Consultation Paper

Draft Implementing Standards

on prudential disclosures on ESG risks in accordance with Article 449a CRR
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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the ‘send your comments’ button on the consultation page by 01 June 2021. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA’s rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA’s Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EU) 1725/2018 of the European Parliament and of the Council of 23 October 2018. Further information on data protection can be found under the Legal notice section of the EBA website.
2. Executive Summary

The capital requirements regulation (EU) No. 575/2013 (CRR) includes under article 449a the requirement to disclose prudential information on environmental, social and governance risks, including transition and physical risk, addressed to large institutions with securities traded on a regulated market of any Member State. These disclosure requirements are applicable from June 2022 on an annual basis during the first year and biannually thereafter. Article 434a CRR mandates the EBA to develop draft implementing technical standards (ITS) specifying these disclosure requirements in a way that conveys sufficiently comprehensive and comparable information for users of that information to assess the risk profile of institutions.

This consultation paper puts forward proposals on tables and templates that specify the disclosures required in Article 449a CRR, including:

(i) tables for qualitative disclosures on environmental, social and governance risks,

(ii) templates with quantitative disclosures on climate change transitional risk,

(iii) templates with quantitative disclosures on climate change physical risk

(iv) templates with quantitative information and KPIs on climate change mitigating measures, including the green asset ratio (GAR) on taxonomy-aligned activities and other mitigating actions.

The EBA is proposing a sequential approach for the implementation of the prudential disclosure requirements under Article 449a CRR, starting with quantitative information on climate change related risks, including transition and physical risks, the implementation of a Green Asset Ratio (GAR) on EU taxonomy\(^1\) aligned activities, which translate the Paris agreement, as well as quantitative information on other mitigating actions, and qualitative disclosures for environmental, social and governance risks.

The EU taxonomy provides a common classification system for sustainable activities, such as those that are aligned with the Paris agreement. However, it is acknowledged that challenges arise from the lack of a common classification system for environmentally harmful activities or for the identification of sectors and geographies exposed to climate change physical risk. This is very relevant information for stakeholders and this consultation paper includes proposals for the disclosure by institutions of meaningful and informative data, at least using estimates.

In particular, in the case of climate change transition risk, the EBA proposes that institutions should disclose information on exposures towards sectors that highly contribute to climate change, with a breakdown on the one hand of exposures towards fossil fuel and other carbon related sectors and

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on the other hand of taxonomy aligned exposures. This information is combined with information on scope 3 emissions per sector.

In the case of climate change physical risk, institutions should start working on the identification of those exposures towards sectors and geographies exposed to climate change events linked to physical acute and chronic risks, and a disclosure template including this information is included for consultation.

Finally, institutions should disclose quantitative information on the actions that they are putting in place to mitigate climate change related risks, including information on taxonomy-aligned actions (GAR) and on other mitigating actions.

On the qualitative side, the EBA includes in the consultation paper three tables that specify the disclosure requirements on qualitative information related to ESG risks. These disclosures are designed in line with the discussion paper that the EBA has published in preparation for the report that the authority has to draft following Article 98(8) of the capital requirements Directive 2013/36/EU (CRD). The tables and instructions rely on the definitions, terminology and structure presented in that paper. Accordingly, the consultation paper puts forward proposals for the disclosure of qualitative information on environmental, social and governance risks that may manifest on institutions’ balance sheets from the impact of these ESG factors and risks on their counterparties through main transmission channels (including physical and transition channels). Qualitative disclosures are expected to complement the quantitative information, for example when interpreting the institutions’ information on carbon related activities, or on the GAR, including e.g. qualitative information on the environmental carbon reduction strategies and targets.

**Next steps**

The consultation paper will be published for a three months consultation period.

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3. Background and rationale

1. The Pillar 3 disclosure framework promotes transparency as a 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 compare the sustainability performance of institutions and of their financial activities. 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.

2. Article 449a of Regulation (EU) No. 575/2013 (CRR) requires large institutions with securities traded on a regulated market of any Member State to disclose prudential information on environmental, social and governance risks, including physical risks and transition risks, as defined in the report referred to in Article 98(3) of Directive 2013/36/EU. Article 434a CRR mandates the EBA to develop draft implementing technical standards (ITS) specifying uniform formats and associated instructions for the disclosure of this information in a way that conveys sufficiently comprehensive and comparable information for users of that information to assess the risk profile of institutions.

3. This consultation paper (CP) puts forward the tables, templates, and associated instructions that institutions shall use in order to disclose relevant qualitative information on ESG risks, and quantitative information on climate change related risks, including transition and physical risks and mitigating actions, in accordance with Article 449a CRR.

4. When developing this CP, the EBA has worked in parallel on the EBA advice to the Commission on KPIs and methodology for disclosures under Article 8 of the Taxonomy Regulation, following the Commission’s Call for Advice (CfA) received in September 2020. This CP should be read in conjunction with the advice in order to get a more comprehensive picture of the ESG disclosure framework for banks.

3.1 Regulatory landscape on ESG disclosures in the EU

5. In March 2018, the Commission published its action plan on sustainable finance, as part of the broader efforts to connect finance with the specific needs of the European and global economy for the benefit of the planet and our society.

6. One of the aims of the Commission’s action plan is to foster transparency in the financial system. The Commission’s action plan on sustainable finance has triggered several legislative initiatives on ESG disclosures in the EU.
7. Review of the non-financial reporting directive 2014/95/EU (NFRD³): the NFRD lays down the rules on disclosure of non-financial and diversity information by large companies, including environmental, social and governance information:

   a. The Commission published in 2017 its non-binding guidelines on non-financial reporting⁴. In 2019, the Commission published a supplement to the guidelines on reporting climate-related information⁵, with an annex for banks, proposing disclosures and key performance indicators (KPIs) on climate change.

   b. Furthermore, the Commission launched a public consultation on the review of the NFRD, seeking more and better information from companies about their social and environmental performance and impacts. The EBA responded to the NFRD consultation, conveying the following key messages: Need to broaden the scope of application of the NFRD, so that more corporates are asked to disclose ESG information and institutions can have access to relevant data from the counterparties; and need for mandatory and standard disclosures that should contribute to the quality comparability of the information.

8. Publication of Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (Taxonomy Regulation). The Taxonomy Regulation establishes a common classification system of environmentally sustainable economic activities at Union level. Article 8 of the Taxonomy Regulation requires any undertaking subject to the NFRD to disclose information on how and to what extent the undertaking’s activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation:

a. These disclosures are applicable from January 2022 for the environmental objectives of climate change mitigation and adaptation and from January 2023 for other environmental objectives.

b. The same Article 8 mandates the Commission to adopt a delegated act specifying the content and presentation of the information to be disclosed.

c. In September 2020, the Commission published a call for advice (CfA) to the three ESAs on KPIs and methodologies for the implementation of these disclosures by undertakings under their remit, banks and investment firms in the case of the EBA.

9. The capital requirements regulation (EU) No. 575/2013, as amended in 2019 (CRR), includes article 449a on disclosure of environmental, social and governance risks. This Article requires large institutions which have issued securities that are admitted to trading on a regulated market of any Member State, to disclose information on ESG risks, including physical risks and transition risks, as defined in the report referred to in Article 98(8) of Directive 2013/36/EU (CRD):

a. Article 434a CRR mandates the EBA to develop draft implementing technical standards (ITS) specifying this disclosure requirement in a way that convey sufficiently comprehensive and comparable information for users of that information to assess the risk profiles of institutions.

b. The EBA is developing standard templates and tables with harmonised and comparable disclosures and associated instructions.

c. The draft ITS rely on the definitions of ESG risks, including physical and transition risk, included in the EBA discussion paper drafted following Article 98 CRD.

d. Institutions will have to start disclosing this information from June 2022. The first disclosure shall be annual and semiannual thereinafter.

10. Article 53 of the investment firms regulation 2019/2033 (IFR). Following this Article, from 26 December 2022, investment firms which do not meet the criteria referred to in Article 32(4) of Directive (EU) 2019/2034 (class 2 investment firms) shall disclose information on environmental,
social and governance risks, including physical risks and transition risks, as defined in the report referred to in Article 35 of Directive (EU) 2019/2034. Following the IFR, class 2 investment firms will have to disclose prudential information on ESG risks, similar to the information required to large institutions under the CRR in accordance with Article 449 CRR. In the case of ESG prudential disclosures by investment firms, there is currently no mandate for the EBA to implement them.

11. Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) lays down sustainability disclosure obligations for manufacturers of financial products and financial advisers toward end-investors. In the case of credit institutions, it applies to those institutions that provide portfolio management and investment advice services. Following the mandates included in the SFDR, the Joint Committee of the three European Supervisory Authorities (ESAs: EBA, ESMA and EIOPA) has issued final draft regulatory technical standards (RTS10) on ESG disclosure standards for financial market participants.

12. The EBA is publishing this CP on draft ITS on Pillar 3 ESG disclosures (P3 ESG ITS) following the mandate included in Article 434a CRR and the disclosure requirement included in Article 449a CRR. In parallel, the EBA drafted the response to the Commission’s CfA under Article 8 of the Taxonomy Regulation that should be read in conjunction with this CP.

13. There are relevant synergies between both mandates. There are also commonalities in terms of the information that credit institutions will have to disclose under the Taxonomy Regulation and under the CRR. The EBA has developed both products in parallel and in a coordinated way, in order to ensure consistency of definitions and classifications and of those disclosures that are common. The implementation of both disclosures requirements and the information that institutions should provide publicly should be revised in the future and on an on-going basis, in order to take into account any extensions or changes to the Taxonomy regulation and any other ESG regulatory or policy developments in the EU.

3.2 Draft ITS on Pillar 3 disclosures on ESG risks by large institutions

14. Following Article 449a CRR, from June 2022 large institutions which have issued securities that are admitted to trading on a regulated market of any Member State, shall disclose prudential information on ESG risks, including transition and physical risk, as defined in the report referred to in Article 98(8) of CRD. Article 434a CRR mandates the EBA to develop draft implementing technical standards specifying uniform disclosures in a way that conveys sufficiently comprehensive and comparable information for users of that information to assess the risk profiles of institutions. Disclosures should be implemented in a tabular format where appropriate.

15. The draft P3 ESG ITS that are now being consulted include quantitative and qualitative disclosure templates and tables and associated instructions for disclosures in accordance with Article 449a CRR. Quantitative templates include quantitative information on climate change transition and physical risks and on how the institutions are mitigating those risks. The latter include, although not only, information on taxonomy aligned activities that are contributing to environmental objectives, including climate change mitigation and adaptation actions that help to mitigate climate change related risks (green asset ratio).
16. The draft ITS is being developed as an amending ITS, as it will amend the final draft ITS’ institutions’ public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013\textsuperscript{11}. This is in line with the EBA strategic objective of defining a single, comprehensive Pillar 3 framework under the CRR that should integrate all the relevant Pillar 3 disclosure requirements, facilitating implementation for institutions and enhanced clarity for users of information, as expressed in the EBA Pillar 3 roadmap\textsuperscript{12}.

**Sequential approach**

17. The EBA is following a sequential approach in the development of the P3 ESG ITS, in line with the sequential approach that is being followed for the development of the Taxonomy Regulation and of other relevant initiative on ESG at EU level:

- The EBA includes in the first draft P3 ESG ITS, KPIs and quantitative information on climate change related risks, including transition and physical risks, and on risk mitigating actions, and qualitative disclosures for climate change and other environmental risks, and for social and governance risks. This is in line with the deadlines that the Commission has planned for the taxonomy, which by the end of 2020 covers only the screening criteria related to the environmental objectives of climate change mitigation and climate change adaptation.

- In particular, the draft ITS proposed in this CP include tables and instructions for the disclosure of qualitative information on institutions’ strategy, and on their governance and risks management framework regarding ESG risks.

- It also includes templates and instructions on quantitative information on assets and exposures that can face heightened climate change transition and physical risks, due to the sector or geography of the exposures, the energy performance of the collaterals or the carbon intensity of the counterparty.

- In addition, the EBA draft P3 ESG ITS include disclosure templates that rely on the classification system envisaged in the Taxonomy Regulation, providing information on the level of alignment of institutions’ activities with the taxonomy. These templates include information on the green asset ratio (GAR), that informs on what part of institutions’ exposures contribute to or enable the objectives of climate change mitigation and adaptation, and help to mitigate climate-change related risks.

- Finally, it also provides templates and instructions for the disclosure of information on other mitigating actions put in place by the institution, including actions to help their counterparties in the adaptation and transition process, but that do not meet the taxonomy criteria.

- Once the taxonomy screening criteria is extended to cover not only climate change mitigation and adaptation but also other environmental objectives, the EBA will then extend the draft P3 ESG ITS to implement quantitative disclosures on other environmental risks and objectives.


According to the political agreement of the Taxonomy Regulation, by the end of 2021 the Commission will report on whether to extend the scope of the taxonomy to social risks and to environmentally harmful and neutral activities, extension that the EBA would very much support as it would provide additional and relevant tools to institutions. If the taxonomy is eventually extended, to cover environmental harmful and neutral activities, the EBA will revise the quantitative information proposed in these draft ITS, in order to align it with the taxonomy definitions and classification criteria.

Timeline for the disclosures

18. According to Article 449a CRR, large institutions which have issued securities that are admitted to trading on a regulated market of any Member State shall disclose information on ESG risks from 28 June 2022. The same Article indicates that this information shall be disclosed on an annual basis for the first year and semi-annually thereinafter. This means that the disclosure for the first year would be annual, and related to the disclosure reference date 31 December 2022 (or relevant end-of-year disclosure for financial years not ending in December).

19. In addition to the sequential approach, and taking into account the challenges in terms of availability of data for institutions, particularly for the stock of loans, the EBA is proposing a phased-in approach for the first CP, with a transitional period for certain disclosures. In particular:

   a. a phase-in period until June 2024 is proposed for disclosures on institutions’ scope 3 emissions. The reason for this transition period is that institutions will need to collect information on CO2 emissions from their counterparties and develop methodologies to estimate their scope 3 emissions. During the transitional period, institutions shall explain the methodologies they are developing to measure and estimate their scope 3 emissions and the sources of data that they plan to use, and those institutions that are already estimating this information should start disclosing it, using estimates and ranges.

   b. a phase-in period until June 2024 for the disclosure of the green asset ratio on stock of assets for those exposures towards retail, and corporates not subject to NFRD disclosure obligation.

The reasons that support the need for a phase-in period is the need for institutions to collect information from their counterparties. The data collection process should be easier and faster in the case of counterparties that are subject to NFRD disclosure obligations, as they shall start disclosing relevant information for the 2021 financial year from January 2022 under Article 8 of the Taxonomy Regulation. This means that for the first disclosure reference date (end-of-financial year 2022) institutions should already be able to collect relevant information from their counterparties public disclosures when they are NFRD corporates. It will be more burdensome for those counterparties not subject to the NFRD. In the latter, information shall be collected on
a bilateral basis and the transition date is aligned with the deadlines included in the EBA Guidelines on loan origination and monitoring.\textsuperscript{13}

During the transitional period, credit institutions shall disclose proxy information on estimates and ranges based on:

i. Private relevant information communicated bilaterally to the institution;

ii. Using as a fallback solution relevant proxies and coefficients on taxonomy alignment by sector, estimated by an independent Commission body, like the JRC/UZH alignment coefficients developed for the objective of climate change mitigation at sector aggregate level.\textsuperscript{14}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure3.pdf}
\caption{EBA sequential approach for the development of the P3 ESG ITS}
\end{figure}


\textsuperscript{14} JRC-UZH_Taxonomy-alignment_tool

Proportionality

20. The EBA acknowledges the challenges faced by institutions when preparing ESG related disclosures as required in the CRR, and specified in this consultation paper. The EBA is putting forward several proposals to support institutions in the process of preparing these disclosures, in the interest of proportionality, including:

a. following a sequential approach for the development of the Pillar 3 ITS;

b. definition of transitional periods for the disclosures, 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;

c. a proportionate approach is proposed for the disclosure of information regarding the trading book, where a threshold is specified to delimit which institutions have to disclose this information;

d. a proportionate approach is proposed for the disclosure of information on taxonomy alignment for non-EU exposures, defining which institutions have to provide separate information for exposures towards non-EU counterparties, ‘on a best effort basis’ and in terms of estimates and ranges.

3.3 Draft P3 ESG ITS – Content of the disclosures

3.3.1 Quantitative disclosures

Figure 4: Quantitative templates proposed

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

<table>
<thead>
<tr>
<th>Template 1: Banking book - Quality of exposures by sector</th>
<th>Template 2: Banking book - Maturity buckets</th>
<th>Template 3: Loans collateralised by immovable property – Collateral EPC</th>
<th>Template 4: Alignment metrics</th>
<th>Template 5 - Exposures in the banking book to top carbon-intensive firms</th>
<th>Template 6 - Trading book portfolio</th>
<th>Template 7 - Banking book, exposures subject to physical risk</th>
<th>GAR – Exposures that contribute or enable climate change mitigation/adaptation</th>
<th>Other mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change Transition risk</td>
<td>Climate change Physical risk</td>
<td>Mitigating actions</td>
<td></td>
<td></td>
<td></td>
<td>Common with disclosures in Advice Art. 8 of Taxonomy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(i) Quantitative disclosures on climate change transition risk
21. The EBA published on 3 November 2020 the discussion paper on management and supervision of ESG risks for credit institutions and investment firms (EBA discussion paper), with the objective to collect comments and feedback from stakeholders with a view to further informing the EBA’s report under Article 98(8) CRD.

22. According to the discussion paper, transition transmission channels/transition risks are the risks posed by the exposure of institutions to counterparties that may potentially be negatively affected by the transition to a low carbon, climate-resilient or environmentally sustainable economy, including:

   a. climate and environment related policy changes, for example as a result of energy efficiency requirements, carbon-pricing mechanisms that increase the price of fossil fuels, or policies to encourage sustainable use of environmental resources;

   b. technological changes, for example if a technology with a less damaging impact on the climate or the environment replaces a technology that is more damaging, hence making it obsolete;

   c. behavioural changes, for example if the choices of consumers and investors shift towards products and services that are more sustainable; or if difficulties to attract and retain customers, employees, business partners and investors arise when a counterparty has reputation for damaging the climate and the environment.

23. As transition risks in the context of climate change arise mainly from the transition to a low-carbon and climate resilient economy, institutions under the scope of Article 449a CRR should show:

   a. Their exposures towards non-financial corporates (NFCs) that operate in sectors that highly contribute to climate change, exposures towards fossil fuel counterparties and exposures towards counterparties that operate in other carbon related sectors. These counterparties are more likely to be negatively impacted by climate change transition transmission channels, including policy changes, technological changes or related reputational risks, and may involve a negative impact on the credit quality of institutions’ related exposures.

   b. For their real estate portfolios, including loans collateralized by commercial and residential real estate, and repossessed real estate collaterals, information on the energy efficiency of the underlying real estate collaterals, including distribution of collaterals by energy performance certificate (EPC) label.

   c. This proposal is in line with the metrics proposed in the EBA discussion paper, annex I, which refers in the case of climate change to indicators for fossil fuel sectors and energy consumption intensity. They also refer to carbon footprint and CO2 emissions, information that the EBA considers that institutions should start disclosing if already available, including information on the methodology and sources used. The EBA proposes a transitional period for the disclosure of information on scope 3 emissions, until June 2024, during which institutions should at least disclose information on their plans and potential methodology to implement these disclosures.
24. When providing this information, institutions are asked to disclose quantitative data on the credit risk quality of the exposures. They shall also explain in the narrative accompanying the templates any implications that these exposures may have in terms of operational and liquidity risk for the institution.

25. In order to disclose this information, this CP includes the following disclosure templates:

1) **Template 1: Banking book- Climate Change transition risk: Quality of exposures by sector**

26. The purpose of template 1 is to show information on those assets more exposed to the risks that institutions may face from the transition to a low-carbon and climate resilient economy. In particular, institutions shall disclose information on their exposures towards non-financial corporates that operate in sectors that contribute highly to climate change, and in carbon related sectors, and on the quality of those exposures, including forward-looking information based on average PD and on stage 2 exposures, and backward information on non-performing exposures and related provisions.

27. Following Annex I of the EBA discussion paper, institutions shall start disclosing information on their carbon footprint and scope 3 emissions, if already available, in the relevant columns of the template, including information on the methodology and sources used. Those institutions that are not yet estimating their scope 3 emissions shall disclose information on their plans to implement methodologies to estimate and disclose this information. All institutions shall be able to disclose this information by June 2024.

28. Institutions shall disclose in the narrative accompanying the template, explanations on the information disclosed and on the changes compared to previous disclosure periods, and any implications that these exposures may have in terms of operational, reputational and liquidity risk for the institution.

29. In particular, institutions shall disclose in this template information on the gross carrying amount of loans and advances, debt securities and equity instruments to non-financial corporations, other than those included in the held for trading, or held for sale portfolios, classified by sector of economic activities using NACE Codes on the basis of the principal activity of the counterparty. They will include information on cross subtotals for those exposures towards sectors and subsectors that highly contribute to climate change, as specified in Recital 6 of the Commission Delegated Regulation (EU) 2020/1818 supplementing Regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks (Climate Benchmark Standards Supplementing Regulation). Institutions shall provide further breakdown of exposures towards fossil fuel companies and towards companies operating in other carbon related sectors.

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30. In the absence of a taxonomy for environmentally harmful exposures, this template has been built relying on NACE sector economic activities and on classifications of sectors and companies proposed in the Climate Benchmark Standards Supplementing Regulation.

2) Template 2: Banking book - Climate change transition risk: Exposures towards NACE sectors A to H and L - Maturity buckets

31. Climate change related risks are risks that may materialise in the long term. In the case of transition risk, for example, they may materialise as the deadlines to meet environmental targets included in the Paris Agreement and in the European Green deal are approaching. It is relevant for users of Pillar 3 information to understand the maturity ladder of those institutions’ portfolios more exposed to climate change transition risk, and in particular to have information on those exposures with longer maturities.

32. Template 2 provides an overview of institutions’ banking book exposures towards the relevant sectors by maturity bucket, considering buckets at and beyond 5 years maturity.

33. Institutions shall disclose in this template the gross carrying amount of exposures towards sectors and subsectors that highly contribute to climate change, according to Recital 6 of the Climate Benchmark Standards Supplementing Regulation (NACE sectors A to H and L), broken down by NACE sector and by maturity bucket.

34. Institutions shall include in this template the gross carrying amount of those exposures towards non-financial corporates, including loans and advances, debt securities and equity instruments in the banking book according to FINREP, and excluding financial assets held for trading and held for sale assets. Exposures shall be allocated to the relevant maturity bucket depending on the maturity of the financial instrument.

3) Template 3: Banking book - CC Transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral

35. Prudential information on climate-change transition risk faced by loans collateralized with commercial and residential real estate properties, and on collaterals repossessed, shall be based on the energy efficiency of the collateral. Template 3 includes information on the distribution of real estate loans and advances and of repossessed collaterals by EPC label of the collateral.

36. The Energy Performance of Buildings Directive 2010/31/EU (EPBD) and the Energy Efficiency Directive 2012/27/EU promote policies that aim to achieve a highly energy efficient and decarbonised building stock by 2050. The EPBD introduced the EPC as instruments that should help improve the energy performance of buildings. They are defined as a certificate recognised by a Member State or by a legal person designated by it, which indicates the energy performance of a building or building unit, calculated according to a methodology adopted in accordance with the EPBD.

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17 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32012L0027
37. This template includes in the columns information on the gross carrying amount of loans collateralised with immovable property and of repossessed real estate collaterals with breakdown by EPC label of the collateral. When disclosing the EPC distribution of the collaterals, institutions shall disclose separately those exposures for which they do not have the EPC information of the collateral. Institutions shall disclose this information with a breakdown by country of location of the collateral, and will provide information on the meaning of each EPC label in each country, in order to promote comparability of disclosures, as the same EPC label may have a different meaning in terms of energy consumption, depending on the country of the collateral.

38. Those institutions that are already estimating information on the carbon footprint and scope 3 emissions of their collaterals, shall disclose this information, and shall explain in the narrative accompanying the template the methodology and sources of data used. Those institutions that are not yet estimating their scope 3 emissions shall disclose information on their plans to implement methodologies to estimate and disclose this information. All institutions shall be able to disclose information on scope 3 emissions by June 2024. Examples of methodologies that institutions may apply for this purpose include the conversion of the energy performance of the collaterals into CO2 emissions, and then consider the loan to value of the loan (for collateralised loans) or the value of the collateral (for repossessed collaterals) to weigh the emissions and calculate the total emissions of the portfolio.

4) Template 4: Climate change transition risk - Alignment metrics for the banking book

39. The purpose of this template is to show information on institutions’ scope 3 emissions in relative terms, depending on the sector of the counterparty. Those institutions that are already estimating information on their carbon footprint and scope 3 emissions shall disclose the information in this template, and shall explain in the narrative accompanying the template the methodology and sources of data used. Those institutions that are not yet estimating their scope 3 emissions shall disclose information on their plans to implement methodologies to estimate and disclose this information. All institutions shall be able to disclose this information by June 2024. Institutions shall disclose in this template:

   a. The gross carrying amount of exposures towards each of the sectors listed in the template, including loans and advances, debt securities and equity instruments in the banking book;

   b. The relative CO2 emissions of the exposures by sector expressed in terms of the alignment metric relevant for each sector according to the template;

   c. And the distance to International Energy Agency (IEA) Sustainable Development Scenario 2 degrees\(^\text{18}\) (point in time) expressed in percentage points.

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

\(^{18}\) https://www.iea.org/reports/world-energy-model/sustainable-development-scenario
There is evidence and public information according to which the top polluting companies in the world are responsible for a large proportion of global annual GHG. Any policy action taken with the intention of reducing companies’ emissions may have a higher impact in the top GHG emitting companies and lead to the deterioration of their credit worthiness. Related reputational risks may further contribute to the deterioration of the credit quality of these companies. Hence, institutions exposures towards top polluting companies can be more exposed to an impairment of their credit quality and eventually to credit losses.

The purpose of template 5 is to show institutions’ exposures towards the top carbon-intensive companies in the world, in the EU, or in the home member state of the institution. It is complementary to the sectoral approach applied in the previous templates and provides a deeper insight with more granular data. It includes borrower-specific information on carbon intensity, providing some insight on the carbon-relevance of specific exposures.

Institutions shall include in this template information on exposures towards those counterparties that report highest volumes of GHG emissions in the world, in the EU and in their home country. They will include individual information on up to 20 counterparties that are among the top 20 most carbon-intensive in the world, in the EU or in the home country (member state) of the institution, according to publicly available information. Examples of data sources to identify the top carbon-emitting companies include THE Carbon Majors Database of the Carbon Disclosure Project or Thomson Reuters.

Institutions shall explain in the narrative accompanying the template the data sources used to identify the companies included in the template. Where institutions are omitting, partially or totally, the information required in this template, they shall indicate so in their Pillar 3 reports, and explain the reasons for that omission, including if they do not have any exposures towards the top 20 world, EU or member state emitters, or possible confidentiality reasons in accordance with Article 432(2) CRR.

The EBA includes a question in this CP on possible alternative formats for the disclosure 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 show 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, and what type of “buckets” of exposures should be defined (e.g. exposures towards top 5 polluting firms, next top 5 and so on, or on other alternative presentations).

**6) Template 6 - Climate change transition risk - Trading book portfolio**

Those Institutions that do not meet the conditions set out in Article 94(1) CRR nor the conditions set out in Article 325a(1) shall disclose this template, in addition to the other templates.

The purpose of this template is to show the composition of the trading portfolio of the institution towards non-financial corporates by sector of economic activity and, in particular, to those sectors more relevant from the point of view of climate-change transition risk, and which may exacerbate
the market risk of these portfolios. Institutions shall disclose information on their financial instruments held-for-trading, including debt securities and equity instruments, towards non-financial corporates, by sector of the counterparty.

47. The counterparty NACE sector allocation shall be based exclusively on the nature of the immediate counterparty. The classification of the exposures incurred jointly by more than one obligor shall be done on the basis of the characteristics of the obligor that is the more relevant, or determinant, for the institution to grant the exposure. The distribution of jointly incurred exposures by NACE codes shall be driven by the characteristics of the more relevant or determinant obligor.

48. This template shall provide a breakdown of trading exposures towards fossil fuel companies and companies operating in other carbon related sectors, in combination with information on gains and losses generated during the period. Finally the last two columns of the template include information on the absolute volume of sales and purchase of trading instruments during the period, and on the volume of taxonomy aligned exposures, information that is proposed by the EBA in its Advice on the disclosures required by Article 8 of the Taxonomy Regulation.

(ii) Quantitative disclosures on climate change physical risk

1) Template 7 - Exposures in the banking book subject to climate change physical risk

49. Template 7 provides information on exposures in the banking book (including loans and advances, debt securities and equity instruments not held-for-trading and not held-for-sale), towards non-financial corporates, on loans collateralized with immovable property and on repossessed real estate collaterals, exposed to chronic and acute climate-related hazards. It relies on the classification included in the Annex to the Commission’s Delegated Act /19/ to the taxonomy Regulation determining the screening criteria for the objective of climate change adaptation.

50. The template includes information by sector of economic activity (NACE classification) and by geography, for those sectors and geographical areas subject to climate change acute and chronic events.

51. For the identification of geographies prone to specific climate-related hazards, institutions shall use dedicated portals and databases. Examples of data sources to identify geographical areas subject to climate change related hazards include:

- GFDRR - ThinkHazard! (covering heatwaves, water scarcity and stress, floods, wildfires, hurricanes, landslide);
- PREP – PREPdata (coastal flood, extreme heat, landslide, water scarcity and stress, wildfire);
- WRI - Aqueduct Water Risk Atlas (flood, coastal flood, water scarcity and stress)
- Swiss Re - CatNet® (flood, tropical cyclone (hurricane &typhoon), wildfire);

• World Bank - Climate Change Knowledge Portal (extreme heat, extreme precipitation, drought);

• PCA - Global Drought Risk platform (drought);

• NOAA - Historical hurricane tracks (tropical cyclone (hurricane & typhoon)).

52. In order to obtain knowledge about characteristics of locations prone to climate change events, institutions may also use the data offered by EU bodies and by national government authorities (e.g. meteorological, environmental, statistical agencies or geoscience organisations). These local agencies can provide country-specific information with high granularity and quality. An example is Deutscher Wetterdienst, which runs its own climate data center (CDC-portal). 20

53. Institutions shall explain in the narrative accompanying the template the sources of information and methodologies that they have used when providing this information.

54. The EBA acknowledges the challenges for institutions to collect and estimate the data included in this template. For this reason, the proposal includes two versions of template 7 on climate change physical risk:

   a. A simplified version that institutions shall disclose during a transitional period, until June 2024, and with a breakdown only between chronic and acute climate-change events, as define in the EBA report developed following Article 98 CRD, for the relevant geographies and NACE sectors.

   b. An extended template that includes a more granular breakdown by type of climate-related hazards within climate-change acute and chronic events classification included in the Annex to the Commission’s Delegated Act to the taxonomy Regulation determining the screening criteria for the objective of climate change adaptation. Specific feedback is requested in the consultation of this template, on the type of climate-change events to be considered, and on the transitional period proposed. Those institutions that are ready to provide the information with the higher granularity proposed in the extended template should start disclosing it as soon as they have it within the transitional period.

(iii) Quantitative information on mitigation actions

55. Disclosure of information on the level of alignment of credit institutions financial and commercial activities with the taxonomy, in particular related to the environmental objectives of climate change mitigation and adaptation, is important to understand the positioning and strategies of institutions. By showing the evolution of the level of alignment over time, and the targets set by institutions, this information will also help to highlight some of the actions that the institutions are putting in place to mitigate climate change transition and physical risk:

20 https://cdc.dwd.de/portal/
• by showing how the institution is investing in activities and lending to counterparties that are taxonomy-aligned, the institution provides information on how it chooses to engage in activities that are compatible with EU environmental objectives, how it may adjust its business model in light of the environmental challenges, and highlights some of the financial support provided to counterparties in the transition to environmental sustainability;

• by showing how the institution is investing in climate adaptation activities, the institution provides information on how it helps its counterparties mitigate climate physical risk.

56. The draft P3 ESG ITS includes templates with quantitative information on assets and exposures that are contributing and enabling climate change mitigation and adaptation by supporting institutions’ counterparties in the path towards sustainability, in accordance with the Taxonomy Regulation, and helping them to mitigate their climate change transition and physical risks.

57. In addition, the draft P3 ITS asks institutions to disclose information on other actions put in place to mitigate climate change transition and physical risk, beyond those assessed under the Taxonomy Regulation or that, while not meet the strict screening criteria proposed in the Taxonomy, are still supporting the institutions counterparties and mitigating institutions own risks.

1) Template 8 - Assets for the calculation of the Green Asset Ratio (GAR)

58. This template includes information necessary for the calculation of the green asset ratio (GAR) and other relevant KPIs. It provides information on the extent to which institutions’ activities qualify as environmentally sustainable in accordance with Articles 3 and 9 of Regulation (EU) 2020/852. This information is relevant to understand how the institutions are mitigating their climate change related risks by financing activities that contribute to the Taxonomy environmental objectives of climate change mitigation and adaptation.

59. Institutions shall disclose in this template information on loans and advances, debt securities and equity instruments in the banking book (not held for trading or held for sale). They shall provide the breakdown of those exposures that are towards sectors covered by the Taxonomy Regulation and the breakdown of those exposures that are environmentally sustainable, for the objectives of climate change mitigation and climate change adaptation, according to the Taxonomy Regulation. In order to estimate the volume of environmentally sustainable exposures the following rules shall apply:

a. For special purpose lending exposures, where the use of proceeds is known, such as specialised lending - project finance loans: Institutions shall consider as environmentally sustainable the gross carrying amount of the exposures to the extent and proportion that the project or activity financed qualify as contributing substantially to climate change mitigation or adaptation, in accordance with Articles 10 to 15 of the Taxonomy Regulation, or as enabling activity in accordance with Article 16, and meet the criteria specified in Article 3 of the same regulation. The assessment shall be based on information provided by the counterparty on the project or activities to which the proceeds will be used.
b. For general purpose lending/funding, where the use of proceeds is unknown, institutions shall rely on the information that the counterparty (corporate) will have to disclose in accordance with Article 8 of the Taxonomy. In particular, on the information on the proportion of their turnover derived from products or services associated with economic activities that qualify as environmentally sustainable under Articles 3 of the Taxonomy Regulation for each environmental objective (climate change mitigation and climate change adaptation). For those corporates that are not required to disclose under Article 8 of the Taxonomy Regulation, institutions shall collect this information on a bilateral basis in the context of the loan origination and monitoring process and an extended phase-in period is envisaged in this case. When the counterparty is a financial institution, the assessment will be based on the KPIs that are relevant for them in accordance with article 8 of Taxonomy Regulation and of the ESAs Advice to the Commission.

c. For loans collateralized with residential and commercial immovable property towards non-NFRD corporates, for repossessed collaterals, and for loans to municipalities for house funding, the alignment of the exposure with the taxonomy shall be based on the EPC label of the collateral, and shall be carried out for the environmental objective of climate change mitigation only. Institutions shall apply the taxonomy screening criteria for the economic activity of ‘Building acquisition and ownership’ to determine the level of taxonomy alignment of the exposure, based on the EPC label. Information shall be collected on a bilateral basis with an extended phase-in period.

d. For house renovation loans, the assessment shall be similarly based on the EPC label of the house, and institutions shall apply the taxonomy screening criteria for the activity of “Renovation of existing buildings” and the environmental objective of climate change mitigation. Information shall be collected on a bilateral basis with an extended phase-in period.

e. Finally, for motor vehicle loans, granted for the acquisition of cars, the assessment shall be based as well on the energy efficiency of the car, based on the energy performance label, and institutions shall apply the screening criteria define in the Taxonomy Regulation for the activity ‘Transport by motorbikes, passenger cars and light commercial vehicles’. Information shall be collected on a bilateral basis with an extended phase-in period.

60. Institutions shall provide breakdown information, for the objectives of climate change mitigation and adaptation, on the volume of specialised lending loans, to show to what extent they may be funding e.g. their counterparties CAPEX investments to become more sustainable. They shall also provide information on the exposures that are funding transitional and enabling activities.

2) Template 9 - Green Asset Ratio (GAR) KPIs

61. The information disclosed in this template is built upon the information on exposures included in template 8 and shall disclose the green asset ratio of the institution, including breakdown by environmental objective and counterparty, for specialised lending, transitional and enabling
activities, and the total GAR of the institution. Institutions shall disclose together with the GAR, information on the percentage of their total assets covered by the GAR, in order to facilitate comparability of the GAR and of institutions’ level of alignment with the Taxonomy Regulation.

3) Template 10 - Other climate change mitigating actions

62. The purpose of this template is to provide information on other actions put in place by the institution to mitigate climate change related risks. It cover other activities of the institutions that are not included in templates 8 and 9. Institutions shall include in the narrative accompanying this template detailed explanations on the nature and type of mitigating actions reflected in this template, including information on the type of risks that they aim to mitigate, on the related counterparties and on the term in terms of timing of the actions. They should also explain why these exposures are not considered under the green asset ratio and any other relevant information that may help to understand the risk management of the institution.

3.4 Qualitative disclosures

Figure 5: Tables on qualitative information proposed

Disclosure qualitative information ESG risks

Table 1 - Qualitative information on Environmental risk

- Governance arrangements
  • responsibilities of management body, integration on organizational arrangements, remuneration policy, other arrangements

- Business model and strategy
  • Adjustment of business strategy; Objectives, targets and limits, including in terms of GAR; Policies and procedures relating to engagement with customers

- Risk management
  • Information on processes to identify/monitor risk sensitive sectors and exposures; Limits, controls and Forward looking information; stress test and scenario analysis

Table 2 - Qualitative information on Social risk

Table 3 - Qualitative information on Governance risk

63. The EBA includes in the consultation paper three tables that specify the disclosure requirements on qualitative information related to ESG risks. These disclosures are designed in line with the EBA’s Discussion Paper on the report that the authority has to draft as per Article 98(8) of CRD. The tables and instructions rely on the definitions, terminology and structure presented in this paper.

64. Accordingly, the consultation paper puts forward qualitative disclosure requirements for environmental, social and governance risks that may manifest on credit institutions’ balance sheets from the impact of these ESG factors and risks on their counterparties through main transmission channels (including physical, transition and liability channels). Qualitative disclosures requirements are expected to complement the quantitative information, for example when interpreting the
institutions' information on carbon related activities or on the GAR in the context of qualitative information on the environmental carbon reduction strategies and targets.

65. The disclosure requirements proposed in this consultation paper are organised by risk category:

   a. Table 1 - Qualitative information on Environmental risk;
   
   b. Table 2 - Qualitative information on Social risk;
   
   c. Table 3 - Qualitative information on Governance risk.

66. Under each risk category, the disclosure requirements target three aspects: governance, business model and strategy, and risk management.

67. Under governance, institutions shall disclose a number of elements covering:

   a. The responsibilities of the management body in setting, overseeing and monitoring the risk framework, objectives, strategies and policies in the context of ESG risks;
   
   b. The integration of ESG risks in the organisational arrangements including role of risk committees, business lines and internal control functions;
   
   c. Governance arrangements in terms of setting targets, escalation procedures and reporting; and
   
   d. Alignment of the remuneration policy with ESG risks.

68. Under business model and strategy, institutions shall disclose the following information:

   a. Adjustment of the institution's business strategy to integrate ESG risks and factors;
   
   b. Objectives, targets and limits for the assessment of environmental risk in short-term, medium-term and long-term, and performance assessment against these objectives and limits;
   
   c. Policies and procedures relating to direct and indirect engagement with customers on their ESG risk strategies

69. Under risk management, institutions shall disclose the following information:

   a. Current standards that institutions use for ESG risk management (definitions and methodologies);
   
   b. Processes to identify activities and exposures sensitive to environmental, social and governance risks taking into account relevant channels and considerations specific to each risk categories;
   
   c. Processes to identify and monitor exposures and activities that are subject to material ESG risks;
d. Institutions' activities, commitments and exposures to mitigate ESG risks;

e. Implementation of risk tools for identification and management of ESG risks such as stress test, scenario analysis; and

f. Description of links between ESG risks and conventional risk categories such as credit risk, market risk, operational risk and liquidity risk.
4. Draft implementing technical standards
amending Commission Implementing Regulation (EU) [ITS is currently with the COM and is being translated. The number to be added when ITS is published in the OJ] laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,
Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for institutions and investment firms and amending Regulation (EU) No 648/2012\(^\text{21}\) and in particular Article 434a and 449a thereof,

Whereas:

(1) Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876\(^\text{22}\) provides that large institutions which have issued securities that are admitted to trading on a regulated market of any Member State, as defined in point (21) of Article 4(1) of Directive 2014/65/EU\(^\text{23}\), shall disclose information on ESG risks, including physical risks and transition risks, as defined in the report referred to in Article 98(8) of Directive 2013/36/EU\(^\text{24}\). As a result, the templates and tables used for those disclosures should convey sufficiently comprehensive and comparable information on ESG risks, thus enabling users of that information to assess the risk profile of institutions.

(2) It is for this reason that rules on those ESG disclosures should be based on the definitions in the report referred to in Article 98(8) of Directive 2013/36/EU as provided by Article 449a of Regulation (EU) No 575/2013. Further, in order to ensure coherence and consistency, other EU Regulations and Directives on ESG topics, such rules should also take into account the criteria, classifications and


definitions specified therein. In particular, relevant provisions for this purpose are:
the definitions and criteria for the identification and classification of environmentally
sustainable economic activities specified in Regulation (EU) 2020/852; the
provisions of Commission Delegated Regulation (EU) 2020/1818; and, with regard
to the disclosure of information on the energy performance of the real estate portfolio
of institutions, the information provided by the energy performance certificate as
defined in Directive 2010/31/EU.

(3) Amendments to Implementing Regulation (EU) [xx/xxx] are required in order to set
out the uniform formats and associated instructions for the disclosure of the
information referred to in Article 449a of Regulation (EU) No 575/2013.

(4) This Regulation is based on the draft implementing technical standards submitted by
the European Supervisory Authority (European Banking Authority) (EBA) to the
Commission. EBA has conducted open public consultations on the draft
implementing technical standards on which this Regulation is based, analysed the
potential related costs and benefits and requested the opinion of the Banking
Stakeholder Group established in accordance with Article 37 of Regulation (EU) No

(5) Implementing Regulation (EU) [xx/xxx] should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

Amendments to Implementing Regulation (EU) [xx/xxx]

Implementing Regulation (EU) [xx/xxx] is amended as follows

(1) the following Article 18a is inserted:

‘Article 18a

Disclosure of environmental, social and governance risks (ESG risks)

1. Institutions shall disclose the information referred to in Article 449a of Regulation (EU)
No 575/2013, as follows:

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European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU


European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing
(a) qualitative information on environmental, social and governance risks by using tables 1, 2 and 3 of Annex XXXVII to this Regulation and by following the instructions set out in Annex XXXVIII to this Regulation;

(b) quantitative information on climate change transition risk by using templates 1 to 5 of Annex XXXVII to this Regulation and by following the instructions set out in Annex XXXVIII to this Regulation;

(c) quantitative information on climate change physical risks by using template 7 of Annex XXXVII to this Regulation and by following the instructions set out in Annex XXXVIII to this Regulation;

(d) quantitative information on mitigating actions on climate-change related risks by using templates 8 to 10 of Annex XXXVII to this Regulation and by following the instructions set out in Annex XXXVIII to this Regulation.

2. Institutions that do not meet the conditions set out in Article 94(1) of Regulation (EU) No 575/2013 nor the conditions set out in Article 325a(1) of Regulation (EU) No 575/2013 shall, in addition to the tables and templates referred to in paragraph 1, disclose quantitative information on climate change transition risk by using template 6 of Annex XXXVII to this Regulation and by following the instructions set out in Annex XXXVIII to this Regulation.’

3. Institutions shall disclose the information referred to in Article 449a of Regulation (EU) No 575/2013, as follows:

(a) for annual disclosure: by 31 December 2022;

(b) for biannual disclosure: by 30 June and 31 December of each year.

(2) a new Annex XXXVII is added as set out in Annex I to this Regulation;

(3) a new Annex XXXVIII is added as set out in Annex II to this Regulation.

Article 2

Entry into force and date of application

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

It shall apply from 28 June 2022.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission

The President
[For the Commission
On behalf of the President

[Position]
5. Accompanying documents

5.1 Impact assessment

Following Article 15 of Regulation (EU) No 1093/2010 (EBA Regulation), the EBA shall analyse the potential costs and benefits of draft implementing technical standards (ITS). ITS developed by the EBA shall therefore be accompanied by an Impact Assessment (IA) that analyses ‘the potential related costs and benefits’.

This analysis presents the IA of the main policy options included in this Consultation Paper on the draft ITS with regard on prudential disclosures on ESG risks. The draft ITS set out the disclosure requirements of prudential information on environmental, social and governance risks under Article 449(a) of Regulation (EU) 575/2013 (CRR), for which the EBA is mandated under Article 434(a) of the same regulation to develop draft ITS specifying these disclosure requirements. The IA is high level and qualitative in nature.

a. Problem identification and background

The Sustainable Finance Action plan published by the European Commission in 2018 includes fostering transparency as one of the key goals, in order to foster market discipline in the financial sector and allow investors and other stakeholders to compare the sustainability performance of institutions and make informed decisions.

This has triggered several legislative initiatives on ESG disclosure in the EU, one of them being the disclosures required under Article 449(a) CRR for which the draft ITS in this consultation paper have been developed. Article 449(a) CRR requires large institutions that have issued securities that are admitted to trading on a regulated market of any Member State, to disclose prudential information on ESG risk. The EBA is mandated under CRR Article 434(a) to develop draft ITS specifying these disclosures in a way that conveys sufficiently comprehensive and comparable information for users of that information to assess the risk profiles of institutions. Disclosures should be implemented in a tabular format where appropriate.

b. Policy objectives

The draft ITS and disclosure templates, tables and associated instructions proposed in this consultation paper reflect the EBA’s work on the mandate under Article 434(a) CRR for the disclosures required under Article 449a CRR. The instructions and templates proposed aim to provide the basis for uniform, consistent, comparable and sufficiently comprehensive disclosure of ESG risks by institutions, in order to promote the ultimate objective of market discipline.

c. Options considered, assessment of the options and the preferred option

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29 As defined in the EBA Report to be developed under Article 98(8) of the CRD and the consultation of the first discussion paper of which has been launched in November 2020.
Section C. presents the main policy options discussed and the decisions taken during the development of the draft ITS and templates. Advantages and disadvantages, as well as potential costs and benefits of the policy options and the preferred options resulting from this analysis are assessed below.

**Timing for the development of the draft ITS implementing the disclosure requirements**

**Option 1a:** Quantitative and qualitative disclosure of all ESG risks to be developed simultaneously now

**Option 1b:** Adopting a sequential approach for the development of disclosure requirements, prioritising qualitative disclosures on E, S and G and quantitative disclosures on climate change related risks

CRR Article 449(a) requires large institutions that have issued securities that are admitted to trading on a regulated market to disclose information on E, S, and G risk, including transition and physical risk. The EU is following a sequential approach for the development of the Taxonomy Regulation and of other initiatives on ESG: No common classification system has been developed yet for environmental objectives other than climate change, or for social or governance aspects. The Taxonomy Regulation will be extended by the end of 2021 to cover other environmental objectives and the Commission will report by the end of 2021 on whether to extend the Taxonomy Regulation to cover also environmentally harmful or neutral activities and social objectives. In addition, the NFRD is currently being reviewed and various initiatives are also going on at international level. In this context of on-going changes and an evolving regulatory and policy landscape, it has been deemed as advisable to follow a similar sequential approach when developing the draft ITS on Pillar 3 disclosures on ESG risk.

**Option 1b has hence been chosen as the preferred option,** and as part of these draft ITS quantitative KPIs are developed only for climate change related risk, together with qualitative disclosure requirements for all three risk factors, E, S and G. Development of quantitative disclosure requirements for other environmental risk, social and governance risk, will be developed in subsequent phases, also in line with progress made on the EU taxonomy.

This policy choice aims at ensuring feasible disclosures going forward, consistent with other EU initiatives, whilst avoiding any disproportional costs on institutions.

**Scope of climate change related risks disclosures - risks and mitigating actions**

**Option 2a:** Focus solely on climate risk factors to disclose information on climate change related risks

**Option 2b:** In addition to 2.a, provide also information on taxonomy aligned activities in order to identify the exposures that contribute to climate change mitigation and adaptation and hence to the mitigation of climate change related risks
Option 2c: Provide information on other mitigating actions, in addition to information included in options 2.a and 2.b

CRR Article 449(a) requires the disclosure of information on ESG risks by large institutions as defined above. The EBA is taking a sequential approach, first implementing quantitative disclosures on climate change related risks, including transition and physical risks, and only later defining quantitative indicators on other environmental risk as well as social and governance risks (see the previous option on the sequential approach.)

CRR Article 449(a) explicitly asks for the disclosure of information on physical and transition risk. Whilst the challenges arising from the lack of a common classification system for environmentally harmful activities are acknowledged, this information is necessary to understand the risk profile of an institution, as required by the level 1 text. Therefore, according to the draft ITS institutions shall start disclosing data that helps stakeholders to understand to what extent institutions might be affected by climate change transition and physical risks:

- Climate change transition risk for exposures towards non-financial corporates (NFCs) is captured by the disclosure of information on exposures towards sectors that ‘highly contribute to climate change’, towards fossil fuel companies and towards other carbon related sectors, including information on credit quality and on scope 3 carbon emissions. The EBA is relying on definitions and classifications proposed in Regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks for the identification of relevant sectors and exposures

- For retail mortgages, loans collateralised by commercial immovable property and repossessed collaterals, the draft ITS propose to capture transition risks through the disclosure of information on the distributions of loans by EPC label of the collateral.

- As regards physical risk, the draft ITS include information on exposures towards NFCs and their activities in geographies and sectors more prone to suffer from the impact of extreme climate change events (acute or chronic), and for collateralised exposures where collaterals are located in the aforementioned geographies. Disclosures are proposed for NFCs, by NACE sectors, and collateralized loans, including information on the relevant shares of those exposures that may be impacted by physical risks (heat waves, floods, etc.).

In order to understand the positioning and strategies of institutions, however, disclosure of information not only on risks but also on the level of alignment of institutions assets and activities with the taxonomy (for the environmental objectives of climate change mitigation and adaptation) are important. By showing the evolution of the level of alignment over time, and the targets set by institutions, this information will also help to highlight some of the actions that institutions are putting in place to mitigate climate change transition and physical risk. By showing how the institution is investing in activities and lending to counterparties that are taxonomy-aligned, the institution provides information on how it chooses to engage in activities that are compatible with

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EU environmental objectives, how it may adjust its business model in light of the environmental challenges, and highlights some of the financial support provided to counterparties in the transition to environmental sustainability. By showing how the institution is investing in climate adaptation activities, the institution provides information on how it helps its counterparties mitigate climate physical risk.

The draft P3 ESG ITS therefore also include templates with quantitative information on assets and exposures that are aligned with the Taxonomy Regulation and contributing and enabling climate change mitigation and adaptation by supporting institutions’ counterparties on their path towards sustainability, and helping them to mitigate their climate change transition and physical risks. **Option 2a has been therefore excluded.** Additional costs to institutions for including taxonomy alignment KPIs should be limited. The proposed KPIs are also proposed in the EBA advice to the Commission on indicators and methods to be included in the delegated Act under Article 8 of the Taxonomy Regulation, although under the ITS, KPIs will need to be disclosed semi-annually.

In addition, the draft P3 ITS also asks institutions to disclose information on other actions put in place to mitigate climate change transition and physical risk, beyond those assessed under the Taxonomy Regulation or, that while not meeting the strict screening criteria proposed in the Taxonomy, are still supporting institutions’ counterparties and mitigating institutions’ own risks. This information is important for users of information to understand the comprehensive set of actions put in place by institutions to mitigate climate change related risks. **Option 2c is therefore the preferred option.**

**Coverage of assets included in the quantitative templates and in the green asset ratio – GAR**

Defining quantitative templates that are both representative and fit for purpose, involves inter alia choices on asset types, counterparties and geographical attributes of counterparties. This section presents the main policy options in the context of coverage of KPIs.

**Assets held for trading**

**Option 3a: Quantitative disclosures and GAR to cover institutions’ assets held for trading**

**Option 3b: Quantitative disclosures and GAR not to cover institutions’ assets held for trading**

**Option 3c: Assets held for trading only to be covered in quantitative disclosures and GAR by institutions with trading books above a certain threshold**

The draft ITS propose templates with quantitative information on assets and exposures in the banking book that may be subject to climate change transition and physical risk. It also proposes quantitative templates and KPIs on the green asset ratio (GAR) that show data on actions put in place by institutions to mitigate climate change related risks. The GAR measure the volume of financial assets in the banking book (loans and advances, debt securities, equity instruments) funding sustainable economic activities contributing substantially to climate mitigation and/or adaptation (absolute figures and compared to total exposures) according to the EU taxonomy for
various types of counterparties and for new and existing exposures. The EBA assessed whether to extend the quantitative disclosure templates and the GAR to also cover exposures in the trading book.

In the context of the GAR KPI, assets held for trading tend to be of temporary nature and are hence not compatible with the nature of taxonomy-aligned activities: the latter should substantially contribute to environmental objectives and tend to be of longer-term nature. In addition, given the short-term nature of assets held for trading, disclosure of information on taxonomy alignment of these assets based on counterparty-by-counterparty data may be more challenging compared to the disclosure of similar information on exposures in the banking book. In addition, disclosing point-in-time information on the composition and alignment of the trading book with the Taxonomy Regulation based on counterparties’ alignment may allow for undue window-dressing as part of the disclosures, given the volatility of the portfolio and hence the fast changing nature of its composition.

On the other hand, the importance of the trading book in terms of size for some EU institutions’ business models renders its assessment and related disclosures important for the latter. It has therefore been assessed that institutions that do not meet the conditions set out in Article 94(1) CRR nor the conditions set out in Article 325a(1) CRR (i.e. institutions where the trading book is of a certain size) should provide ESG disclosures that also cover their trading book. Option 3c has been chosen as the preferred option.

Disclosure requirements for these institutions however are somewhat different. Specifically, in the case of the GAR, it seems more meaningful that for the trading portfolios these institutions disclose information on how they contribute to the liquidity and trading of taxonomy aligned asset. The EBA, in its Advice to the Commission on KPIs for credit institutions’ disclosures under Article 8 of the Taxonomy Regulation, proposes a KPI that shows the absolute volume of transactions during the disclosure period (purchases plus sales) on taxonomy aligned securities (debt securities and equity instruments towards corporates subject to NFRD disclosure obligations) compared to total exposures. This KPI is relevant to show how institutions’ activities are contributing to promote the trading of taxonomy-aligned instruments, and high-level information on this KPI is included in the draft P3 ESG ITS that is being consulted.

In addition, a template is also proposed in the draft ITS including information on how climate change transition risks may exacerbate the market risk of institutions’ trading portfolios. This template includes information on the distribution of the trading positions by sector of counterparty, including a breakdown of sectors that highly contribute to climate change, fossil fuel exposures and exposures towards other carbon related sectors.

31 As part of its work on the European Commission’s CfA related to KPIs on taxonomy alignment, the EBA has conducted a case study with a sample of seven banks. In their responses to the case study banks did not however identify any meaningful cost differences indicated for KPIs on the trading book compared to other KPIs. Banks were selected based on the depth of information received in the responses to the EBA Survey on credit institutions’ disclosure of information related to ESG risks conducted in 2020, as well as information gathered as part of calls with industry associations on Pillar 3 ESG disclosure as well as bilateral calls. In total, 10 banks were contacted, of which 7 banks participated. These were mainly large banks, from 5 jurisdictions. Some of the information gathered as part of the case studies will be reflected in some of the options below.
In terms of relevance of the trading portfolio in EU institutions’ balance sheets, at the EU aggregate level, trading book assets account for 15.5% of total financial assets as of Q3 2020 (see Figure 6) of the 116 FINREP reporting banks have trading book shares above the EU average (the median share is 2.3%), with several large institutions having shares well above the EU average. The institution with a largest trading book share in total financial assets reports a share of 41.8%.

**Non-EU exposures for the purpose of the GAR**

**Option 4a:** Non-EU exposures to be included and assessed alongside EU exposures in the same GAR

**Option 4b:** Non-EU exposures to be excluded from the GAR

**Option 4c:** Non-EU exposures to be disclosed in a separate ‘non-EU GAR’, on a best effort basis, by those institutions with subsidiaries outside the EU

The EU taxonomy to-date only applies to EU jurisdictions and hence NFCs outside the EU are not obliged to apply the taxonomy or to disclosure obligations according to it. This in turn means that institutions can generally only assess the taxonomy alignment of those financial assets towards counterparties based in the EU, based on information provided by the latter. Since it is not possible to establish non-EU exposures’ alignment with the EU taxonomy to the same extent as for EU exposures (also raising comparability issues), **option 4a has been excluded** and non-EU exposures will not be included in the same GAR as EU exposures.

The share of EU institutions’ assets to counterparties with residence in the EU accounts for 77.2% of total EU assets. For NFCs the share stood at just under 75%, so a quarter of institutions’ NFC exposures would be excluded from relevant disclosures if exposures towards non-EU counterparties were to be left out entirely. (Shares of EU exposures are higher for the household and SME sectors, with 86% and 87% at the EU aggregate level, respectively, in Q3 2020 (see Figure 6). Also given the relevance of non-EU subsidiaries for some institutions (for some the share of EU exposure is below 50%), disclosure of information on exposures towards non-EU counterparties has been assessed as necessary. It is needed in order to get a comprehensive picture of institutions’ alignment with the EU taxonomy, of the mitigating actions put in place and ultimately to get a complete picture of institutions’ path to sustainability.

It is therefore important to encourage separate disclosures by institutions with non-EU subsidiaries on their exposures towards non-EU counterparties. **Option 4c has been assessed as the preferred option.** Institutions with non-EU subsidiaries should at a minimum identify lending and equity exposures to non-EU counterparties that pertain to sectors (to be disclosed at NACE 2 sector level 4) covered by the taxonomy. Then proxies should be used to determine on a best effort basis the part of those exposures aligned with the taxonomy, and disclose this information separately from the EU GAR and with appropriate caveats.

This way, comparability is ensured within the GAR, whilst the importance of non-EU exposures for some institutions has been reflected.
Coverage of retail exposure

Option 5a: Quantitative templates and GAR to cover the whole retail portfolio

Option 5b: Quantitative templates and GAR to exclude the whole retail portfolio

Option 5c: Quantitative templates and GAR to cover only retail mortgages, and for the GAR motor vehicle loans as well

The EU Taxonomy does not apply to households. Responses to the EBA Survey conducted in 2020\(^{32}\) indicated that the industry was in favour of excluding retail exposures from KPIs and ESG risks disclosures. The EBA case study conducted as part of the Advice to the Commission under Article 8 of the Taxonomy Regulation, further found that responding institutions identified KPIs on retail exposures as the most challenging overall, both for retail mortgages as well as other retail exposure.

Retail exposures however account for a substantial part of EU institutions’ balance sheets. Just under 30\% of EU institutions’ aggregate financial assets had been to the retail sector in Q3 2020 (see Figure 6 below). Further, the retail portfolio can play a significant role in driving more sustainable economies. Buildings for example account for approximately 40\% of EU energy consumption and 36\% of greenhouse gas emissions. Environmental risks can also have a negative impact on the value of the collateral of retail mortgage loans (in terms of physical risk by actual damages e.g. from floods, and in terms of transition risk by climate policies potentially affecting a property’s value) and the LGDs of loans.

Given the above reasons, it has been assessed that it is important to cover at least those parts of the retail portfolio that can be assessed and option 5.b has been excluded. At the same time, given the fact that there are not many tools beyond the EPC or the location of the collateral for collateralised loans to assess the retail portfolio, a full coverage of retail loans seems to be unfeasible at this stage. In order to strike the right balance between covering the most relevant parts of the retail portfolio and at the same time limiting the burden on institutions, it is proposed to include those parts of the retail portfolio where alternatives to using the EU taxonomy and to assess the level of risks are straight forward and practical to apply.

Mortgage loans and credit for consumption make up the largest part of the retail book (around 80\% of total retail exposure as of Q3 2020), and a big part of credit for consumption is made up of motor vehicle loans. At the same time, these portfolios offer already existing alternatives of measuring alignment with the EU taxonomy for the objective of climate change mitigation, based on the energy performance of the underlying asset as reflected in the energy performance certificate, and applying the relevant Taxonomy screening criteria. In addition, information on the distribution of collateralised loans by EPC label of the collateral, or on collaterals that may be exposed to climate change acute or chronic climate change events based on the location of the collateral should help users of information to understand to what extent the value of the collateral can become impaired due to transition or physical risks.

\(^{32}\)Survey on credit institutions’ disclosure of information related to ESG risks
Option 5c has been chosen as the preferred option. This way, costs and burdens to institutions have been limited (by choosing portfolios which are easier to assess), whilst at the same time ensuring that this important segment is at least partially covered when measuring taxonomy alignment.

Coverage of sovereign exposures

Option 6a: Include sovereign exposures in the GAR and quantitative templates on risks

Option 6b: Leave out sovereign exposures entirely from the GAR and quantitative templates on risks

The EU taxonomy does not apply to governments. Nevertheless, governments are increasingly issuing green bonds, which could be used as a proxy of governments’ taxonomy alignment. Whilst the issuance of green bonds by governments is increasing, it is still very small in comparison to overall government bond issuances, and there is no EU green bond standard yet to facilitate their assessment. In addition, it is not possible to map at this stage sovereigns’ economic activities with NACE sectors and economic activities upon which the Taxonomy screening criteria are built. Finally, governments are not subject to disclosure obligations under Article 8 of the Taxonomy Regulation, and therefore, it is not possible for institutions to collect relevant information based on public disclosures.

For the above reasons, it is therefore not possible at this stage to apply the Taxonomy screening criteria to governments’ activities.

Similar arguments apply to the decision to exclude these exposures from the quantitative templates on climate change related risks included in the draft ITS, particularly the lack of a methodology or mapping criteria that could help institutions classify governments’ economic activities according to the NACE sector classification.

The loss of coverage of relevant exposures (in terms of the share of sovereign exposures in total exposure) and the above described lack of methodologies to assess them and hence implied burden on institutions have been carefully weighed-off. The share of sovereign exposure in total financial assets was 12.2% in Q3 2020. Whilst this share is not negligible and inclusion of this sector in the GAR should be targeted in the long-run, at this stage it has been assessed that sovereign exposures should be excluded from the GAR and quantitative templates on risks at this stage and that **option 6b is the preferred option.** 33 Whilst relevant, sovereign exposures cannot be assessed at this stage and are therefore left out of the scope of the ITS.

Housing loans towards municipalities are also considered, as they can be assess based on the EPC label of the underlying assets.

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33 The EBA case study in fact showed that responding banks generally perceived KPIs on sovereign exposures as the least costly out of all KPIs proposed.
Figure 6 - EU institutions’ exposures by different types, counterparties and geography as of Q3 2020

<table>
<thead>
<tr>
<th>Trading book</th>
<th>EU average: Share in total financial assets (%)</th>
<th>EU average: Share in total financial assets (excl. trading book)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of the trading book in total financial assets (%)</td>
<td>15.5%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Counterparties*</th>
<th>EU average: Share in total financial assets (%)</th>
<th>EU average: Share in total financial assets (excl. trading book)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of sovereign exposure (%)</td>
<td>12.2%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Share of exposures to credit institutions (%)</td>
<td>6.8%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Share of exposures to other financial corporations (%)</td>
<td>6.4%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Share of NFC exposure (%)</td>
<td>27.9%</td>
<td>33.1%</td>
</tr>
<tr>
<td>Share of loans to SMEs (%)</td>
<td>10.9%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Share of NFC loans collateralised by immovable property (%)</td>
<td>6.0%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Share of retail exposure (%)</td>
<td>29.8%</td>
<td>35.3%</td>
</tr>
<tr>
<td>Share of retail exposure collateralised by immovable property (%)</td>
<td>19.3%</td>
<td>22.9%</td>
</tr>
<tr>
<td>Share of credit for consumption (%)</td>
<td>4.3%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EU exposure**</th>
<th>EU average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of EU institutions’ exposure to the EU [equity instruments, debt securities, loans and advances] (%)</td>
<td>77.2%</td>
</tr>
<tr>
<td>By selected counterparties:</td>
<td></td>
</tr>
<tr>
<td>Credit institution EU exposure share (%)</td>
<td>62.2%</td>
</tr>
<tr>
<td>Other financial corporates EU exposure share (%)</td>
<td>59.3%</td>
</tr>
<tr>
<td>NFCs EU exposure share (%)</td>
<td>74.9%</td>
</tr>
<tr>
<td>SME EU exposure share (%)</td>
<td>86.7%</td>
</tr>
<tr>
<td>Household EU exposure share (%)</td>
<td>85.7%</td>
</tr>
</tbody>
</table>

*Nominees exclude the trading book. **Shares refer to non-trading book exposures only.
Source: EBA FINREP Data.

d. Conclusion

The draft ITS and associated templates developed following the mandates included in Article 434a and 449a CRR constitute a key step forward in supporting the EU’s efforts to align institutions with the sustainability goals of the wider economy and helping stakeholders to understand the risks and vulnerabilities that EU institutions may face as a consequence of climate change. At the same time, the draft ITS imply significant changes and new costs for institutions. 

This is fully acknowledged and the ITS have been drafted in a way as to limit any unnecessary or disproportional costs to institutions, whilst at the same time not compromising the bigger goal of achieving the needed transparency on ESG risks. This is reflected in the pragmatic approach taken: the inclusion of only selected counterparties (e.g. sovereign exposures and part of the retail portfolio excluded), a limitation of the GAR to EU exposures only at this stage (with non-EU exposures to be disclosed in a separate GAR on a best effort basis), and a sequential approach for the development of the requirements (climate risk prioritised for now).
5.2 Overview of questions for consultation

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

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

**Question 3**: Do the respondents agree that the new draft ITS fits the purpose of the underlying regulation?

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

**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 indentification of the most exposed sectors in columns f to k and p to u?

**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?

**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?

**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?

**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?

**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 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).

**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.

**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?

**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.

**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?

**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.