EBA Consultation paper – ITS on Pillar 3 disclosures on ESG risks
Public hearing - 26 March 2021
Agenda

EBA staff presentation

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

Floor for discussion
Agenda

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Floor for discussion
ESG disclosures in the EU: financial institutions

**ESG Disclosure Obligation in the EU Relevant for Institutions**

**FSB-TCFD Recommendations**

**EU Taxonomy and transparency:**
Key pillars to support the European Green Deal

- **A**
  - **Taxonomy Disclosures (Taxonomy Regulation)**
    - **WHAT**: Defines environmentally sustainable activities (Paris aligned)
    - **WHO**: NFDR corporates

- **B**
  - **Non-financial Statement (NFDR)**
    - **WHAT**: Corporates’ ESG and diversity information
    - **WHO**: Public interest companies (more than 500 employees)

- **C**
  - **EBA Prudential Disclosures (CRR/IFR)**
    - **WHAT**: ESG risks and risk mitigating actions
    - **WHO**: Large listed banks (CRR) and investment firms (IFR)

- **D**
  - **Disclosure Regulation (SFDR)**
    - **WHAT**: Investment products and financial advice
    - **WHO**: Financial firms selling investment products and financial advisers

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**EBA Mandates**

- **TAXONOMY REGULATION**
  - **Advice to Commission on KPIs**

- **CRR**
  - **ITS Pillar 3 disclosures on ESG risks**

- **SFDR**
  - **ESAs’ Joint Committee RTS**

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1. 01 March 2021 - EBA Opinion: Advice to Commission on KPIs and methodology for disclosures under Art.8 Taxonomy by credit institutions and investment firms
2. 01 March 2021 – EBA Consultation paper on draft ITS on Pillar 3 disclosures on ESG risks
3. 04 February 2021 – ESAs’ Joint RTS on ESG disclosure standards for financial market participants
Proportionality – Proposals to facilitate quantitative disclosures

- **Scope of disclosures** covering relevant portfolios where assessment is possible and meaningful information is or will be available.

- Definition of transitional periods, taken into account data gaps and the need for institutions to develop methodologies, and allowing disclosures in terms of estimates and ranges calculated using proxies.

- Proportionate approach for the disclosure of information on the trading book, where a threshold is specified to delimit which institutions have to disclose this information.

- Proportionate approach for the disclosure of information on taxonomy alignment for non-EU exposures, applicable to institutions with non-EU subsidiaries, ‘on a best effort basis’ and in terms of estimates and ranges.

- Sequential approach for the implementation of disclosures on ESG risks under Article 449a CRR.
## Summary of ESG disclosures—Pillar 3 (EBA draft ITS)

<table>
<thead>
<tr>
<th>WHAT TO DISCLOSE?</th>
<th>EXAMPLES OF DISCLOSURES</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RISK DISCLOSURES</strong></td>
<td></td>
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<tr>
<td><strong>CLIMATE CHANGE TRANSITION RISK</strong></td>
<td>▶ Exposures to fossil fuel companies excluded from sustainable climate benchmarks, and to other carbon-related sectors</td>
</tr>
<tr>
<td>Information to sectors or assets that may highly contribute to climate change</td>
<td>▶ For real estate exposures, distribution of the exposures by energy performance of the collateral</td>
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<tr>
<td><strong>CLIMATE CHANGE PHYSICAL RISK</strong></td>
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<tr>
<td>Risk exposures subject to extreme weather events (sector/geography)</td>
<td>▶ Assets subject to impact from chronic climate change events by sector and geography</td>
</tr>
<tr>
<td></td>
<td>▶ Assets subject to impact from acute climate change events by sector and geography</td>
</tr>
<tr>
<td><strong>MITIGATING ACTIONS</strong></td>
<td></td>
</tr>
<tr>
<td>Actions that support counterparties in the transition to a carbon neutral economy but that do not meet taxonomy criteria</td>
<td>▶ Building renovation loans that improve the energy efficiency of the building but do not meet the taxonomy screening criteria</td>
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<tr>
<td>Actions that support counterparties in the adaptation to climate change but that do not meet taxonomy criteria</td>
<td>▶ Loans to build barriers against flooding, or water management mechanisms against droughts but to not meet the taxonomy screening criteria</td>
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<tr>
<td><strong>GREEN ASSET RATIO</strong></td>
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<tr>
<td>Information on exposures towards taxonomy-aligned activities consistent with Paris Agreement goals that contribute substantially to climate change mitigation (CCM) and adaptation (CCA), including information on transitional and enabling activities</td>
<td>▶ Contributing to CCM: Generation of renewable energy</td>
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<td></td>
<td>▶ Enabling CCM: Manufacture of renewable energy technologies</td>
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<tr>
<td></td>
<td>▶ Contributing to CCA: Afforestation</td>
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<td></td>
<td>▶ Enabling CCA: Engineering activities for adaptation to climate change</td>
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<tr>
<td><strong>QUALITATIVE DISCLOSURES</strong></td>
<td></td>
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<tr>
<td>Qualitative information on environmental, social and governance risks</td>
<td>▶ Governance arrangements</td>
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<tr>
<td></td>
<td>▶ Business model and strategy</td>
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<td>▶ Risk management</td>
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Also in the advice
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Floor for discussion
### Quantitative templates proposed

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

<table>
<thead>
<tr>
<th>Climate change Transition risk</th>
<th>Climate change Physical risk</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate exposures in the banking book towards NACE sectors:</td>
<td>Banking book exposures by sensitive geographies and sectors (acute and chronic physical risk)</td>
<td>GAR – Taxonomy aligned exposures that contribute or enable climate change mitigation/adaptation</td>
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<tr>
<td>- that highly contribute to climate change,</td>
<td></td>
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<tr>
<td>- towards fossil fuel companies</td>
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<tr>
<td>- and towards other carbon related sectors,</td>
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<td>based on classifications specified in the EU climate transition benchmarks Regulation and related delegated acts, including information on scope 3 emissions</td>
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**Templates**

- **Template 1:** Banking book - Quality of exposures by sector
- **Template 2:** Banking book - Maturity buckets
- **Template 3:** Loans collateralised by immovable property – by EPC
- **Template 4:** Alignment metrics on relative scope 3 emissions
- **Template 5:** Exposures in the banking book to top carbon-intensive firms
- **Template 6:** Trading book portfolio
- **Template 7:** Banking book, exposures subject to physical risk
- **Templates 8 and 9 on GAR**
- **Template 10 on other climate change mitigation actions**

Common with disclosures in Advice Art. 8 of Taxonomy
“Green” disclosure metrics - GAR

- GAR on activities aligned with the taxonomy for the objectives of climate change mitigation and adaptation

- **Identification of taxonomy aligned activities for NFCs:**
  - specialised lending: based on the economic activity funded (including but not only green bonds)
  - General purpose lending: based on the counterparty overall taxonomy alignment (using counterparty data, percentage of turnover alignment in case of NFC)

- **Identification of taxonomy aligned exposures – Retail and SME real estate/ car loans:** Based on alignment with the taxonomy screening criteria of the energy performance certificate of the underlying asset (EPC)

- **Identification of taxonomy aligned activities for financial institutions:** based on the counterparty overall taxonomy alignment (using counterparty public data)

- Total GAR for stock (all eligible exposures as of reference date) and flows (during the disclosure period), differentiating between transitional and enabling activities
Consultation paper on draft Pillar 3 ESG ITS – Disclosure qualitative information ESG risks

Table 1 - Qualitative information on Environmental risk

Table 2 - Qualitative information on Social risk

Table 3 - Qualitative information on Governance risk

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
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Floor for discussion
Topics for discussion

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

- **Risk disclosures**, including:
  - climate change transition risk (templates 1 to 6)
  - climate change physical risk (templates 7, both simplified and extended version)

- **Green asset ratio** (templates 8 and 9) and **other mitigating measures** (template 10)

- **Qualitative disclosures** (tables 1, 2 and 3)

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

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