THE EBA ROADMAP ON SUSTAINABLE FINANCE

THIS DOCUMENT SUPERSEDES THE EBA 2019 ‘ACTION PLAN ON SUSTAINABLE FINANCE’

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Contents

1. Introduction 3
   1.1 About this roadmap 3
   1.2 Background 3
   1.3 EBA perspective and objectives 5
   1.4 Legal sources of EBA mandates 6
   1.5 A holistic and sequenced approach 7

2. Roadmap for the delivery of the EBA mandates 10
   2.1 Transparency and disclosures 10
      2.1.1 Pillar 3 disclosures 10
      2.1.2 Sustainable Finance Disclosure Regulation 12
      2.1.3 Work related to the EU Taxonomy 13
      2.1.4 Securitisation-related disclosures 14
   2.2 Risk management and supervision 14
      2.2.1 Risk management 15
      2.2.2 Supervision 15
   2.3 Prudential treatment of exposures 16
   2.4 Stress Testing 17
   2.5 Standards and labels 18
   2.6 Greenwashing 19
   2.7 Supervisory reporting 20
   2.8 ESG risks and sustainable finance monitoring 21
1. Introduction

1.1 About this roadmap

1. This roadmap outlines the EBA’s workplan on sustainable finance and Environment, Social and Governance (ESG) risks. It builds on and replaces the EBA’s first action plan on sustainable finance published in December 2019. The roadmap explains the EBA’s approach and objectives in the area of ESG and describes the mandates and tasks received from the EU legislators and directly from the European Commission, together with the EBA’s associated planned activities and timelines.

1.2 Background

2. Climate change, environmental degradation, social issues and other ESG factors are posing considerable challenges for the global as well as the EU economy. The impact of acute and chronic physical events, the needed transition to a low carbon, more resource efficient and sustainable economy, and a more inclusive society, as well as other ESG challenges, are leading to, and will continue to cause, profound economic transformations that will impact the financial sector.

3. Environmental, including climate-related, risks in particular are expected to become more prominent going forward through transition and physical risk drivers. This may affect all traditional categories of financial risks to which institutions are exposed. Similarly, social factors – such as human rights, health or working conditions – and governance factors – such as executive leadership or bribery and corruption – are driving monetary impacts in the real economy, and in turn affect the financial sector. Overall, ESG risks are changing the risk picture for the financial sector, including banking, calling for assertive actions by all stakeholders.

4. Financial regulators and supervisors are also engaged in addressing the challenges posed by the ESG risks, by ensuring that the prudential framework remains robust to support the

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1 As defined by the European Commission, sustainable finance refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects. In the EU’s policy context, sustainable finance is understood as:

(i)finance to support economic growth while reducing pressures on the environment and taking into account social and governance aspects;

(ii)transparency when it comes to risks related to ESG factors that may have an impact on the financial system, and the mitigation of such risks through the appropriate governance of financial and corporate actors.

See: Overview of sustainable finance

EBA Action plan on sustainable finance
safety and soundness of financial institutions in financing the economy along the transition to a more sustainable economy.

5. The financial sector has an important role to play, both in terms of financing the transition towards a low-carbon, more resource efficient and sustainable economy and for managing financial risks stemming from ESG factors. A robust banking sector and overall financial stability will be key conditions in supporting an orderly transition. In this regard, financial institutions have a key role to play in managing risks and raising the funds for sustainable projects given their unique position in intermediating capital flows through their lending, investment, and advisory role. Credit institutions also have the technical expertise that is critical for assessing the risks and opportunities attached to sustainable assets, especially during this transition.

6. Supporting the transition to a more resilient and sustainable European financial sector is a key objective for EU policymakers and supervisors. A sound framework for sustainable banking products is necessary in light of the financing needs related to the transition, while the cross-cutting nature of ESG risks raises a need for a holistic approach which entails enhancing the measurement, management, disclosure, and monitoring of ESG risks as well as effective supervision of institutions.

7. The regulatory and market developments in the area of sustainable finance raise the need for flexibility and adaptability of the EBA’s policy agenda, while maintaining the overall strategic goals of this work. This roadmap brings continuity with regard to the steps taken under the EBA’s previous action plan on sustainable finance, and at the same it accommodates the necessary adjustments, including new mandates and new areas of focus.

8. The EBA’s first action plan on sustainable finance published in 2019 specified the following areas of focus:

- strategy and risk management;
- key metrics and disclosure;
- stress testing and scenario analysis; and
- prudential treatment.

The EBA initiatives in these areas were mostly focused on the understanding of market practices related to ESG aspects, investigating existing regulatory concepts from ESG point of view, formulating common definitions and terminology that will be applicable in regulatory framework, and providing the first guidance on specific aspects, in line with the sequenced approach. While large part of the actions envisaged under the 2019 action plan has already been finalised, the work in these areas will continue, following also the previously specified sequencing.
9. At the same time, since the publication of the first action plan, the EBA’s policy agenda grew significantly, in parallel with the policy developments at the EU and international level. Through various mandates as described in this roadmap, the EBA is requested to take concrete actions in a wider set of policy areas in a now more mature framework for sustainable finance. It is therefore necessary to adapt the initial action plan, adding new areas of focus, including aspects related to labeling of sustainable products, greenwashing, as well as supervisory reporting and enhanced risk monitoring framework. To this end, this roadmap creates a continuity from the first action plan and at the same time builds on the latter to reflect the mandates and tasks that the EBA will fulfill in coming years.

1.3 EBA perspective and objectives

10. The EBA’s work on ESG risks and sustainable finance is closely linked with the broader objective of contributing to the short-, medium- and long-term stability, resilience and orderly functioning of the financial system. ESG remains one of the priorities for the EBA and ESG aspects will be increasingly embedded across EBA’s products and activities.

11. As a key objective, the EBA will contribute to developing an adequate regulatory and supervisory framework regarding ESG risks and the transition to a sustainable economy. To this end, the EBA will analyse how ESG risks are embedded in the current prudential regulation, and how institutions and competent authorities address these risks. The EBA will assist institutions and supervisors in embedding ESG risks in their activities by i) anchoring ESG risks in the relevant regulations, ii) providing guidance on risk management and supervisory practices, and iii) carrying out risk analysis and monitoring exercises, including climate stress tests.

12. The EBA recognises that while addressing ESG challenges necessitates the implementation of a range of public policies, the primary role of the prudential framework is to ensure a stable and resilient financial sector that will be able to provide the financing for the required economic and social transition.

13. When executing its roadmap and delivering its mandates on ESG, the EBA will pay particular attention to i) ensuring continued resilience of the EU banking sector against the risks, ii) appropriately applying the principle of proportionality, and iii) supporting the solid and consistent implementation of the EU and international agenda on sustainable finance.

14. The application of the principle of proportionality in the area of ESG will primarily aim at ensuring that ESG requirements reflect the materiality of ESG factors and risks, taking into account not only the size and complexity of institutions but also other factors determining the materiality of ESG risks, such as the nature and characteristics of exposures and activities.

15. EBA’s work on ESG risks and sustainable finance is also closely intertwined with other developments at European and international level. The EBA will pursue its participation to
these initiatives by contributing to the ESG work of various EU and international bodies such as the European Commission, the Basel Committee on Banking Supervision (BCBS) and the Network for Greening the Financial System (NGFS). The EBA will also closely cooperate with the European Securities and Markets Authority (ESMA) and the European Occupational Pensions and Insurance Authority (EIOPA), with a view to ensuring an overall consistency of regulatory actions across the EU financial sector, as well as with the European Central Bank (ECB) and other EU institutions as relevant. Regulatory initiatives in the area of ESG have been prolific in recent years. Therefore, it is crucial to ensure that a close cooperation is maintained between EU and international institutions to ensure synergy and consistency in the development and implementation of the ESG regulatory framework.

16. Finally, as an organisation, the EBA has obtained the Eco-Management and Audit Scheme (EMAS) certification, under which EBA’s internal efforts to consider the environmental impact of its own activities and functioning have been acknowledged and will be closely monitored going forward.

1.4 Legal sources of EBA mandates

17. The EBA’s mandates on ESG risks and sustainable finance are included in the following legislative acts:

- Regulation (EU) No 1093/2010 (EBA Founding Regulation)
- Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR) and Directive (EU) 2013/36 (Capital Requirements Directive - CRD)
- Regulation (EU) 2019/2033 (Investment Firms Regulation - IFR) and Directive (EU) 2019/2034 (Investment Firms Directive - IFD)
- Regulation (EU) 2017/2402 (Securitisation Regulation)
- Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation - SFDR)

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3 This catalogue may not be exhaustive and new mandates for the EBA may be added in the evolution of the regulatory framework.
4 Regulation (EU) No 1093/2010 (EBA Founding Regulation)
5 Regulation (EU) No 575/2013 (Capital Requirements Regulation)
6 Regulation (EU) 2013/36 (Capital Requirements Directive)
7 Regulation (EU) 2019/2033 (Investment Firms Regulation)
8 Directive (EU) 2019/2034 (Investment Firms Directive)
9 Regulation (EU) 2017/2402 (Securitisation Regulation)
10 Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation)
• Regulation (EU) 2020/852 (Taxonomy Regulation\textsuperscript{11})

• Corporate Sustainability Reporting Directives (CSRD\textsuperscript{12})

18. These mandates are supplemented by specific requests and Calls for Advice issued by the European Commission, in particular as part of the implementation of its Strategy for Financing the Transition to a Sustainable Economy\textsuperscript{13}.

19. As the banking package (CRR/CRD) is currently undergoing a revision, the EBA expects additional mandates in the area of ESG risks stemming from these revised legislative acts. These envisaged new or modified mandates are included in the roadmap to the extent they are expected based on the legislative proposals. However, their exact scope and deadline will only be fully known once the final texts are agreed and adopted.

1.5 A holistic and sequenced approach

20. Following the horizontal character of issues related to ESG risks and sustainable finance, the EBA will address these topics in a comprehensive and sequential manner by progressively updating and enhancing all relevant parts of the supervisory and regulatory framework.

21. The EBA’s work on ESG risks will primarily cover the three pillars of the banking framework (market discipline, supervision, prudential requirements), as well as other related areas and the monitoring and assessment of risks:

- To begin with, fostering \textit{transparency and market discipline on ESG issues} through enhanced disclosures (i.e. prudential Pillar 3 and other sustainability-related disclosure requirements) has been and will continue to be a key priority for the EBA.

- Similarly, to maintain a safe and resilient banking sector, there is a pressing need to ensure robust \textit{management of ESG risks} by institutions, through a set of harmonised rules at the EU level. Institutions’ practices and exposures to ESG risks will in turn have to be progressively assessed and \textit{supervised} by competent authorities under Pillar 2, including through further developments on \textit{climate stress tests}.

- In parallel, the EBA has started reflecting on the merits of introducing potential changes to the \textit{prudential treatment of exposures} under Pillar 1 and will continue this work going forward.

\textsuperscript{11} Regulation (EU) 2020/852 (Taxonomy Regulation)

\textsuperscript{12} Corporate Sustainability Reporting Directive - European Parliament legislative resolution of 10 November 2022

\textsuperscript{13} Strategy for Financing the Transition to a Sustainable Economy
In addition, as the market for sustainable finance develops, further work is necessary going forward to i) determine the relevance and content of additional ESG standards or labels, and ii) identify possible measures to address emerging risks such as greenwashing.

Finally, taking into account developments around data and metrics, the ESG risks and sustainable finance developments will have to be assessed and monitored on an on-going basis. For that purpose, the stress testing and scenario analysis will remain a particularly important tool in the coming years.

22. The exact scope of work in each of the areas will depend on the specific mandates. While some parts of the EBA’s work will encompass all elements of ESG risks, others will focus in the first place on the environmental, or even more narrowly, climate-related risks, following a sequential approach.

23. Similarly, the spectrum of addressees may vary between the various mandates: while some of them cover broader financial sector including credit institutions and investment firms, others may be applicable only to specific institutions and / or their supervisory authorities. In addition, some of the mandates will touch upon the aspects related to consumer protection, which may also be covered in line with the EBA’s scope of activities. These aspects and other details of the mandates are further described in the following sections.

24. In addition to the specific areas of work specified in this roadmap, the EBA together with other ESMA and EIOPA will also seek to incorporate ESG dimensions in the promotion of financial education, as part of the ESAs’ mandates to review and coordinate financial education and literacy initiatives of national authorities.
Figure 1 Key objectives of the EBA’s Roadmap on Sustainable Finance
2. Roadmap for the delivery of the EBA mandates

25. The EBA’s activities on ESG risks and sustainable finance can be classified under the following main areas:

   a. transparency and disclosures;
   b. risk management and supervision (including transition plans);
   c. prudential treatment of exposures;
   d. stress-testing;
   e. standards and labels;
   f. greenwashing;
   g. supervisory reporting;
   h. ESG risks and sustainable finance monitoring framework.

26. For each of the mentioned areas, the subsequent sections of this roadmap present in more detail the work done so far by the EBA, as well as further mandates granted to the EBA on ESG risks and sustainable finance, with planned deliverables, activities and expected timelines, in each of the mentioned areas.

2.1 Transparency and disclosures

2.1.1 Pillar 3 disclosures

27. In January 2022 the EBA finalised its Implementing Technical Standards (ITS) on prudential disclosures on ESG risks in accordance with Article 449a CRR. These ITS put forward the tables, templates and associated instructions that large institutions with securities traded on a regulated market of any Member State must use in order to publicly disclose relevant qualitative information on ESG risks, and quantitative information related to climate

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14 EBA Final Report on ITS on prudential disclosures on ESG risks in accordance with Article 449a CRR
change, including transition risk, physical risk and risk mitigating actions. The European Commission adopted the ITS on 30 November 2022\textsuperscript{15}.

28. Going forward, the EBA will continue to develop the disclosure templates on ESG risks. Further complementary work is expected in particular on:

a. the expansion of the scope of quantitative disclosures beyond climate risk mitigation and adaptation, including disclosure metrics on other ESG risks, in line with relevant developments at the EU and international level;

b. potential expansion of the scope of disclosure requirements to a larger universe of banks, should such a mandate be granted to the EBA by the EU legislators.\textsuperscript{16}

29. The EBA will also continue to support institutions and competent authorities in the implementation process through dedicated workshops where necessary, and by providing answers to questions through the regular Q&A process.

30. The EBA recognises that there is a need to ensure an overall consistency of disclosure standards internationally. The EBA will continue to cooperate and coordinate with relevant European and international bodies such as the BCBS, European Financial Reporting Advisory Group (EFRAG), International Sustainability Standards Board (ISSB), and the NGFS, to ensure consistency across initiatives in the area of ESG disclosures. As part of these efforts, the EBA responded to the consultations on sustainability standards launched in March and April 2022 by the ISSB and EFRAG respectively\textsuperscript{17}.

31. At the EU level, by supporting the European Commission and acting as an observer in EFRAG, the EBA will continue to fulfil its role in contributing to the development of sustainability reporting standards under the Non-Financial Reporting Directive (NFRD) and CSRD, which amends the former. The EBA will also issue opinions on the technical standards proposed by EFRAG, following the mandate included in the CSRD. Finally, at international level, the EBA will provide contributions to the work of the BCBS, through participation in the relevant workstreams.

\textsuperscript{15} Adoption of Commission Implementing Regulation amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of environmental, social and governance risks

See also: EBA Opinion in response to the European Commission’s proposed amendments to the EBA final draft technical standards on Pillar 3 disclosures on ESG risks

\textsuperscript{16} The legislative proposal under the banking package amends Article 449a of the CRR to extend the requirements related to the disclosures of ESG risks to all institutions, i.e., including also small and non-complex credit institutions in addition to large credit institutions, while respecting the proportionality principle.

See: Text of the proposal to amend the Capital Requirements Regulation

\textsuperscript{17} EBA’s response to the public consultations on sustainability-related disclosure standards
2.1.2 Sustainable Finance Disclosure Regulation

32. In 2021, the three European Supervisory Authorities (EBA, ESMA and EIOPA – the ESAs) jointly under the remit of the Joint Committee (JC), developed two sets of Regulatory Technical Standards (RTS) under SFDR, clarifying these requirements and providing specific disclosure templates. SFDR lays down disclosure requirements for manufacturers of financial products and financial advisers towards end-investors.

33. The first set of RTS, published in February 2021, included the content, methodologies, and presentation of sustainability-related disclosures for investment decisions and a range of financial products. Following amendments to the SFDR made by the Taxonomy Regulation, the second set of RTS was published in October 2021, which amended the first set of RTS. It included additional disclosure requirements on the level of alignment of financial products with the EU Taxonomy of environmentally sustainable economic activities. Both sets of RTS were adopted by the European Commission in a Delegated Regulation (EU) 2022/1218 (SFDR Delegated Regulation)\(^\text{18}\) which was published in July 2022.

34. In April 2022, the ESAs received two letters from the European Commission\(^\text{19}\) with a request to propose amendments to SFDR Delegated Regulation to:

   a. enhance transparency about financial products with regard to potential investments in fossil gas and/or nuclear energy activities, reflecting the provisions set out in the Commission Delegated Regulation (EU) 2022/1214 (Complementary Climate Delegated Act)\(^\text{20}\). The ESAs submitted these amendments to the European Commission in September 2022\(^\text{21}\).

   b. review the indicators for principal adverse impact and the financial product disclosures in the SFDR Delegated Regulation through streamlining and developing further the regulatory framework, extending the lists of universal indicators for adverse impacts as well as other indicators, and refining the content of all the indicators for adverse impacts and their respective definitions, applicable methodologies, metrics and presentation. In addition, the European Commission invites the ESAs to propose amendments regarding decarbonisation targets and to consider whether the financial products related to taxonomy-aligned investments are sufficiently addressed in terms of the disclosure and information on taxonomy-aligned economic activities. The work on this is planned to be finalised in 2023.

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\(^\text{18}\) Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022

\(^\text{19}\) A letter of 8 April 2022 in relation to product exposure to gas and nuclear activities and a letter received on 11 April 2022 in relation to principal adverse impact indicators.

See: EBA correspondence with EU institutions

\(^\text{20}\) Commission Delegated Regulation (EU) 2022/1214 (Complementary Climate Delegated Act)

\(^\text{21}\) See: ESAs proposal to the European Commission on the draft RTS under SFDR
35. The ESAs aim to promote a better understanding of the disclosures required under the SFDR Delegated Regulation ahead of its planned application on 1 January 2023. As part of this, in June 2022 the ESAs published a statement providing clarifications on key areas of the SFDR disclosures, while those questions received from stakeholders, which required the interpretation of Union Law, were submitted to and answered by the European Commission. Additionally, Q&As related to the practical application of the SFDR disclosures were finalised in November 2022. Going forward, the ESAs will continue providing clarifications on the application of SFDR disclosures as necessary.

36. In July 2022, the ESAs published their first annual report on the extent of voluntary disclosures of principal adverse impact under Article 18 of SFDR. In line with this mandate, a report will be published annually by September each year. The 2022 report includes a preliminary overview of examples of voluntary disclosures and a set of recommendations for competent authorities to ensure appropriate supervision of financial market participants’ practices.

2.1.3 Work related to the EU Taxonomy

37. In March 2021 the EBA advised the European Commission on key performance indicators for transparency on credit institutions’ and investment firms’ environmentally sustainable activities in accordance with Article 8 of the Taxonomy Regulation. The EBA’s opinion focused on the objectives of climate change mitigation and climate change adaptation and was included in Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021. Since the publication of the Delegated Regulation, the EBA has been supporting the European Commission on the issues around implementation of the regulation targeting credit institutions and investment firms, e.g. through its contribution to European Commission’s frequently asked questions (FAQ) publications. The EBA will continue its technical support to the European Commission to ensure a common, uniform and consistent application of entity-level disclosures under Article 8 of the Taxonomy Regulation.

38. The EBA will also support the European Commission on the extension of the KPIs defined in the Commission Delegated Regulation to the remaining environmental objectives specified in Article 9 of the Taxonomy Regulation: the sustainable use and protection of water and marine resources; the transition to a circular economy; pollution prevention and control; the protection and restoration of biodiversity and ecosystems.

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22 See: ESAs clarification on key areas of the RTS under SFDR
23 See: Questions submitted by the stakeholders and Answers provided by the European Commission
24 Q&A on the SFDR Delegated Regulation
25 Joint ESAs’ Report on the extent of voluntary disclosure of principal adverse impact under SFDR
26 Together with the EBA, other ESAs, i.e., ESMA and EIOPA also received call for advice from the European Commission in their own remits.
27 Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021
2.1.4 Securitisation-related disclosures

39. The ESAs are currently finalising the RTS mandated under Articles 22(4) and 26d(4) of the EU Securitisation Regulation ((EU) 2017/2402) which will standardise the information an originator of an STS securitisation may choose to disclose about the adverse impacts of the assets financed by the securitised exposures on the climate and other sustainability factors. Building on the joint ESAs RTS on sustainability related disclosures for financial products, these RTS will enhance transparency and assist investors in measuring and comparing the potential negative impacts on sustainability factors of STS securitisation products backed by real-estate and auto-loans portfolios. It is planned that this work should be finalised at the beginning of 2023 at the latest.

2.2 Risk management and supervision

40. The EBA’s work on the management and supervision of ESG risks aims at ensuring that these risks are appropriately incorporated in the risk management frameworks by institutions and in the supervisory processes by competent authorities.

41. The EBA published its ESG risks management and supervision report in June 2021. The report provided common definitions of ESG factors and ESG risks, an explanation of transmission channels of ESG factors towards financial risks, an overview of available indicators and methodologies to assess and measure ESG risks, and recommendations to ensure a proper integration of ESG risks into institutions’ business strategies, risk management frameworks and internal governance arrangements, as well as into the supervision of banks. This report was complemented by a report on the incorporation of ESG considerations in the supervision of investment firms, published in October 2022.

42. The ESG risks are increasingly referred to in an explicit manner in various EBA Guidelines – on loan origination and monitoring, internal governance, remuneration policies, and supervisory review and evaluation process (SREP) of credit institutions. Besides this, the European Commission has reflected EBA’s findings and recommendations in its legislative proposal published in October 2021 to amend the CRR/CRD package, with a view to contribute to a more robust regulatory framework for the management and supervision of ESG risks.

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28 EBA Report on ESG Risk Management and Supervision
29 EBA Report on incorporating ESG risks in the supervision of investment firms
30 EBA Guidelines on loan origination and monitoring
31 EBA Guidelines on internal governance under Directive 2013/36/EU
32 EBA Guidelines on sound remuneration policies under Directive 2013/36/EU
33 EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU
34 Banking package | European Commission (europa.eu)
43. Forthcoming work by the EBA in this area will provide more guidance to institutions and supervisors, in particular through Guidelines for institutions on the management of ESG risks and further revision of the Guidelines on SREP.

2.2.1 Risk management

44. The European Commission, in its proposal for an update to the CRD\(^{35}\), has proposed to give a mandate to the EBA to issue Guidelines on the identification, measurement, management and monitoring of ESG risks (draft Article 87a(5)). Based on the draft proposal, the guidelines would include requirements for institutions’ transition plans and integration of ESG aspects in institutions’ internal stress testing.

45. The EBA is undertaking preparatory work to deliver this potential new mandate. The aim of these Guidelines will be to provide further guidance to institutions to ensure robust and harmonised practices in the assessment and management of ESG risks, including through stress testing and transition plans. This will build on the EBA report on the management and supervision of ESG risks as well as relevant international standards or principles\(^{36}\).

46. While the EBA will take the necessary steps to timely deliver this potential new mandate, the timeline for the publication of the Consultation Paper and Final Guidelines will depend on the outcomes of the legislative discussions on the banking package and the final mandate entrusted to the EBA.

47. Furthermore, based on the final text of the revised CRD, an update to the EBA Guidelines on internal governance and to the Guidelines on remuneration policies may be undertaken to elaborate on aspects related to ESG risks.

2.2.2 Supervision

48. In line with its proposals for the gradual incorporation of ESG risks into the SREP of credit institutions and investment firms, the EBA has included specific references to ESG risks in the updated SREP Guidelines for credit institutions published in March 2022\(^{37}\), and in the SREP Guidelines for investment firms, published in July 2022\(^{38}\).

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\(^{36}\) See: BCBS principles for the effective management and supervision of climate-related financial risks

\(^{37}\) Business Model Analysis (chapter 4) of EBA SREP Guidelines include references to ESG. EBA SREP Guidelines also incorporate ESG risks indirectly in the assessment of governance arrangements (chapter 5) through the references to the Guidelines on internal governance and Guidelines on remuneration policies, as well as in the assessment of credit risk (chapter 6), through the reference to the Guidelines on loan origination and monitoring.

See: EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU

\(^{38}\) References to ESG included in the Business Model Analysis and in the Assessment of Governance Arrangements, through references to the applicable requirements in this area.

See: EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) under the Investment Firms Directive
49. The European Commission, in its legislative proposal to amend the CRR/CRD package, has proposed to empower the EBA to issue Guidelines on the uniform inclusion of ESG risks in the SREP (draft Article 98). Accordingly, the EBA plans to include more granular requirements on the treatment of ESG risks in the SREP in a further review of the SREP guidelines. The timeline for the publication of the Consultation Paper and Final Guidelines will depend on the outcome of the legislative process.

50. In the meantime, the EBA has included ESG risks into its 2022 and 2023 European Supervisory Examination Programmes (ESEP), which is a selection of key priorities for prudential supervisors. The EBA will follow-up on how EGS risks have been implemented into supervisory practices, which will support the EBA’s work on the incorporation of EGS factors and risks into the SREP framework.

2.3 Prudential treatment of exposures

51. Another set of mandates extended to the EBA, under Article 501c of the CRR and Article 34 of the IFR, relate to the first pillar of the prudential framework and the minimum own funds requirements. They require the EBA to assess whether a dedicated prudential treatment of exposures related to assets or activities substantially associated with environmental and/or social objectives / subject to environmental and/or social impacts would be justified. The two mandates under the CRR and IFR are considered together due to strong interlinkages between the prudential frameworks for credit institutions and investment firms, with a view to ensuring an overall consistency of the analysis and conclusions.

52. A two-step approach is being followed to address these mandates. Firstly, a discussion paper (DP) was published in May 2022, on which feedback from stakeholders has been sought. The DP initiated the discussion on the appropriateness of the current prudential framework to address environmental risk drivers and considered the potential justification for a dedicated prudential treatment. It provided an initial assessment of how the framework interacts with environmental risks and posed questions on whether adaptations are required to effectively address such risks. The feedback received will be considered before formulating policy recommendations in a final report on whether a dedicated prudential treatment of assets and activities associated with environmental and social objectives/impacts would be justified.

53. Based on the feedback received as well as insights gained from available data and policy developments at the EU and international levels, the final report will pursue the analysis set out in the discussion paper and explore, for those elements of the framework which are most likely to be affected by environmental risk drivers, how these risk drivers can be best captured through either existing mechanisms or through enhancements or clarifications within the framework. It will also assess how the different elements of the framework

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39 EBA Discussion paper on the role of environmental risks in the prudential framework
interact with social risks. At the current juncture, given ongoing discussions on the CRR revisions, the exact mandate and requested timeline for this work remain uncertain. Currently the EBA is planning to finalise the work in 2023, although this will depend on the final outcome of the legislative process.

2.4 Stress Testing

54. The EBA mandates on climate risk stress testing are included in Articles 2340 and 3241 of the EBA Founding Regulation, which empowers the EBA to develop common methodology to perform regular climate change stress tests. In addition to this legal mandate, the European Commission’s Strategy for Financing the Transition to a Sustainable Economy envisages introduction of new mandates for the EBA and other ESAs on climate risk stress testing. Some of these proposed new mandates have been included in the draft revisions of the banking package published by the European Commission in October 2021.

55. To pave the way to its strategy on climate risk stress tests, the EBA conducted in 2020 an EU-wide pilot exercise on climate risk and published the results in May 2021. It was designed as a learning exercise in which 29 banks volunteered to participate. The experience gained running the pilot will help in designing climate stress tests for the EU banking sector.

56. In line with the Commission’s sustainable finance strategy, the EBA and other ESAs should perform regular climate change stress tests individually for their respective sectors. This requirement reinforces the legal mandate that is outlined in Articles 23 and 32 of the EBA Founding Regulation and represents a key priority for the EBA in the near future. As such, the EBA will develop common methodologies to regularly assess the impact of possible climate shocks on the banking sector. At this juncture, climate stress test should be considered separately from the standard EU-wide stress test which focus on the resilience of the banking sector to adverse macro-financial developments.

57. Furthermore, in line with what is requested by the Commission’s sustainable finance strategy, the EBA, along with other ESAs and the ECB, has started preparation for a one-off joint climate stress test across the EU financial sector. This joint exercise should assess vulnerabilities in the financial system, including through interlinkages between different

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40 According to Article 23 (Identification and measurement of systemic risk) the EBA shall, in consultation with the ESRB, develop criteria for the identification and measurement of systemic risk and an adequate stress-testing regime which includes an evaluation of the potential for systemic risk posed by or to financial institutions to increase in situations of stress, including potential environmental-related systemic risk.

41 Article 32(2)(a) states that the EBA shall develop: (a) common methodologies for assessing the effect of economic scenarios on an institution’s financial position taking into account inter alia risks stemming from adverse environmental developments; and (da) common methodologies for assessing the effect of environmental risks on the financial stability of institutions.

42 See: EU wide pilot exercise on climate risk
sectors within the financial system and how these vulnerabilities relate to the transition to the 2030 goals (Fit-4-55 package).

58. Regarding the regulatory work in the area of stress testing, the EBA is planning to review its Guidelines on institutions’ stress testing in order to provide guidance for institutions on how to test their resilience to climate change, but also to long-term negative impacts of ESG factors. This work will be carried out in accordance with the mandate proposed by the European Commission in its CRD revisions (draft Article 87a(5)(d)). The work is expected to take place in 2023, but the timeline for the publication of the Consultation Paper and Final Guidelines will depend on the outcome of the legislative process.

59. Furthermore, according to proposed changes to the CRD (draft Article 100(4)), the EBA and the other ESAs are to develop joint guidelines for supervisory ESG stress testing, starting with climate risk. The guidelines are to ensure consistency, long-term considerations, and common standards for assessment methodologies. The timeline for this work will depend on the outcome of the legislative process and agreement between the ESAs.

2.5 Standards and labels

60. The EBA is planning to continue its work in the area of standards and labels. In March 2022, the EBA published a report on the recent developments and challenges in introducing sustainability in the EU securitisation market. The EBA’s analysis shows that it would be premature to establish a dedicated framework for green securitisation. Rather, as an intermediate step to allow the sustainable securitisation market to play a role in financing the transition towards a greener EU economy, the EBA recommended that the upcoming EU Green Bond Standard Regulation should also apply to securitisation, provided that some adjustments are made to the proposed regulation. The EBA stands ready to support the legislators in introducing these amendments to the draft EU Green Bond Standard Regulation, as necessary. Moreover, the EBA is willing to monitor the development of the EU green synthetic securitisation market and, if appropriate, further investigate the relevance and potential content of a framework for green synthetic securitisation.

61. In addition, the EBA has separately published preliminary considerations on ESG ‘use of proceeds’ bonds for own funds and eligible liabilities instruments, providing an overview of the identified risks as well as policy observations and recommendations on how the clauses used for ESG issuances and the eligibility criteria for own funds and eligible liabilities instruments interact, with the ultimate aim of identifying best practices or practices/clauses that should be avoided. The EBA has observed that its recommendations have been integrated in subsequent issuances. The EBA will continue to monitor the developments of sustainability-linked bonds and possible related KPIs, if such bonds are

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43 EBA Report on green securitisation transactions
44 See: Section 4 of EBA Report on the Monitoring of Additional (AT1) instruments of European Union (EU) institutions - Update
issued for regulatory purposes. In this regard, the EBA continues its discussions with stakeholders and issuers in order to stand ready to provide additional guidance when needed.

62. In accordance with its Strategy for Financing the Transition to a Sustainable Economy, in November 2022 the European Commission requested the EBA’s opinion on the definition and possible supporting tools for green retail loans and green mortgages. To that end, the EBA will consider the merits of an EU definition for green loans and mortgages, and will identify potential measures to encourage their uptake or facilitate their access by retail and SME borrowers. The EBA’s analysis will include an overview of existing market practices and potential impediments to the development of green retail loans and mortgages in the EU banking sector. In line with the request, the EBA will deliver its advice to the European Commission by December 2023.

63. In the medium term, the EBA, in coordination with the European Commission and the other ESAs, is expected to assess the relevance and need for an EU standard for sustainable loans and bonds. The EBA is also planning to monitor the green asset-backed security market to assess the relevance of developing a dedicated framework once the EU economy has further transitioned. In this context, especially the covered bonds segment may warrant further attention, given the overall importance for EU financial markets. The scope and timeline of the EBA’s tasks in this area will depend on specific requests the EBA may receive from the European Commission as part of the action points envisaged in the Strategy for Financing the Transition to a Sustainable Economy.

2.6 Greenwashing

64. Action 5(a) of the European Commission’s Strategy for Financing the Transition to a Sustainable Economy consists in increasing the resilience in the financial system by monitoring greenwashing risks and assessing whether supervisory mandates and powers are effective in addressing greenwashing risks. As part of the implementation of this action, the Commission requested inputs from the three ESAs, which have been asked to provide individually but in a coordinated manner an analysis within their respective sectors of competence.

65. The objectives of the EBA when providing its inputs will be to:

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45 Call for Advice on green loans and mortgages
46 In accordance with action point 1(e) of the Annex to the Communication, Renewed Strategy for Financing the Transition to a Sustainable Economy, the Commission will extend sustainable finance standards and labels that support financing the transition to sustainability and phased transition efforts.
See: Annex to Strategy for Financing the Transition to a Sustainable Economy
47 Request for input to ESAs on greenwashing monitoring and supervision
• provide insights into an understanding of the greenwashing phenomenon and identify the specific forms and dimensions it can take in the context of banking activities;

• evaluate greenwashing risks within the EU banking sector and determine the extent to which this may be an issue (currently and going forward) from a prudential perspective;

• identify the existing market practices, regulatory frameworks, and supervisory tools which can be used to address greenwashing and to point out potential challenges and shortcomings;

• assess whether amendments to the EU supervisory framework and the EU single rulebook would be needed and to provide recommendations to the European Commission to further address greenwashing, if deemed appropriate.

66. In relation to this request, the ESAs reached out to stakeholders to inform their work on greenwashing and launched a survey to receive input on the key features, drivers and risks associated with greenwashing and to collect examples of potential greenwashing practices 48.

67. In line with the request, each ESA will deliver a progress report by the end of May 2023 and a final report by the end of May 2024. Based on the inputs of the ESAs, the European Commission will determine whether the regulatory framework including the supervisory legal mandates, powers, capabilities, and obligations are fit for purpose, and consider potential amendments to the EU single rulebook, if needed.

2.7 Supervisory reporting

68. The European Commission’s proposal for the CRR revisions includes the requirement for institutions to report to their competent authorities information on their exposure to ESG risks. Following the mandate in Article 430(7) of the CRR and depending on the outcome of the negotiations on the revised banking package, the EBA will develop the uniform reporting formats and templates through ITS for the reporting of this information. When developing the templates, the EBA will build on the Pillar 3 ITS on ESG risks disclosures, in order to ensure overall consistency, but also taking into account the information and level of granularity that competent authorities will need to carry out their monitoring and supervision tasks. The exact timelines for this work will depend on the results of the legislative work on the revised CRR, but the EBA plans to commence the work in 2023.

69. In order to be able to comply with its mandates until the supervisory reporting package is developed and applicable, the EBA will also explore the possibility to systematically collect the Pillar 3 disclosures data. This information will be necessary not only to allow effective

48 ESAs Joint Survey on Greenwashing
and efficient supervisory processes, but it will also allow development of the ESG risk monitoring framework (see next section).

2.8 ESG risks and sustainable finance monitoring

70. The EBA has started preparatory work to put in place a monitoring system to assess material ESG risks and monitor developments of sustainable finance. Systemically gathering and analysing such information is crucial for the EBA to meet its mandates and objectives. Article 29(1)(f) of the EBA Founding Regulation explicitly mandates the EBA to put in place a monitoring system to assess material ESG-related risks, taking into account the Paris Agreement to the United Nations Framework Convention on Climate Change. Work on this is on-going, with the initial focus placed on assessing data needs and availability. In the initial stage the monitoring framework will start as an internal monitoring tool, however going forward it may be used to develop a more standardised, public data and information tool.

71. Furthermore, in collaboration with the ESRB, ECB, ESAs, EEA and NCAs, the EBA will contribute to the European Commission’s systemic monitoring of climate-related financial stability risk, as proposed under the Commission’s Strategy for Financing the Transition to a Sustainable Economy (action 3(e)). The expected timeline and scope of this work will be conditional on further, more detailed requests from the European Commission, as well as on inputs expected from other involved institutions. It will also take into account the availability of data and methodologies and should eventually be expanded in scope to include also other categories of environmental risk beyond climate risk.
Figure 2 Key milestones for the EBA’s work on sustainable finance

2021
- EBA advice on disclosures under Article 8 of Taxonomy Regulation
- RTS on sustainability disclosures for financial products and investment decisions
- Report on ESG risks management and supervision

2022
- ITS on ESG Pillar 3 prudential disclosures
- Second revision of SREP GL
- Pilot climate exercise

2023*
- Implementation support
- Review of RTS on sustainability disclosures - fossil gas and nuclear energy investments
- Report on ESG risks in SREP for IFs
- CP on the Guidelines on ESG risks management

2024*
- RTS on ESG disclosures for STS securitisation
- Review of RTS on sustainability disclosures - principal adverse impact indicators
- Final GL on ESG risks management

2025*
- Review of ITS on ESG Pillar 3 prudential disclosures
- Support for the implementation of disclosure requirements
- Third revision of SREP GL
- Development of the monitoring framework for ESG risks and sustainable finance