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**Comments on the EBA Consultation Paper regarding Draft ITS on prudential disclosures on ESG risks in accordance with Article 449a CRR**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as legal representative of the entire Austrian banking and insurance industry, appreciates the possibility to comment on the above cited Consultative Document. We would like to note the following comments and remarks.

**General Remarks**

According to Art 13 CRR II the disclosure of ESG risks has to be done only at the highest level of consolidation (in case of a EU parent institution). We suggest to explicitly clarify this in the ITS (in the background and rationale section as well).

The granularity of the ITS deviates from the usual level of granularity of Pillar 3 information. Considering that this information is for investors, we doubt that this degree of granularity is useful. In light of the granularity of the information requested, a more adequate timeline for implementation should be considered as a lot of effort will be required to amend banking systems in order to fulfill the expected requirements.

We consider the envisaged extension of the Green Asset Ratio (GAR) to all SME loans to be challenging. Most SMEs will not be able to provide the relevant data about their Taxonomy compliance in the coming years. Hence, those counterparties which are not obliged to disclose their Taxonomy compliance under Art 8 of the Taxonomy Regulation should be excluded from the calculation of the GAR.

Moreover, with regard to the GAR, we would also welcome a clarification indicating that where data cannot be obtained with reasonable efforts, but a TAC (Taxonomy Alignment Coefficient) has been introduced according to the plans of the EU Commission (e.g. Application of JRC-estimated coefficients by NACE code, ESMA Advice on Article 8 of the Taxonomy Regulation), the relevant TAC or proxies (where they are available) can be used.

Furthermore, we regret that currently it seems like the whole responsibility for collecting data, developing heatmaps and assessing regions and sectors which are prone to chronic climate change events is imposed on the banking sector. Certain fundamental information and heatmaps should be made available by governments and/or other official bodies. This could help ensure an equal data basis and a unified understanding of the risk factors and channels for all banks, improving the comparability of the data disclosed.

Physical risks should be mapped with NACE-Codes centrally published by a public entity so that each credit institution can make use of that information as it has no specific information from the counterparty. This would be beneficial as in general business sectors at a specific location are subject to the same physical risks. This would benefit both the physical risk identification and credit institutions in general, as public entities have better access to data and more data quality.

*Q1: Are the instructions, tables and templates clear to the respondents?*

A more precise explanation is needed as to what “benchmarks administrators” are and what their role is in identifying “companies excluded from EU Paris-aligned Benchmarks in accordance with points (b) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation” (see Template 1). It is not clear under what circumstances a bank should identify the companies excluded from EU Paris aligned benchmark or whether there are any external sources (“benchmarks administrators”) a bank can rely on.

Additionally, there is an inconsistency between disclosure requirements in Template 1 as specified in Annex I and Annex II respectively. Annex I requires in columns f-h to report exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (b) to (g) of Article 12.1 (...) of Climate Benchmark Standards Regulation whereas Annex II requires "*exposures towards counterparties that are excluded from the EU Paris-aligned Benchmarks as specified in Article 12.1, points (d) to (g)*" i.e. Art. 12.1 points b) (companies involved in the cultivation and production of tobacco) and c) (companies that benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises) are excluded. Clarification is necessary as to which requirement should be referred to.

More clarity/harmonization is needed in the terminology, by using “Taxonomy eligible” (i.e. substantially contributing to an env. objective) or “Taxonomy aligned” (i.e. incl. fulfillment of technical screening criteria). The templates for the EBA ITS (unlike Art 8 templates) do not make this clear distinction. E.g. Template 1) uses the term “environmentally sustainable (CCM)” explained in Annex II as “*Exposures that qualify as environmentally sustainable because they are financing activities that contribute or enable the environmental objective of climate change mitigation in accordance with Articles 10 and 16 of the Regulation (EU) 2020/852*” i.e. without a reference to the definition of “sustainable” (Art 3 (d) EU 2020/852, referring to the technical screening criteria).

The instructions in Template 5 are unclear in terms of the scope of the template: top 20 polluting companies in the institutions, or exposure toward predefined top 20 polluting companies in the world/EU/country. If the scope of the template is exposure towards already predefined polluting companies, what does information in column f of the template represent? In case the scope is based on predefined list of companies, information from column f is obsolete.

Additionally, it is unclear which level of top polluting companies is relevant for an institution, e.g. in case of disclosure of EU consolidated entity, should an institution consider top polluting companies in the EU only, or also in the world and/or each Member State?

*Q2: Do the respondents identify any discrepancies between these tables, templates and instructions and the disclosure requirements set out in the underlying regulation?*

We support the distinction between neutral ESG factors and ESG risks. Since ESG factors are by definition neutral, their potential positive impact on the financial performance or solvency of an entity, sovereign or individual should also play a role from a risk assessment perspective.

*Q3: Do the respondents agree that the new draft ITS fits the purpose of the underlying regulation?*

Yes.

*Q4: Do the respondents agree that the tables with qualitative information proposed capture properly the information that institutions should provide?*

The qualitative disclosure requirements seem too far-reaching, particularly compared to the requirements from Article 435 CRR for the risk types established technically, as well as the ECB recommendations in the SSM Guide on climate-related and environmental risks.

Clarification would be needed regarding the distinction between “risks” and “channels”, especially when talking about “liability channels”. We understand that the wording of liability channels can be traced back to the EBA discussion paper on ESG risks (paragraphs 86-89), but even there is no clear distinction. Also, definitions used should be aligned through different legislative acts.

In our understanding, transmission channels in this context mean the way, how climate related risks (physical and transition risks as well as liability risks) materialize in financial risks. A differentiation of the channels in these three categories does not seem entirely appropriate, as the risks themselves are categorized this way but not the channels. The BCBS Report on Climate-related risk drivers and their transmission channels from April 2021 for example defines transmission channels as “The causal chains that explain how climate risk drivers give rise to financial risks that impact banks directly or indirectly through their counterparties, the assets they hold and the economy in which they operate.” There is a further subdivision into microeconomic and macroeconomic transmission channels, but no division into physical, transition or liability transmission channels.

*Q5: Regarding template 1 – ‘Banking book - Climate change transition risk: Quality of exposures by sector’, do the respondents agree with the proposals in terms of sector and subsector classification included in the rows of the template and the identification of the most exposed sectors in columns f to k and p to u?*

We have noticed that the split by sector in the templates (e.g. Template 1) is based on NACE sectors. An equivalent split on GICS codes by EBA as well would be beneficial to avoid discrepancies here. Since there are several international banking groups that are using GICS for internal steering/decision purposes, the climate footprint could look differently depending on the industry classification type. Therefore, to guarantee a consistent approach of internal and external steering and reporting, there is a need to receive a correct translation and linkage from NACE to GICS by the European Banking Authority.

To support banks disclosure efforts and improve data quality and availability, the regulatory framework should ensure that data requested by banks from their counterparties/customers should already be disclosed by (NFRD relevant) customers in the same format as requested by EBA from banks. In particular, we refer to information requested in ***Template 1\_Transition Risk BB*** and ***Template 6\_Transition risk TBook*** – where banks shall report exposure towards “companies excluded from EU Paris-aligned Benchmarks in accordance with points (b) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation”. Under points d)-g), following criteria are mentioned:

* *(d) companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;*
* *(e) companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;*
* *(f) companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;*
* *(g) companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.*

Instead of obliging every bank to request the same information from clients, it would be a lot easier if clients reporting under the NFRD were directly required to make this information available.

The EBA should seek alignment with the Commission in this regard.

Furthermore, in Template 1 the definition of requirement “of which exposures towards other carbon-intensive sectors” seem to exclude exposures to companies excluded from EU Paris-aligned benchmarks, but reference in the instructions seems wrong (“in columns e to g” instead of “f to h”).

Additionally, in columns i to k and s to u, the definition of sectors which are more intensive in terms of GHG emissions is not fully clear, as well as what is the threshold for “more intensive”. The individual assessment of the sectors can lead to incomparability of disclosed information among institutions.

For the quantitative templates we propose to grey out all fields that cannot be filled in as certain combinations are not possible. That would be in line with the usual procedure of supervisory reporting templates. For example: It does not seem possible to fill in a figure for certain sectors under “Of which environmentally sustainable”, when they are excluded by Article 12 of Regulation (EU) 2016/1011, eg. “Manufacture of tobacco products”.

Moreover, we question the relevance of the disclosure of total exposures in performing and non-performing for the purpose of the underlying regulation. This could even be a matter of data protection as in certain (smaller) sectors one could draw conclusions to single counterparties if a certain sector is dominated by a few “players”. The information of a non-performing status could be a non-wanted effect of the disclosure.

*Q6: Do the respondents agree with the proposal included in templates 1 and 3 to disclose information on scope 3 emissions and with the transitional period proposed?*

Yes.

*Q7: Do respondents agree that information in terms of maturity buckets by sector proposed in template 2 is relevant to understand the time horizon of when the institution maybe more exposed to climate change transition risk?*

Yes.

*Q8: Do respondents agree that information in terms of alignment metrics and relative scope 3 emissions proposed in template 4 is relevant to understand and compare the transition risk phased by institutions? What are the respondents’ considerations with regard to the alignment metrics proposed and the sectors that should be covered by this disclosure? Do respondents agree with the transitional period proposed?*

An explanation of the disclosure for the following alignment metrics is required:

- Power: “average share of high carbon technologies (oil, gas, coal)”. It needs to be clearly specified whether the share of oil, gas, coal on the production volumes (i.e. not weighted by prices) or in production costs, or revenues is meant.

- Fossil fuel combustion: “average share of high carbon technologies (coal)”. It needs to be clearly specified whether the share of coal on the production volumes (i.e. not weighted by prices) or in production costs, or revenues is meant.

- Transportation sector, “average share of high-carbon technologies (ICE)”. This metric is not clear.

*Q9: Regarding the same template 4, what are the respondents’ considerations with respect to the choice of the 2 degrees reference scenario, would respondents opt for a different scenario?*

We suggest providing a proper description of the reference scenario (i.e. to unequivocally indicate whether it is the UNFCCC Paris Agreement scenario) or at least a link to it, otherwise each bank would have to search for the right reference scenario, which could imply inconsistencies.

Furthermore, detailed instructions on how to perform a benchmarking of the portfolio with respect to IEA scenarios are needed from EBA.

*Q10: Do respondents agree that information proposed in template 5 is relevant to understand the level of climate change transition risk and that information on exposures towards the most polluting companies is a good complement to the sectorial information included in other templates? Specific feedback is sought on possible alternative formats for the presentation of the information required in template 5. In particular, the EBA seeks feedback on whether aggregate information on exposures towards the top 20 polluting companies in the world, at EU level or at member state level, instead of company-by-company information, would be sufficient to understand how climate-change transition risk may exacerbate the exposition of institutions to credit risk. Feedback is also sought on the specific information that a template on aggregate exposures should include to be meaningful, including possible “buckets” of information on exposures (e.g. exposures towards top 5 polluting firms, next top 5 and so on, or other alternative presentations).*

We see the danger of a name-shaming of such companies (top 20 polluting companies) and potential frictions in the credit flow towards a smooth transition, as the expectation of the regulator will be that banks should not be exposed towards these entities. Furthermore, disclosing information company-by-company raises serious concerns (and would be contrary to applicable rules) in terms of banking secrecy, data protection and competition. Also, rather than being aligned with the objective of transitioning towards sustainability, such disclosure requirements would instead force banks to publicly name their clients instead of encouraging them to constructively engage in order to improve customers’ sustainability performance as well as disclosures. Hence, a different aggregation of the template would be more suitable, e.g. based on top 5 clients, up to 20 clients, which means 4 groupings in terms of Template 5, which would still serve the purpose of comparing the level of exposure toward most polluting companies among institutions.

Additionally, several questions arise in this context, e.g. who is responsible for this list, who defines the top 20 polluting companies, which area is covered? The list should be easily publicly available and could be provided by a sovereign.

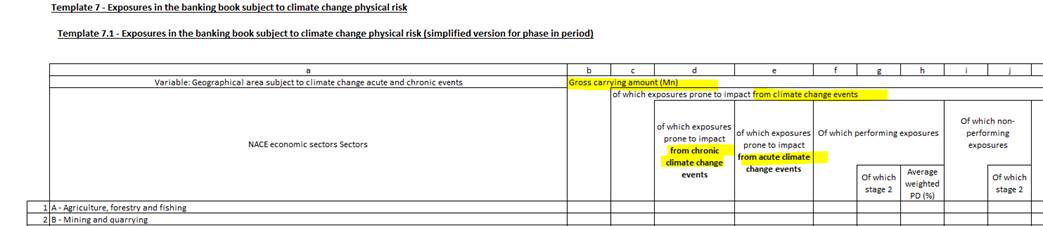
*Q11: Are What are respondents view on the way template 6 reflects how the trading book of institutions may be impacted by climate change transition risk? Do respondents agree that the threshold proposed to determine which institutions have to disclose this template is the appropriate threshold? Feedback on whether there are alternative ways to present information on the trading book that may allow for a better understanding of how climate change transition risk may impact the trading portfolio.*

In general, Template 6 seems to include some mistake as column d refers to “Gains and losses generated during the considered period”. We believe this should be changed to “Gains or losses […]”.

We seek for clarification, that only banks with big trading books should be obliged to fulfill the requirements of template 6. According to our understanding, small trading book is not included here. Therefore, we propose a clarification that template 6 is only applicable to banks with a certain threshold of trading book value. This would be in line with the approach the legislator has taken for the definition of “small and non-complex institutions” by the CRR II. Institutions- regardless of its size- should be able to not have to apply Template if its trading book business is classified as small within the meaning of Article 94 para 1 CRR II.

*Q12: Do respondents agree that the information included in template 7 is appropriate to understand how and to what extent the institution may be exposed to climate change physical risk and that the differentiation between a simplified and an extended template is necessary in the short/medium term?*

The reporting of exposures needs to be clarified in case of vulnerability to both acute and chronic climate change events: should exposures be reported under the category for which there is maximum vulnerability? Or shall double counting be allowed (i.e. by reporting the same exposure in column “d” and “e” of Template 7 simplified)?



The same hold true for ***Template 7. extended***: It is unclear how exposures would have to be reported in case of vulnerability to more than one environmental hazard. Should it be reported under the hazard category for which there is maximum vulnerability, or should banks allow double/triple counting? Template 7 extended requires a high degree of granularity, so that there has to be sufficient time for implementation as a lot of effort has to be put in amending banking systems. It has to be clarified, which “heatmap” has to be used for mapping. As it is mentioned above, it cannot be the sole responsibility of the banking sector to collect, map and scrutinize data for heatmaps to fulfill the requirements for the disclosure in Template 7 and bear the costs of this evaluation.

If an exposure is subject to multiple physical risks, the institution should neither have to double disclose this risk nor perform a distribution of the amounts but should be allowed to allocate it to the predominant physical risk.

*Q13: Regarding template 7, specific feedback is asked regarding the methodologies and data sources that institutions may use to identify the relevant geographies. Feedback is also required on the content and disclosures proposed in the extended version of the template and on the transitional period proposed.*

Regarding the transitional period until 2024 for a detailed reporting based on granular hazard categories, as indicated above the transitional arrangement is not helpful as banks already have to disclose the split acute/chronic in 2022. (Template 7.1 required in transitional period includes implicit granularity of template 7.2, as the granular information on each risk type is necessary to determine distinction between chronic and acute climate related hazards, required in template 7.1). While the latter could be tackled with an interim solution based on qualitative internal assessment – this solution would be an additional effort which would not necessarily be coherent with the physical risk mapping done based on a system integrating scientific data for all the hazards. Therefore, the transitional period introduced doesn’t bring any elevation of the effort for the institution, as the same data will have to be collected for both templates (7.1 and 7.2).

As to the data sources: there is a lack of centralized and harmonized data sources for mapping of physical risk so building up an adequate solution is going to be challenging, especially for banks with subsidiaries outside EU as data coverage and granularity needs to be explored.

There is a very limited value in imposing on banks the burden to pool data from different national sources (and within the same country, different databases for different hazards). A centralized solution with the needed data seems the only solution to ensure an objective assessment of physical risk in a harmonized and accurate way. Hence, the transitional period should be set based on the timeframe until such a solution becomes available.

Since there is no clear and unified classification of the geographical areas affected by each type of chronic or acute events, the comparability of disclosed data among institutions will not be feasible. Current ITS provides only options how to classify geographical areas in terms of exposure to physical risks, leading to an individual approach for each institution. A unified approach from the regulator is desired.

*Q14: Regarding templates 8 and 9, do respondents consider that this template should be enriched including information not only on assets aligned with the taxonomy but also in the interest income generated by those assets? Do respondents agree with the timeline proposed and transitional period proposed for the disclosure of these templates?*

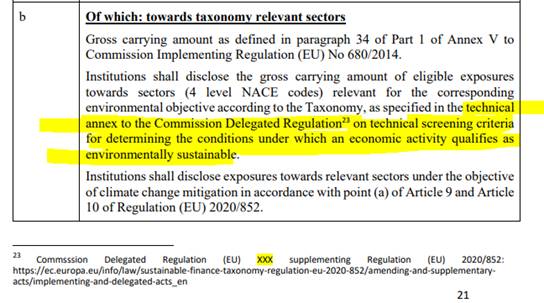
Disclosure of interest income generated by relevant assets will bring additional burden to the institutions to implement it in the BI structure with the same granularity as other components required by disclosure (gross carrying amount, provisions, stage, performing criteria etc).

Concerning Template 8, while the Taxonomy requires annual disclosure (according to Art. 8 of the Taxonomy, undertakings shall publish their Taxonomy-compliance in their non-financial statement which has to be disclosed annually), the EBA suggests that the GAR is disclosed semi-annually. This would imply that at one of the two disclosing dates banks would not have the most up to date information available (as the reporting obligations for other economic agents would only be annual). Although this semi-annual disclosure requirement is enshrined in Art 449a CRR II, alignment should be sought and annual disclosure for the GAR foreseen.

Only companies in scope of Art. 8 of the Taxonomy disclosure should be included in the GAR. We understand that the EBA sees that institutions would already start to collect this information on a bilateral basis in the context of loan origination according to the recent EBA GLs on loan origination and monitoring. However, it should be noted that not all customers will be able to provide the relevant information. For example, SMEs will face huge difficulties when providing the relevant information.

This should (at least) allow institutions to work based on proxies beyond the 2024 horizon currently envisaged, since also after June 2024 there will be cases where the Taxonomy-compliance of certain counterparties cannot be determined.

Furthermore, the deadline for the disclosures is ambitious considering the lack of operational definition for screening criteria for Taxonomy aligned activities/environmentally sustainable/enabling activities. This is relevant also for Template 1 (exposure shall be reported also for CCM activities)



Furthermore, a complete alignment of GAR disclosure as per EBA ITS and as per Taxonomy Art 8 has to be achieved. However, the templates do not have the same format (e.g. in Art 8 also off balance sheet exposures are captured, whereas for EBA ITS this does not seem to be the case).

*Q15: Specific feedback is required from respondents on the way template 10 is defined, and on whether there is additional information that should be added. Feedback is sought on alternative disclosure formats that may contribute to a more standardised and comparable disclosure.*

*Q16: Finally, respondents feedback on whether the draft ITS should include a specific template on forward looking information and scenario analysis, beyond the qualitative information currently captured in the tables and templates under consultation and the information required in template 4.*

Yours sincerely,

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