POSITION PAPER

ESBG response to EBA consultation on draft ITS on Pillar 3 disclosures on ESG risks

ESBG (European Savings and Retail Banking Group)

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ESBG

Consultation form

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions detailed below.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- are supported by a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- provide alternative regulatory options for consideration by the EBA.

Question 1: Are the instructions, tables and templates clear to the respondents?

In general terms **instructions, tables and templates are clear. However, there is some lack of clarity around some templates and instructions. Please, find below some specific comments regarding the lack of clarity. Apart from this, we consider that disclosures requested exceed by far the mandate in the underlying regulation and do not achieve the policy objective. We explain further in question 3.**

The common understanding between the **Draft ITS as well as the report according to Art. 98 (8) of the CRD**, to which the EBA refers, is **not sufficiently clear**: neither in the definitions nor in the delimitations of the specific risk drivers to be disclosed.

We have also noticed that some templates should be reported for non-financial corporates exposures only, while on other templates real estate loans are included. This creates a discrepancy and might be difficult to compare. **The coherence of the overall templates might be achieved by clearly indicating in the Pillar 3 report (and not just in the instructions) what is the scope of the assets eligible for each template**.

Moreover, the **disclosure of CO2 intensive risk positions (Template 5) is not feasible**, as on the one hand **the identification and correct classification of counterparties are not possible** without friction in the transitional phase and on the other hand **the requirement to disclose carbon-intensive firm's details will violate data protection**. Moreover, the **instructions are unclear regarding the scope** of the template: it is not clear whether the scope covers the top 20 polluting companies in an institution or exposure toward the top 20 predefined polluting companies in the world/EU/country. If the scope of the template covers exposures towards already predefined polluting companies, it is not clear what should the information in column f of the template represent, considering that the information in column f would be obsolete. Additionally, it is **unclear which level of top polluting companies is relevant** for an institution. For example, for EU consolidated entity, should the institution consider top polluting companies in the EU only, in the world or each member state.

The disclosure requirements also give the impression that the EBA interprets ESG risks as an independent risk category and not as a risk driver of existing prudential risks. **The connection between risk category and risk driver is not clearly elaborated** in the Draft ITS, i.e. in the "Instructions" of the tables.

Finally, we have identified a lack of clarity regarding the methodology to breakdown counterparties' activities by NACE codes. The RTS does not provide clear instructions as to how the NACE code breakdown should be considered at the counterparty level. Some guidance was introduced in the instructions to the templates, but we could only find it for the template 1, leaving questions for the methodology to use for the other templates. Two methodologies can be considered by the EBA:

- **Either banks are expected to report on the basis of oneNACE code for a counterparty as it is intended by the EBA for template 1**: this methodology has the advantage of being aligned with the current practices under other reporting such as FINREP. However, questions remain on the methodology to use for counterparties that might fall under a NACE code that does not fully represent the economic activity of the company (ex: holdings).
- **Or banks are expected to report all activities in which a counterparty is active, hence using several NACE codes for one counterparty**: this methodology seems to be more aligned with the EBA's intentions under the information "of which exposures towards other carbon-intensive sectors" required in the proposed templates 1 and 6. Indeed, to report this information, banks would need to know all sectors in which a company is active and hence adapt their IT systems adequately. As for the first methodology, questions remain on NACE codes that do not fully represent the economic activity of a company (ex: holdings). In addition, the use of such a methodology by banks should be conditioned to 2 things. First, due to data availability issues, in particular for non-NFRD counterparties, such a methodology cannot be required from banks before the CSRD has entered into application. Second, the EBA should set representativeness thresholds in order to qualify the significance of an activity in a counterparty's business (example: only activities that represent more than x% of the company's turnover should be reported by banks).In any case, the methodology to be used should be clarified by the EBA.

Question 2: Do the respondents identify any discrepancies between these tables, templates and instructions and the disclosure requirements set out in the underlying regulation?

Whilst we consider that the tables and templates in general terms address the disclosure requirements in the underlying regulation we do believe that **they do not achieve their intended objective and that they go far beyond what is intended** (see our answer to question 3).

In this regard, we consider that **EBA has not properly addressed the materiality, proprietary and confidentiality of information**, according to what is reflected in Article 432 and despite its efforts to address proportionality.

According to Article 432, institutions may omit one or more of the disclosures listed in Titles II and III where the information provided by those disclosures is not regarded as material. This Article stands that information in disclosures shall be regarded as material where its omission or misstatement could change or influence the assessment or decision of a user of that information relying on it to make economic decisions.

In this regard, we consider that **information on social and governance risks are not yet material from a prudential perspective** so any disclosure requirement, even if only qualitative, would be counterproductive. We also note that the tables for social risks and governance risks include disclosures that are relevant for climate and environmental risks(e.g. risk appetite, assessment procedures and limits for social risks) but can hardly be made for the first today.

As we have explained in our response to the EBA's Discussion Paper on management and supervision of ESG risks for credit institutions and investment firms, **we do not consider it proper to treat environmental, social and governance risks under a single category of "ESG risks" (same 'taxonomy') due to their different nature**. Environmental, social and governance risks do not emerge at the same time, they have different impacts and transmission channels and most probably they should be assessed based on different methodological tools. Also, despite the relevance social risks and governance risk have gained in recent years, they do not currently pose a systemic risk for banks; this is only the case for climate risks. Apart from that, data for social risks and governance risks as well as corresponding methodologies are not mature enough today. On the other hand, the data maturity and methodologies for climate risks allows their progressive inclusion in the prudential framework of banks. Therefore, currently, pillar 3 disclosures should only cover climate risks.

Finally, risks that are not identified by banks as material and thus, do not pose a first-degree order/significant risk nor systemic risk from a prudential perspective are not included in banks' risks catalogues and shall not fall under the prudential scope, i.e. credit institutions should not be obliged to disclose Pillar 3 information about them.

Considering the abovementioned, we urge EBA to recommend to legislators to adapt the level 1 text to properly address these risks in a differentiated manner.

Article 432 also states that institutions may omit one or more items of information referred to in Titles II and III where those items include information that is regarded as proprietary or confidential. In this regard, proprietary means that disclosing the information publicly would undermine the institution's competitive position. Information shall be regarded as confidential where the institutions are obliged by customers or other counterparty relationships to keep that information confidential.

The disclosure requirements below regarding the disclosure of green financing targets or even the disclosure of data gaps could not be fully aligned with the proprietary principle stated above and raise competitive concerns:

- **Disclosure of business strategy and processes (Table 1 and 2, line 3)**: The disclosure of planned investment activities in green industries is a sensitive competitive factor. The disclosure requirement violates the principle of Article 432 (2) subparagraph 2 CRR, according to which business secrets that weaken the competitive position of the respective institution do not have to be disclosed.

- **Information on risk management (Table 1, line 15):** The disclosure of data and information available to the institution to carry out risk management of environmental risks as well as measures taken by the institution to close data gaps and improve data quality and accuracy are internal bank practices that, in our view, should not be made public to avoid a potential competitive disadvantage.

The disclosure of key data and information that are currently missing from the institutions to carry out the risk management of environmental risks aims to highlight potential weaknesses in the ESG risk management process without considering that the development of systems and methods for assessing ESG risks has not yet been completed. Such disclosure may lead to a potential competitive disadvantage.

Concerning Art. 432, **the disclosure of the exposure amount per top carbon-intensive counterparty (Template 5) raises serious concerns regarding banking secrecy and the associated risk approach**. Disclosing the name of 20 firms considered as most carbon-intensive indeed contravenes the banking secrecy rules in place. The alternative approach proposed by the EBA in its consultation paper (i.e. publishing an aggregated number of the top 20 firms) could be an adequate option that does not contravene banking secrecy laws. However, such a list does not take into account the amount of exposure of the bank on these carbon-intensive firms, so a risk-based approach should be introduced. **We would hence recommend the EBA to clarify that banks are expected to analyze their biggest exposures in their banking book, and screen them according to a given list of the world/European/national most carbon-intensive firms, provided that the EBA requires a specific list to be used for that screening**.

Although the EBA underlines that considers several proposals to support institutions in the process of preparing ESG Pillar 3 disclosures in the interest of proportionality, **we do not consider the defined simplifications to be far-reaching enough**. We believe it is necessary to formulate the proportionality principle in granular terms already in the ITS and to create a perspective for the less large and complex credit institutions as well, which will probably end up having similar requirements.

Finally, **the proposed templates do not consider the lack of data availability for non-NFRD counterparties.** The proposed templates require a level of granularity of the information that does not currently exist either in the counterparties' publicly disclosed information or in the banks' IT systems. The challenge is even more important for bank's counterparties that will not be subject to the future Corporate Sustainability Reporting Directive (CSRD) and hence won't be required by EU law to disclose non-financial information (which is, in particular, the case for SMEs and non-EU counterparties). Even if such companies were to disclose information voluntarily, the information would not be subject to any mandatory assurance, and banks cannot be responsible for the accuracy of this data. Although we understand that the EBA's guidelines on Loan Origination and Monitoring will require banks to take into account the risks associated with ESG factors on the financial conditions of borrowers in their credit risk appetite, policies and procedures, the guidelines on Loan Origination and Monitoring entail major flaws that will be insufficient to cover EBA's Pillar 3 proposed templates.

- First, **the GL only cover the loan book of credit institutions**, which is not the case with EBA's Pillar 3 draft ITS that covers both the banking book (including debt instruments) and the trading book.
- Second, the GL only require banks to take into account ESG risks stemming from borrowers, without any specific recommendations to do so: **we believe that this lack of specific guidance cannot be considered as a basis for implementing EBA's Pillar 3 draft ITS, in particular, due to the different implementation timelines**. Indeed, banks are engaged in internal work to implement the GL LOM for June 2021 and address ESG risks issues based on their business model. They cannot be expected to consider in their current implementation work the EBA's Pillar 3 draft ITS that is nowhere near being finalized by June 2021. Furthermore, the implementation of the EBA's Pillar 3 draft ITS should be consistent among banks so that the final reporting is comparable: it should hence be addressed by banks separately from the GL LOM according to a timeline aligned with other EU regulations like CSRD.
- Third, the GL do not require further disclosures from counterparties that can decide not to disclose information which will consequently jeopardize banks' efforts to fulfil EBA's Pillar

3 templates. Rather, **the EBA's Pillar 3 reports should be based on the CSRD counterparties, as their data will be mandatorily published and audited**.

Consequently, the implementation timeline of EBA's Pillar 3 draft RTS should be distinct from the EBA's GL LOM's timeline: it should rather align with the CSRD timeline
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Question 3: Do the respondents agree that the new draft its fits the purpose of the underlying regulation?

Savings and retail banks do not agree that the new draft fits the purpose of the underlying regulation.

The Pillar 3 disclosure framework promotes transparency as the main driver of market discipline in the financial sector to reduce the asymmetry of information between credit institutions and users of information, and to address uncertainties on potential risks and vulnerabilities faced by banks. The Pillar 3 framework on prudential disclosures on ESG risks should allow investors and stakeholders to get informed about institutions' ESG exposures and strategies, compare the institutions' risk profile and make informed decisions. In particular, it should support institutions in the public disclosure of **meaningful and comparable information on ESG related risks and vulnerabilities**, including transition and physical risks, which may exacerbate other risks in their balance sheet. In addition, it should support institutions in providing transparency on how they are mitigating those risks, including information on how they are supporting their customers and counterparties in the adaptation process to e.g. climate change and in the transition towards a more sustainable economy.

We do believe that to achieve these objectives it is important to convey globally which is the information that would help investors to better understand the risks and vulnerabilities faced by banks. In this regard, **guidance from a global standard setter** could be helpful. However, the steps taken by the EBA could substantially differ from what could be set at the global level. We see this risk growing particularly with regard to social and governance risks where there is not yet a global convention on their definition and the most appropriate way to approach them.

Moreover, **we do not support the use of proxies to solve data availability problems as they provide very different and not comparable outcomes**, which may mislead investors and the public. We consider that these problems should be tackled by modifying the starting year of disclosures.

With regard to risk management, the disclosure requirements, the tables and the underlying templates are of limited suitability for meeting the requirements of Article 435 CRR in conjunction with Article 449a CRR. **Only information material for the objectives of Pillar 3 disclosures should be provided, otherwise, the disclosure requirements would be disproportionate**- In this regard, **accounting information should not be disclosed publicly until a causal link is proven between the credit quality of an exposure and the economic activity of the counterparty**. We would hence recommend the EBA to delete all information regarding 'stage 2 exposures', "average weighted PD", "accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions" from the templates as this would only provide limited information on the extent to which the economic activities of the institutions qualify as sustainable.

(see also answer to question 5).In addition, **the tables and templates do not reflect the different ways that the business models of significant institutions are affected by ESG risks.**

The existing ITS on public disclosure (EBA/ITS/2020/04), which among other things implements the amendments to CRR II, already includes individual requirements for each risk category, including credit and liquidity risk, in qualitative and quantitative terms - in qualitative terms with reference to Art. 435 CRR on risk management disclosures. In the instructions of the qualitative disclosure tables, the EBA's expectation is formulated that information on the risk management objectives and the risk management policy for ESG risks must be disclosed analogously to the requirements of Art. 435 CRR. These comparatively very comprehensive statements specify the requirements of the EBA Draft ITS in the greatest detail, which in turn is intended to concretise a Level 1 measure (here: Art. 449a CRR) as a Level 2 measure.

A direct comparison of the Draft ITS with the ECB's supervisory guidance on climate and environmental risks (as of November 2020) also shows that the Draft ITS is also more granular and descriptive in the requirement for risk management data to be disclosed, particularly in the disclosure of risk management information. While there are various approaches to addressing proportionality, we do not believe these are sufficient. Most preferably and analogously to the recommendations of the ECB guidelines, the scope of disclosures should be significantly reduced. We also express this with a view to a possible later explicit or implicit expectation of the supervisor that similar information should also be disclosed by less significant institutions.

Furthermore, we are critical of the fact that **the supervisory requirement** with regard to the information to be disclosed **does not reflect, or only to a limited extent, the fact that the development of ESG risk management in the various institutions is still very diverse and that a quantitative implementation is not yet consistently possible**, partly due to the lack of standards and data. In parallel to an existing disclosure requirement, the EU is further developing the standards on ESG risks. This process is provisionally scheduled to be completed by the end of 2022. However, **the EBA's expectation of disclosure of risk management objectives and processes presupposes stable - albeit still to be further differentiated - concepts and processes in the institutions, which are only developing** - albeit already in parallel with the Taxonomy. The same applies to the data basis.

Only on this basis will it then be possible to define the more precise risk management goals and procedures. Since both are currently under development, the transitional periods shown with estimates are not adequate and the alternative disclosure of qualitative information is too granular.

The Pillar 3 reporting should only represent the risks to which a bank is exposed at the time of the reporting. For consistency purposes with the Pillar 3 report as currently existing, we believe that the ESG risks templates should only focus on risk exposures at the time of the reporting, and not include either forward-looking information or ESG risk mitigation measures. Consequently, **we would recommend the EBA to delete from its draft ITS the templates 4, 8, 9, 10, as well as the references to the share of exposures aligned with the EU taxonomy in templates 1 and 6**.

Specifically, we do not consider the following disclosures to be covered by the requirements of Article 435 CRR:

- Disclosures on business strategy and processes (Table 1 and 2, line 2) as well as risk management (Table 1, line 16 and Table 2, line 12): Concrete limits can only be set if the state of development of the methods for assessment is advanced. This assumes a consistent quantification of environmental and social risks. With regard to the methods or benchmarks used, information on international initiatives is expected. With reference to ESG risks as a risk driver, not as a risk category, this requirement shows that the required granularity of information is far too high and no longer in line with Art. 435 CRR.

- **Disclosures on Governance (Table 1, line 9 and Table 2, line 7)**: With the disclosure requirement on the integration of ESG risks into the remuneration systems, an expectation is shown with regard to the remuneration systems, which is not provided for under Art. 435 para. 2 CRR j.

- **Disclosures on risk management (Table 1, line 14):** The disclosure requirements of Art. 449a CRR are linked to Art. 98 para. 8 CRD and are integrated into Pillar II. Effects on Pillar I ratios such as the capital ratio have not yet been determined and cannot be derived.

<u>Trading portfolio (template 6)</u>:

According to the ITS, for proportionality reasons a threshold for the disclosure of information regarding the trading book is set. Nevertheless, the ITS introduce as reference credit institutions that do not meet the conditions set out in Article 94(1) of Regulation (EU) No 575/2013 or the conditions set out in Article 325a(1) of that Regulation. We would like to stress that this reference is not relevant to the objectives pursued by the disclosure requirement. In particular, trading activity related to hedging against changes in the interest rates or exchange rates is not relevant from a sustainability perspective. This is reflected in the sustainable benchmarks regulation (Regulation (EU) 2019/208), which excluded benchmarks administrator of interest rate and foreign exchange benchmarks from sustainability requirements. Therefore, information on the trading book that is not material from a sustainability perspective should be deleted, as it would not provide any helpful information.

Apart from that, due to the short-term nature of the transactions in the trading book (up to a maximum of 1 year) and the associated high volatility of the positions contained therein it is highly questionable whether the disclosure on the trading book is a relevant indicator is at all purposeful, as it would not provide any helpful information on the long-term climate risks of the credit institutions. We consider only information on the banking book to be helpful and relevant in the context of disclosure on ESG risks due to the long-term nature of the exposures. Template 6 disclosures with regard to information on the trading book should be postponed until methodologies mature enough on the topic.

Question 4: Do the respondents agree that the tables with qualitative information proposed capture properly the information that institutions should provide?

As already explained in question 1, we consider **the qualitative disclosure requirements to be significantly too extensive - compared to the previous requirements from Art. 435 CRR for the actually established risk types as well as the ECB recommendations in expectation 13 of the guideline on dealing with climate and environmental risks**. In the qualitative disclosure, in particular on the risk management objectives and the risk management policy for ESG risks, information should be disclosed analogous to the requirements of Art. 435 CRR. The connection between risk category and risk driver must be taken more into account and the requirements should be made clearer.

We consider that **the tables/information requirements on social and governance risks should be postponed for disclosure at least until a definition is clearer and a definition of objectives towards social and governance factors or its corresponding taxonomy is finally available.** Otherwise, it will be difficult to achieve comparability between the institutions. Stakeholders can find corresponding information on social and governance aspects in the non-financial reporting. A duplication of the information does not appear to be expedient. Moreover, as stated in question 2, these risks should be material from a prudential perspective before starting any kind of pilar 3 disclosures.

With regard to the **qualitative requirements for environmental risks (Table 1):**

- Line 14 "Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile": The information is rather quantitative in nature and therefore does not fit the objective of qualitative information. The quality-assured making of statements on the capital and liquidity risk profile of banks over the intended long period (5-20 years) appears to be almost impossible under the application of (commercial) due diligence.

- Line 16 "Description of limits to environmental risks (as drivers of prudential risks) that are set, and triggering escalation and exclusion in the case of breaching these limits": This line should be deleted. Internal limits should not be published, as they would give too detailed insight into the banks' risk management.

Question 5: 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?

The required data of template 1 is largely based on FINREP. At the same time, the average probability of default (PD) is to be indicated. However, this risk parameter is not reported in FINREP. Combining the data from different data regimes takes a lot of effort. In addition, the added value of the average PD is unclear. PD usually refers to a one-year horizon and is based on a variety of parameters. Green assets are neither per se low-risk nor per se high-risk. It depends on the individual case and the framework conditions. Since PD describes the overall credit default risk and refers to a short-term risk horizon, its informative value in a reporting system on sustainability issues is very limited. We, therefore, recommend that the information on the average PD be dispensed with.

Equally unclear is the usefulness of the breakdown by "live" and defaulted exposures. This results in hardly any knowledge gains for the field of sustainability. On the contrary, there is a danger of overloading the Pillar III report and reporting insignificant information and of extracting prudential conclusions that haven't been established between sustainability and performing/non-performing exposures. For this reason, we advocate only reporting on "live" exposures in this template and dispensing with the disclosure of information on defaulted exposures.

Surprisingly, exposures that do not qualify for inclusion in a sustainability benchmark according to the Benchmark Regulation should also be reported. This requirement is too far-reaching. The Benchmark Regulation is not relevant for all institutions. However, with the requirement to report in Pillar III about exposures that do not qualify for inclusion in a sustainability benchmark according to the Benchmark Regulation, institutions are forced to implement an additional verification routine

and flag exposures accordingly. Pillar III should not create new requirements, however, but report on what institutions are already obliged to do anyway. In our view, it is sufficient if institutions report on the share of other risk positions (as a residual figure without further breakdown) within the framework of Pillar III. A subdivision into sustainable exposures and exposures that are exempt from the Benchmark Regulation does not increase the usefulness of the reporting but only the complexity of the disclosure. Therefore, the corresponding reporting requirement ("Of which exposures towards companies excluded from EU Paris-aligned benchmarks under points (b) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation") should be deleted. Also, we would like to note that the definition of requirement "of which exposures towards other carbon-intensive sectors" in the instructions excludes exposure to companies excluded from EU Paris-aligned benchmarks, however, the reference in the instructions is wrong ("in columns e to g" instead of "f to h"). Lastly, the definition of sectors that are more intensive in terms of GHG emissions, i.e. columns i to k and s to u, is not fully clear. It should be clarified what is the threshold for "more intensive". The individual assessment of sectors can lead to the incomparability of disclosed information among institutions.

Question 6: 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?

We believe that a common methodology for GHG emissions calculation should be provided by the EBA. The banks are expected in template 1 to disclose the GHG emissions of their banking book. Such a requirement should be accompanied by methodological guidance from the EBA to make sure that banks avoid as much as possible multiple counting and publish comparable results. Another option would be for banks to publish two different information: one ratio on only scope 1 and scope 2, and one ratio taking into account scopes 1, 2 and 3. Without a common methodology, we have concerns regarding the relevancy and comparability of this information among banks.

Question 7: 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, we agree.

Question 8: 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?

Please see answer to question 3. **The Pillar 3 reporting should only represent the risks to which a bank is exposed at the time of the reporting**. For consistency purposes with the Pillar 3 report as currently existing, we believe that the ESG risks templates should only focus on risk exposures at the time of the reporting, and not include forward-looking information. Consequently, **we would recommend the EBA to delete from its draft ITS the templates 4.**

Question 9: 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?

As mentioned above, any forward-looking information should be deleted from Pilar 3 reporting, as it fits better in the non-financial reporting.

Question 10: 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 th … (original missing part)

In our understanding, it is questionable how the disclosure requirements in template 5 can be reconciled with **banking secrecy and national data protection requirements.** Should many credit institutions use the confidentiality option provided by the ITS, the informative value of the information from this table is obsolete. As an alternative, we propose **an abbreviated and anonymised disclosure without columns a and b or banks to analyse their biggest exposures in their banking book, and screen them according to a given list of the world/European/national most carbon-intensive firms or to analyse the inclusion of this information on supervisory reporting provided that the EBA requires a specific list to be used for that screening**. Also, disclosing clients name, LEI and banks' exposure towards these clients would be **extensive.** Thus, **a different aggregation of the template** would be more suitable: based on top 5 clients up to 20 clients, which means 4 groupings in terms of Template 5, would still serve the purpose of comparing the level of exposure toward the most polluting companies among institutions.

Question 11: 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.

The comments on question 5 regarding the Benchmark Regulation also apply to the information in template 6.

According to the ITS, for proportionality reasons a threshold for the disclosure of information regarding the trading book is set. Nevertheless, the ITS introduce as reference credit institutions that do not meet the conditions set out in Article 94(1) of Regulation (EU) No 575/2013 or the conditions set out in Article 325a(1) of that Regulation. We would like to stress that this reference is not relevant to the objectives pursued by the disclosure requirement. In particular, trading activity related to hedging against changes in the interest rates or exchange rates is not relevant from a sustainability perspective. This is reflected in the sustainable benchmarks regulation (Regulation (EU) 2019/208), which excluded benchmarks administrator of interest rate and foreign exchange benchmarks from sustainability requirements. Therefore, information on the trading book that is not material from a sustainability perspective should be deleted, as it would not provide any helpful information.

Apart from that, due to the short-term nature of the transactions in the trading book (up to a maximum of 1 year) and the associated high volatility of the positions contained therein it is highly questionable whether the disclosure on the trading book as a relevant indicator is at all purposeful, as it would not provide any helpful information on the long-term climate risks of the credit institutions. We consider only information on the banking book to be helpful and relevant in the context of disclosure on ESG risks due to the long-term nature of the exposures. Template 6 disclosures with regard to information on the trading book should be postponed until methodologies mature enough on the topic.

Question 12: 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?

Banks are not mature enough to assess their climate-related physical risks to the extent proposed by the EBA, as it would need common European climate scenarios as a prerequisite. Although we acknowledge the need for banks to actively engage in the assessment of their climate-related physical risks, banks are currently developing methodologies while facing data availability challenges from their counterparty, which makes template 7 (both simplified and extended versions) too ambitious for the banks to being able to report relevant and meaningful information in such details. Beyond the general data unavailability, the assessment of physical risks requires specific data from counterparties that are sometimes considered as breaching business secrecy by corporates (such as information on the localization of their value chain). Furthermore, **the breakdown by climate events required in the extended template 7 would necessitate common climate scenarios that banks would be able to use to assess if their counterparty is effectively subject to those climate events** (for example we would need the EU to provide detailed information, by postal code, of the geographical areas subject to floods, heat stress etc.): this would be the only way to have comparable data between banks. Without those scenarios, banks cannot be expected to disclose quantitative data. We would hence recommend deleting the extended template 7 until the EU has established such scenarios.

Additionally**, the simplified template seems to be sufficient also in the medium term, so the extended template should be deleted**. In addition, the simplified template 7 should be amended to better fit the current state of possibilities. **We would recommend deleting all accounting information as they have limited relevancy for physical-risks assessment,** i.e. information on Stage 2 exposures, PDs and risk provisions.

Apart from this, the information to be requested regarding geographies prone to specific climate-related hazards are not clearly stated. We recommend that the current approach used in other Pilar 3 templates i.e. each table should be filled per geography zone should apply here as well.

Question 13: 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.

The **data availability challenges** that banks are currently facing from their counterparties make template 7 (both simplified and extended versions) too ambitious for the banks to be able to report relevant and meaningful information in such details. Beyond the general data unavailability, the assessment of physical risks requires specific data from counterparties that are sometimes considered as breaching business secrecy by corporates (such as information on the localization of their value chain). Furthermore, **the breakdown by climate events required in the extended template 7 would necessitate common climate scenarios that banks would be able to use to assess if their counterparty is effectively subject to those climate events. T**his would be the only way to have comparable data between banks. Without those scenarios, banks cannot be expected to disclose quantitative data. **We would hence recommend deleting the extended template 7 until the EU has established such scenarios.**

Additionally**, the simplified template seems to be sufficient also in the medium term, so the extended template should be deleted**. In addition, the simplified template 7 should be amended to better fit the current state of possibilities. **We would recommend deleting all accounting information as they have limited relevancy for physical-risks assessment,** i.e. information on Stage 2 exposures, PDs and risk provisions.

The template 7.1 to be used in the transitional period implicitly includes the granularity of template 7.2, as the granular information on each risk type is necessary to determine the distinction between chronic and acute climate-related hazards required in template 7.1. **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). 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 be impossible. The current ITS provides only options for classifying 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.**

Finally, **clarification should be provided by the EBA regarding the methodology to use, probably as part of their Pillar 2 report mandate**. There is indeed a need for clarification regarding the assessment of the value chain of the counterparties: if having an **assessment of the whole value chain** would be more meaningful from a risk-based approach, it is also very challenging data-wise. Clarification is also needed regarding the **time horizon** expected to be considered by banks when assessing the exposures to climate change event. Finally, the distinction between chronic and acute climate change events can trigger **double counting**, which risks confusing the readers.

Question 14: 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?

In principle, institutions should be given more time to familiarise themselves with the GAR, as the new indicator has many implications for existing processes. Also, consistency of the reporting requirements with the reporting times of the non-financial statements under the NFRD should be established - the Pillar 3 reports in the 1st quarter of a year can only process the data of NFRD reports from the same year with great difficulty or practically not at all. Considering that SMEs are not currently obliged to collect and report these data and the challenge that such a requirement poses for them due to their limited capacity in human resources and IT tools SMEs should be excluded from these disclosure requirements. More importantly, banks and especially savings and retail banks which are the main financing source of SMEs cannot and should not put pressure on the SMEs looking for the required data. SMEs could disclose voluntarily if needed.

We consider the double disclosure of the templates (8 and 9 according to EBA Pillar 3 ITS or 1 and 3 according to EBA Advice on Article 8 Taxonomy Regulation) in two external reports of the institutions to be redundant. A reference from the Pillar 3 report to the non-financial statement would be a feasible way to transparently present the required information. However, since the use of cross-references is severely restricted by Article 434 CRR, Templates 8 and 9 should be deleted altogether. In our opinion, multiple disclosures of identical information are of no value to stakeholders, as the addressees interested in sustainability will certainly not overlook the non-financial statement. In addition, in the event of any changes to the requirements under Article 8 of the Taxonomy Regulation, the ITS templates would have to be amended, which would lead to higher costs for the authorities and could cause uncertainty among the institutions and stakeholders if the changes in Pillar 3 were not implemented and the disclosures were therefore unfoundedly different.

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

Question 15: 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.

Question 16: 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.

In our opinion, disclosure requirements should not be overloaded. More specific requirements for scenario analyses should only be implemented in a later step on a secure data basis and the findings should only be disclosed afterwards.

About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.

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