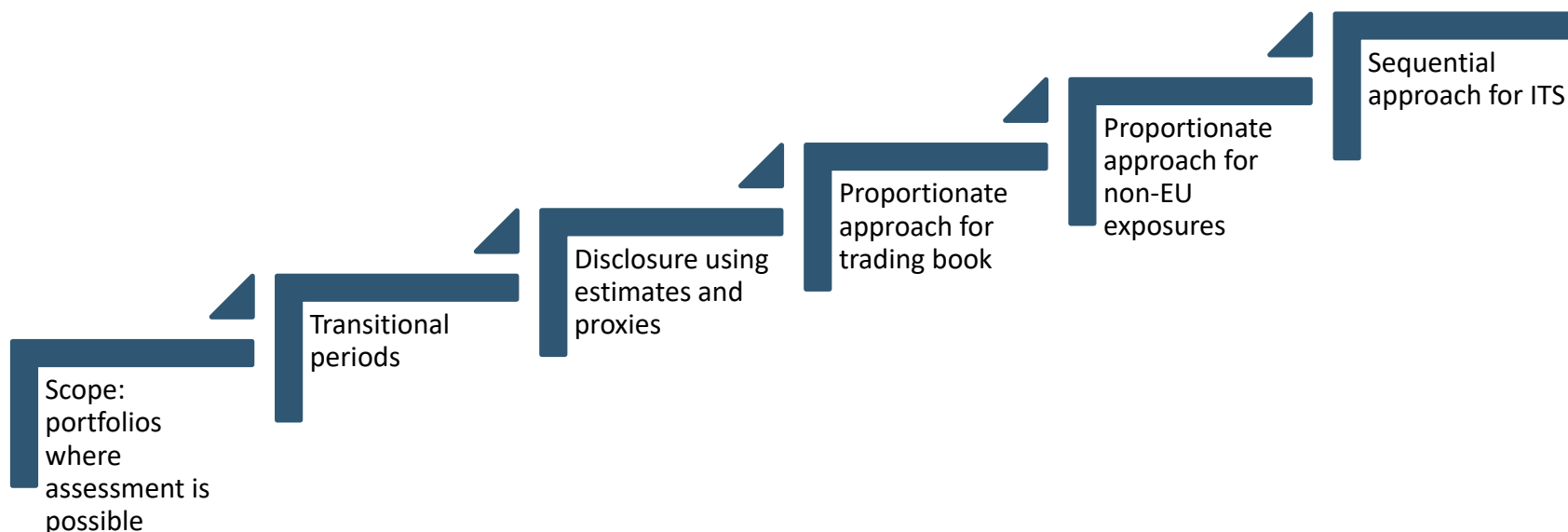


¹ 01 March 2021 - EBA Opinion: Advice to Commission on KPIs and methodology for disclosures under Art.8 Taxonomy by credit institutions and investment firms

² 01 March 2021 – EBA Consultation paper on draft ITS on Pillar 3 disclosures on ESG risks

³ 04 February 2021 – ESAs' Joint RTS on ESG disclosure standards for financial market participants

Proportionality – Proposals to facilitate quantitative disclosures



- **Scope of disclosures** covering relevant portfolios where assessment is possible and meaningful information is or will be available
- Definition of **transitional periods**, taken into account data gaps and the need for institutions to develop methodologies, and **allowing disclosures in terms of estimates and ranges** calculated using **proxies**
- **Proportionate approach** for the disclosure of information on the **trading book**, where a **threshold** is specified to delimit which institutions have to disclose this information;
- **Proportionate approach** for the disclosure of information on taxonomy alignment for **non-EU exposures**, applicable to institutions with non-EU subsidiaries, ‘on a best effort basis’ and in terms of estimates and ranges.
- **Sequential approach** for the implementation of disclosures on ESG risks under Article 449a CRR

Summary of ESG disclosures-Pillar 3 (EBA draft ITS)

	WHAT TO DISCLOSE?	EXAMPLES OF DISCLOSURES
RISK DISCLOSURES	CLIMATE CHANGE TRANSITION RISK Information to sectors or assets that may highly contribute to climate change	<ul style="list-style-type: none"> ▶ Exposures to fossil fuel companies excluded from sustainable climate benchmarks, and to other carbon-related sectors ▶ For real estate exposures, distribution of the exposures by energy performance of the collateral
	CLIMATE CHANGE PHYSICAL RISK Risk exposures subject to extreme weather events (sector/geography)	<ul style="list-style-type: none"> ▶ Assets subject to impact from chronic climate change events by sector and geography ▶ Assets subject to impact from acute climate change events by sector and geography
MITIGATING ACTIONS	Actions that support counterparties in the transition to a carbon neutral economy but that do not meet taxonomy criteria	▶ Building renovation loans that improve the energy efficiency of the building but do not meet the taxonomy screening criteria
	Actions that support counterparties in the adaptation to climate change but that do not meet taxonomy criteria	▶ Loans to build barriers against flooding, or water management mechanisms against draughts but to not meet the taxonomy screening criteria
GREEN ASSET RATIO	Information on exposures towards taxonomy-aligned activities consistent with Paris Agreement goals that contribute substantially to climate change mitigation (CCM) and adaptation (CCA), including information on transitional and enabling activities	<ul style="list-style-type: none"> ▶ Contributing to CCM: Generation of renewable energy ▶ Enabling CCM: Manufacture of renewable energy technologies ▶ Contributing to CCA: Afforestation ▶ Enabling CCA: Engineering activities for adaptation to climate change
QUALITATIVE DISCLOSURES	Qualitative information on environmental, social and governance risks	<ul style="list-style-type: none"> ▶ Governance arrangements ▶ Business model and strategy ▶ Risk management

Also in the advice

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Quantitative templates proposed

Consultation paper on draft Pillar 3 ESG ITS – Disclosure quantitative templates on climate change

Climate change Transition risk

Corporate exposures in the banking book towards NACE sectors:

- that highly contribute to climate change,
- towards fossil fuel companies
- and towards other carbon related sectors,

based on classifications specified in the EU climate transition benchmarks Regulation and related delegated acts, including information on scope 3 emissions

Climate change Physical risk

Banking book exposures by sensitive geographies and sectors (acute and chronic physical risk)

Mitigating actions

GAR – Taxonomy aligned exposures that contribute or enable climate change mitigation/a daptation

Other actions that contribute/enable climate change mitigation/a daptation but do not meet taxonomy criteria

Template 1: Banking book - Quality of exposures by sector

Template 2: Banking book - Maturity buckets

Template 3: Loans collateralised by immovable property – by EPC

Template 4: Alignment metrics on relative scope 3 emissions

Template 5 - Exposures in the banking book to top carbon-intensive firms

Template 6 - Trading book portfolio

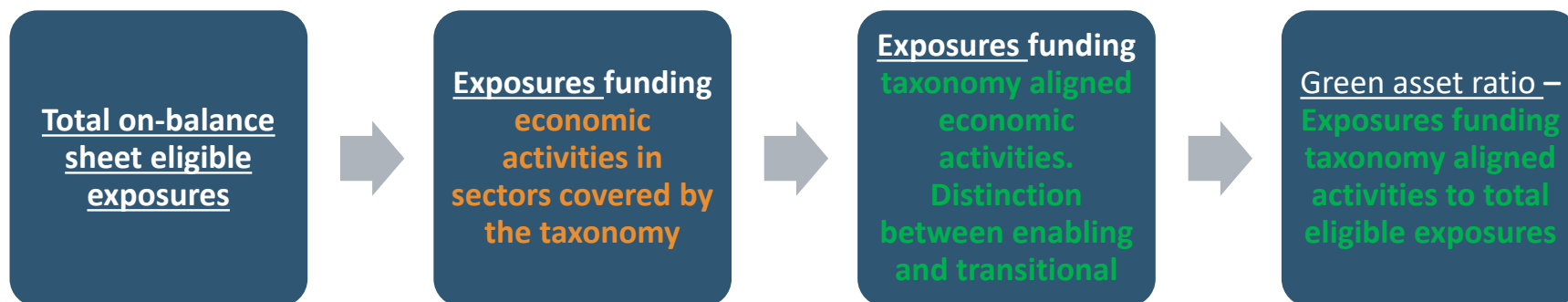
Template 7 - Banking book, exposures subject to physical risk

Templates 8 and 9 on GAR

Template 10 on other climate change mitigation actions

Common with disclosures in Advice Art. 8 of Taxonomy

“Green” disclosure metrics - GAR



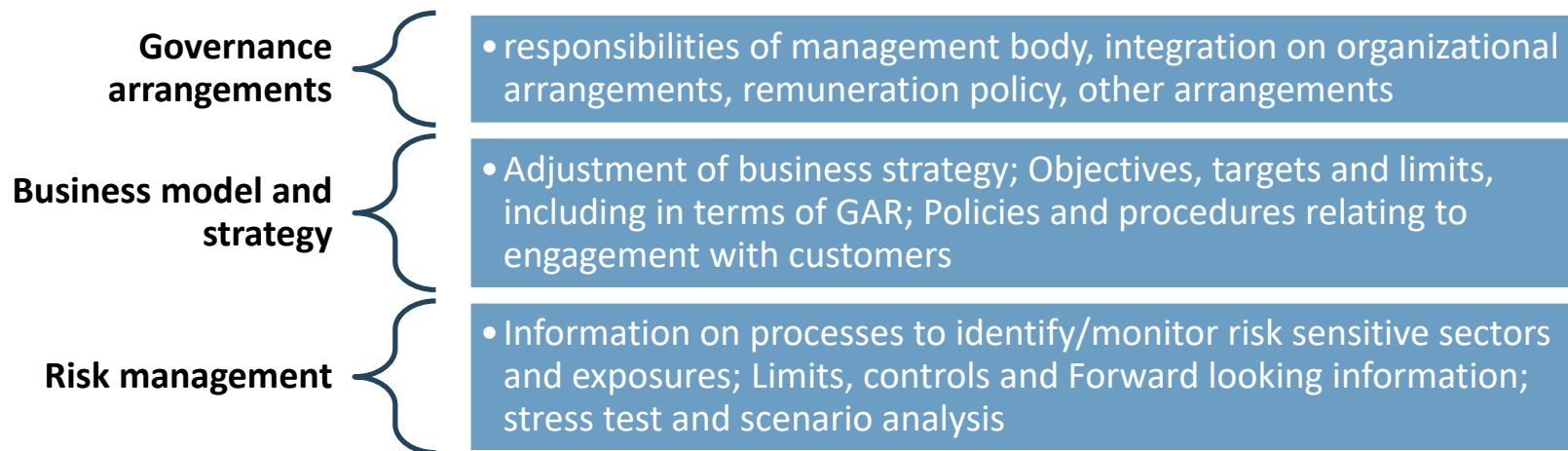
- GAR on activities aligned with the taxonomy for the objectives of climate change mitigation and adaptation
- **Identification of taxonomy aligned activities for NFCs:**
 - specialised lending: based on the economic activity funded (including but not only green bonds)
 - General purpose lending: based on the counterparty overall taxonomy alignment (using counterparty data, percentage of turnover alignment in case of NFC)
- **Identification of taxonomy aligned exposures – Retail and SME real estate/ car loans:** Based on alignment with the taxonomy screening criteria of the energy performance certificate of the underlying asset (EPC)
- **Identification of taxonomy aligned activities for financial institutions:** based on the counterparty overall taxonomy alignment (using counterparty public data)
- Total GAR for stock (all eligible exposures as of reference date) and flows (during the disclosure period), differentiating between transitional and enabling activities

Consultation paper on draft Pillar 3 ESG ITS – Disclosure qualitative information ESG risks

Table 1 - Qualitative information on Environmental risk

Table 2 - Qualitative information on Social risk

Table 3 - Qualitative information on Governance risk



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Topics for discussion



Discussion is organised in three blocks, which will be discussed consecutively:

- **Risk disclosures**, including:
 - climate change transition risk (templates 1 to 6)
 - climate change physical risk (templates 7, both simplified and extended version)
- **Green asset ratio** (templates 8 and 9) **and other mitigating measures** (template 10)
- **Qualitative disclosures** (tables 1, 2 and 3)

Attendees are kindly asked to request floor to speak through the chat, in order to raise verbally their comments and questions pertinent to the block that is being discussed at each moment.

Alternatively, questions and comments for each block can be written in the chat, although we will go to speakers' questions first.



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