BNPP response to the EBA consultation on Pillar 3 ITS ESG

Key messages

Need to sequence the implementation of banks' Pillar 3 templates in several building blocks, limiting 2023 disclosure (based on Dec 2022 position) to a limited number of core templates and align other templates with the timeline, scope and reporting frequency of CSRD

- We understand that the first year would be annual and related to the disclosure reference date 31 December 2022; hence the **first Pillar 3 disclosure would be in 2023** (Q1). Banks, as users of ESG disclosures, rely on Companies' disclosures to produce their own disclosures. Companies which are currently subject to NFRD disclose mainly qualitative ESG information, as well as voluntary KPIs as per EC June 2019 guidelines or TCFD. Such information is largely insufficient for banks to feed the proposed Pillar 3 templates. Consequently the EC has tabled the legislative proposal enlarging the scope to companies above 250 employees and listed SMEs and announcing future delegated acts to define the content, leveraging the work undertaken by EFRAG. The adoption of the 1st set of standards is expected for 31 October 2022, the adoption of 2nd set of standards by 31 October 2023. Even assuming that those delegated acts will include the KPIs necessary to populate Banks Pillar 3 templates, **the issue is that the first reporting by non-financial corporates under CSRD is only expected by 2024, one year after the first Pillar 3 report by banks! For listed SMEs, the first reporting under CSRD is due by 2027!** For the type of information to be provided by corporates on a mandatory basis under **CSRD (such as the physical risks, sub code NACE, scope 1-2-3, split of revenues by carbon intensive sectors … for instance**), **Pillar 3 requirements and calendar should be sequenced with the CSRD calendar, scope and content, and should be applied one-year after the non-financial corporates, as explained below**.

- In addition and more generally, it is not possible that banks and their customers disclose the ESG information simultaneously**; it is necessary that banks start their first disclosure based on the disclosures of NFRD / CSRD corporates (and listed SMEs) 1 year after non-financial corporates** . An additional one-year gap should also be granted for the disclosure on financial corporates' exposures. Therefore, the first Pillar 3 disclosures should be limited to a limited number of core templates and align other templates with the timeline, scope and reporting frequency of CSRD.

- This **sequencing is critical to limit the use of proxies** to exceptional cases in order to avoid the risk of having non-comparable Pillar 3 disclosures of low relevance (due to non-harmonized methodologies, different data shortage), and above all, to avoid putting at risk credit institutions' reputation or legal liability. Indeed, as credit institutions are liable for their disclosures, an over-reliance on proxies could be seen as "misleading information" or "green washing information". It would also compromise comparability across banks, and reduce the relevance of monitoring over time. The lack of maturity on ESG risk management concepts, including a thorough understanding of their potential transmission channels to traditional risks, also advocate for removing the Green Asset Ratio from the Pillar 3. As explained below, it should be part of the management report.

- **We also strongly recommend the alignment of the Pillar 3 scope with the CSRD scope**. A separate reporting with Non-EU counterparts and non-listed SMEs should be allowed on a best effort basis…until the implementation of equivalent requirements in other jurisdictions. **Expected development of BCBS standards**, to be handled with substantial contribution of EU Banking Authorities, would foster convergence in that respect.

- Considering the long-term horizon of potential risk materialisation, and since CSRD entities will publish their indicators on an annual basis, **we question the real benefits for the market of requiring banks to disclose the Templates in Pillar 3 twice a year**. It is even more of a concern when considering the operational complexity implied by the production of these disclosures. Therefore, we strongly request **annual disclosures**, at least as a transitory phase.

Need to align the Pillar 3 content on the regulation objectives

- The third pillar of the Basel regulation was initially intended to foster market discipline through public disclosures about Banks' capital structure, capital adequacy, and risk management. **Pillar 3 disclosures were built over time** in order to reach an adequate level of data reliability, consistency and comparability across Banks, and indeed significantly improved the ability of financial markets participants to assess Banks' risks management processes, capital structure, liquidity, risk exposures and capital adequacy. Therefore, considering **this strong focus of Pillar 3 disclosures on risk measures and risk management,** and due to the fact that (as stated by the TEG in its Technical report) the Taxonomy and the Green Asset Ratio are no management tools, but are intended to "help plan and report the transition to an economy that is consistent with the EU's environmental objectives", **EU Taxonomy Regulation Article 8 related disclosures, eg. the GAR related Templates 8 & 9 (cf. Question 14) and the Trading Book Taxonomy alignment information in the template 6 (cf. Question 11), should not be included in the Pillar 3 disclosure** (as in any case it will be subject to separate legislation – Delegated Act). Indeed, the Taxonomy aligned KPIs do not embed any risk criteria. In order to avoid any ambiguity for the use of Green Asset Ratio (and the accompanying and additional KPIs) by the market, it should be disclosed, in the management report, only under Article 8 of the Taxonomy Regulation which rules Disclosure the Taxonomy-alignment requirements.

- **The "mitigation actions" should include, in replacement of the GAR, the Template 4 on the Alignment Metrics** (cf. Questions 8 & 9). We propose that **Template 4 remains flexible**: for the rows, banks should be allowed to fill the report on the sectors and code NACE sectors on which it has performed the analysis of the alignment of its credit portfolio; for the columns, banks should be allowed to disclose the alignment metrics they have defined in their methodologies. Also we believe that the mitigation part is fairly unbalanced compared to the risk templates; we propose to include in the Qualitative Templates or in Template 10 in this section other indicators such as **banks sectorial policies and public commitments taken towards the transition and monitoring of their achievement.**

- The inclusion of quantitative information about ESG risk factors and their impacts on common risks categories into the Pillar 3 disclosure is clearly premature. As of today, the conceptual and the regulatory frameworks, and the associated methodologies to set a systematic, robust and quantitative link between ESG risk factors and credit risk does not exist. Accordingly, we deem it premature to publicly disclose such links with **risk parameters (PD/Performing/non-performing/ Stage 2/ Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions)**. We believe it should be reported to regulators through some form of **ESG Quantitative Impact Studies**.

- We understand that EBA wants to overcome, in the Pillar 3 report, the fact that **no 'Harmful taxonomy**" has been defined in the European regulation so far. This requirement **goes beyond Pillar 3 purpose and Art.449a of the CRR2 mandate**. In addition, we would welcome a clarification of the **definitions proposed by EBA; the link with the Low Carbon Benchmark Regulation introduces a useless complexity and requires information that we are not sure to obtain from our customers**. Finally, not less than three different types of classification of **'harmful activities' or 'harmful companies'** are required in the consultation. This **excessive granularity** paves the way for misinterpretation, all the more that the cross articulation between the lines granularity and the columns granularity is **not clear at all**. **We believe this type of reporting is premature. We propose to wait for the definition of the 'Harmful Taxonomy' and the CSRD implementation. Once these elements are set up, regarding the reporting towards carbon-intensive sectors, it would be much more appropriate to disclose the yearly flows and not the stock.**

- Finally, as regards the **disclosure of exposure to the top 20 polluting companies**, we would like to raise our concerns in relation to the banking secrecy, confidentiality, and business/competition issues. That's why we propose to disclose **on an aggregated basis**. In order to ensure consistency and comparability across disclosing banks, we believe that the **common list of polluting companies should be established by an EU Authority** and provided to banks.

Need to provide enough lead time to develop robust methodologies and harmonized definitions

- Any ESG reporting currently raises critical data availability, quality and management issues, and the proposed templates will lead to an extended and heterogeneous use of proxies, which is in full contradiction with all standards underlying financial risks disclosures under Pillar 3. **However, if some proxies were to be used in the Pillar 3 report,** on an exceptional basis, they **should be developed at EU / EC level** to be commonly used in the EU, thereby ensuring a level playing field and comparability across the board as long as the information is not available. This includes **non-listed SMEs and non-EU counterparties** that will not be covered by forthcoming CSRD. An **equivalence table for Energy Performance Certificates both for mortgages and car loans** across Europe should also be provided by the European Commission.

- We note that the **EBA, in its own pilot exercise,** has been focusing only on the **EU corporate lending portfolio.** Therefore, **we do recommend that the first building block of the EU Pillar III ESG framework should replicate the scope of the Climate pilot exercise**, and that the scope should be enlarged to other asset classes and KPIs at a later stage. Indeed, given the caveats noted by the EBA in its Climate pilot report, we believe that the priority, in order to enhance the credibility of the disclosure, **should be to allow banks to focus on increasing the robustness of a limited number of 'core' ESG Pillar 3 KPIs, and separately also of the GAR calculation under Article 8 Taxonomy Regulation, on this scope, rather than embrace a broader scope, where data quality will be even poorer.** We note that the EBA has found that for 83% of the EU corporate scope, as analysed in its pilot exercise, the taxonomy alignment assessment had to be based on sector averages, which obviously prevents to differentiate between corporates in the same sector with different ESG performance. Addressing this major bias should be the absolute priority, rather than seeking for further expanding the scope

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toward portfolios and asset classes where data avalability will be even more limited, at least in a first phase.

- In the same vein, robust **methodologies (physical risks, scope 3…) are not finalized yet and need to be** harmonized in order to ensure comparability across banks. Making public disclosure based on inconsistent methodologies will obviously lead to misinterpretation and could expose banks to **reputation risks and legal risks**. Flexibility should be granted by EBA at least for physical risks and scope 3 emissions as long as no consensus are reached on those methodologies. Although physical risk analysis will be essential in risk management and banks are actively working on those and on filling the data gap, they would have to rely on uncertain information coming from external data providers. That's why we propose that, for the time being, **physical risk should be reported only in a qualitative manner**. With respect to **scope 3 emissions,** at this stage, no standard or shared method has been defined and the metrics still lack the robustness required for public disclosures. These disclosures may well not adequately capture banking system's commitment on climate change and would likely be meaningless. Even if we welcome the phase in period until June 2024 proposed by EBA on scope 3, which is aligned with the first reporting by the corporates under CSRD, such disclosures should be made by banks **once related definitions and methodologies are further strengthened and after information is disclosed by customers under CSRD** (2025 for medium and large corporates and 2028 for listed SMEs)**.**

Need to privilege a high data quality Pillar 3 and extend progressively the scope and content

- **We propose to start with the Banking Book. More work still needs to be done by regulators and other stakeholders to assess the relevance and usefulness of the inclusion of the trading book in the Pillar 3 ESG disclosure**, considering the very burdensome implementation challenges and the perceived absence of clear value added for investors. Fundamentally, the link between ESG long term factors and the short-term nature of the trading book is difficult to approach and the framework remains very theoretical at this stage, as evidenced in the conclusions of the **ACPR Pilot exercise on climate** (April 21)**.** This exercise simulated an impact of sudden shocks on market risk and counterparty risk exposures resulting in very limited vulnerability. This suggests that the materialization of the ESG risks will show much less in **the Trading Book than in the Banking Book, at least at this stage of the methodological research.**

- An excessive number of templates and KPIs, all the more based on non-finalized methodologies, is not a guarantee for an efficient transformation of the banks and the whole economy to a sustainable state. **An orderly implementation of Pillar 3, starting with limited but very meaningful and quality driven information and progressively enriched with new data and methodologies in function of EU and international developments will perfectly play the role expected by the market, regulators and supervisors**.

- The incorporation of ESG data in banks IT systems and processes is a major challenge as fully recognized by regulators (*cf. NGFS progress report with preliminary findings on climate-related data gaps published on May 26th)*. Banks can only develop a robust data acquisition process relying on a full **industrialization** given the number of clients and exposures at stake. Such industrialization only makes sense only if data requirements are clearly specified with explicit definitions and methodologies. Consequently, any proposed template or data item which is currently not defined should be excluded from the first implementation phase.

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- Finally, we would like to remind that the **BCBS** has included in its 2021-2022 work program the assessment, measurement and mitigation of climate related financial risks, spanning regulatory, supervisory and disclosure related elements for the banking system and **is going to publish soon a consultation on the integration of climate risks in the Basel framework**. In that context**, we recommend EBA not to require a too prescriptive Pillar 3 reporting, but to define it in a progressive way in order to be able to take into account international developments, and not to require banks to change in 2-3 years the whole process for P3 disclosures**. In this context, given the relatively high probability that Global ESG disclosure standards will emerge soon, notably noting the momentum created around the G20 SFWG and the upcoming COP 26, and while we acknowledge the thought leadership of the EBA and fully understand that the proposed draft implementing technical standards (ITS) are a response to its mandate stemming from Article 434a of the Capital Requirements Regulation (CRR), as voted in 2019**, we recommend to the EBA to adopt a phased approach, in the implementation of its legislative mandate, in order the maintain the maximum flexibility to align its standard with the global ones as they become available**. Therefore, and considering the legislative mandate that the EBA is required to fulfil, we believe that a **building block approach** would be the most appropriate to reconcile the EU commitment to accelerate the transition to a low carbon economy, while avoiding to impose on its financial sector a burdensome, close to impossible task to develop a EU-specific Pillar III ESG framework, with a high risk to have to incur significant redevelopment costs as global standards will become available.

Qualitative Templates: Governance

When requiring from institutions to put in place relevant risk frameworks, it is key to ensure that the Management Body is defined as in the CRD V and that there is a room for the Member States to task the Management Body in its Management Function and the Management Body in its Supervisory Function in accordance with the local laws. Indeed, the Management Body in its Supervisory Function shall not be tasked with the day-to-day management, including granular objective and policies.

For 2023 and 2024 (ie before implementation of CSRD), following ESG information could be disclosed as part of Pillar 3 requirements

1. **A simplified template 1 Banking book -** Climate Change transition risk: Quality of exposures by sector with the **gross carrying amounts by NACE code et per geography**,
2. **Template 2 Banking book** - Climate change transition risk: Exposures towards NACE sectors A to H and L - **Maturity buckets** (cf. Question 7)
3. **Template 4: Climate change transition risk - Alignment metrics for the banking book, in the "Mitigating Actions" section** (cf. Questions 8 & 9)
4. **Template 5 - Exposures in the banking book to top carbon-intensive firms, on an aggregated basis on the basis of a common list to be provided by EBA** (Question 10)
5. **Template 7 -** Exposures in the banking book subject to climate change **physical risk, in a qualitative manner** (Question 12 & 13)
6. **The Qualitative information templates – to be replaced by the TCFD report**. As TCFD standards are recognized at international level, they ensure comparability among banks and level playing field with- non EU banks (Question 4)

From 2025 onwards, the Pillar 3 framework could be gradually enriched with the progressive implementation of the CSRD until the end of the phase-in period and the development of international standards.

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

- The wording 'total exposures' in many templates, which seems to refer to all exposures, could be misleading as 'exposure' could be read as gross or net carrying amount under the accounting definition and could also refer to the EAD under the prudential perspective. That's why we propose that templates refer exclusively to FINREP Gross Carrying amount.
- We request EBA precise instructions on how banks can calculate the scope 3 of their customers, as common and robust methodologies are not ready at this stage. Similarly, no methodologies on physical risks have been finalized and commonly approved.
- Clarification should also be provided on the scope of Residential Real Estate and Commercial Real Estate loans to be included in template 3. Indeed, not all real estate loans are collateralised in Europe (for instance in France, not all the real estate loans are collateralized; some loans benefit for a guaranty from a third counterpart – Credit Logement). We propose then to simply focus on real estate financing transactions, broken down by EPC; this approach will be more convenient to give a flavour about real estate portfolio greening over time. However in order to comply with EBA's request, it is a prerequisite condition that European Authorities provide an equivalence table among all European EPCs, as they are not harmonised and even in a same countries, the evaluation may differ a lot.

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

There is a need to align banks Pillar 3 timeline, scope and reporting frequency with CSRD

- We understand that the first year would be annual and related to the disclosure reference date 31 December 2022; hence the first Pillar 3 disclosure would be in 2023 (June 2023?). Banks, as users of ESG disclosures, rely on Companies' disclosures to produce their own disclosures. The issue is that the first reporting by corporates under CSRD is expected by 2024, one year after the first Pillar 3 report by banks! For listed SMEs, the first reporting under CSRD is due by 2027! For the type of information to be provided by corporates on a mandatory basis under CSRD (such as the physical risks, sub code NACE, scope 1-2-3, split of revenues by carbon intensive sectors … for instance), Pillar 3 requirements and calendar should be aligned with the CSRD calendar.
- In addition, it is not possible that banks and their customers disclose the ESG information simultaneously; it is necessary that banks start their first disclosure based on the disclosures of NFRD / CSRD corporates (and listed SMEs) 1 year after non financial corporates . An additional one-year gap should also be granted for the disclosure on financial corporates' exposures. This sequencing is critical to limit the use of proxies to exceptional cases in order to avoid the risk of having non-comparable Pillar 3 disclosures of low relevance (due to non-harmonized methodologies, different data shortage), and above all, to avoid putting at risk credit institutions' reputation or legal liability. Indeed, as credit institutions are liable for their disclosures, an over-reliance on proxies could be seen as "misleading information" or "green washing information".
- We also strongly recommend the alignment of the Pillar 3 scope with the CSRD scope. A separate reporting with Non EU counterparts and non-listed SMes should be allowed on a best effort basis…till the development of BCBS standards and the implementation of equivalent requirements in other jurisdictions
- Considering the long-term horizon of potential risk materialisation, and since CSRD entities will publish their indicators on an annual basis, we question the real benefits for the market of requiring banks to disclose the Templates in Pillar 3 twice a year. It is even more of a concern

when considering the operational complexity implied by the production of these disclosures. Therefore, we strongly request annual disclosures.
- In addition, we are concerned that the reporting between risk templates and the mitigation part looks very unbalanced.

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

The purpose of this ITS is to answer a mandate given in Article 449a of CRR2 : *"From 3 years after entry into force of this Regulation, 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, including physical risks and transition risks, annually the first year and biannually the second year and thereafter."*
We believe that the number and complexity of the proposed templates are disproportionate compared to the level 1 text, especially given:
- The data gaps and lack of definitions and methodologies for many of the proposed indicators (scope 3, physical risks, SMEs, non UE counterparts, EPC equivalence across EU, harmful companies and activities, risk parameters per NACE code…)
- The strong momentum to define global ESG standards which aim at providing comparability and level playing field across corporates and banks

We would like to raise two specific points

- We understand that the granularity at code NACE level of credit risk indicators **(Average weighted PD (%) / Performing/ Non Performing amounts/ Stage 2 amounts / Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions)** is requested by EBA to prepare its mandate by 2025 stemming from Article 501c of CRR2 to study whether a dedicated prudential treatment of exposures related to assets or activities associated substantially with environmental and/or social objectives would be justified. This **has nothing to do with the Pillar 3** which is covered by Art.449a of the CRR2. In addition, an optical and superficial link between sectors and credit risk could be wrongly interpreted by the market and lead to erroneous conclusions. This link has not been evidenced so far as the historic data is too short for the moment (except by some nascent and limited studies, on the UK mortgage market for instance). **That's why we strongly propose that banks should not report these very specific data through pillar 3 report, but instead through supervisory Quantitative Impact Study or NGFS survey** such as the "NGFS Questionnaire on financial institutions' experiences with respect to the assessment of risk differentials between green and other assets".

- In addition, we understand the EBA wants to overcome, in template 1 and template 5, the fact that no '**Harmful taxonomy**" has been defined in the European regulation so far. This requirement goes beyond Pillar 3 purpose and Art.449a of the CRR2 mandate. In addition, we struggle to understand the definitions proposed by EBA; **the link with the Low Carbon Benchmark Regulation introduces a useless complexity** and requires information that we are **not sure to obtain from our customers unless it is required by the CSRD**s**.** Finally, not less than three different classification of '**harmful activities' or 'harmful companies'** are required in the consultation. This excessive granularity paves the way for misinterpretation in the pillar 3 tables, all the more that the **cross articulation between the lines granularity and the columns granularity is not clear** at all:
    - Granularity for the lines: "sectors that highly contribute to climate change" : NACE codes A to H + *L "in accordance with the Commission delegated regulation*

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supplementing regulation (EU) 2016/1011 as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks -Climate Benchmark Standards Regulation - Recital 6"

- Granularity for the columns: exposures towards other "carbon-intensive sectors", with the explanation provided by EBA *" energy and mining sectors, and to transportation, construction, buildings, materials and industrial sectors, as defined in point (a) and (b) of Article 5 of Climate Benchmark Standards Regulation, and other exposures towards those sectors that are more carbon intensive, according to the EU Emissions Trading System, Eurostat information on GHG emissions or other sources of information"*
- Granularity for the columns: exposures towards "Companies excluded from EU Paris-aligned Benchmarks" in accordance with points (b) to (g) of Article 12.1 and with Article 12.2 of Climate Benchmark Standards Regulation: *tobacco industry, companies with a share of their revenues in hard coal and lignite (>1%), oil fuels (>10%), gaseous fuels (>50%), electricity generation with high GHG intensity of more than 100g CO2 e/kWh (>50%), that are found or estimated by Administrators of EU Paris-aligned Benchmarks or by external data providers to significantly harm one or more of the environmental objectives [articles 12.1 b. to g. and 12.2 of the benchmark regulation].*

- **We believe that this type of reporting is premature. We propose to wait for the definition of the 'Harmful Taxonomy' and the CSRD implementation**. Once these elements are set up, it would make more sense to disclose **the yearly flows** and not the stock.

- Section 5.1 refers to **an Impact Assessment** to be made to measure the "cost/benefit. It would be interesting to share with the industry the results of this IA as it is well established that the costs for implementing those new requirements with such a granularity are huge and might exceed the benefits.

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

We propose that the three qualitative templates **to be replaced by the TCFD report.** As TCFD standards are recognized at international level, they ensure comparability among banks and level playing field with- non EU banks.

More specifically on governance, when requiring from institutions to put in place relevant risk frameworks, it is key to ensure that the Management Body is defined as in the CRD V and that there is a room for the Member States to task the Management Body in its Management Function and the Management Body in its Supervisory Function in accordance with the local law. Indeed, the Management Body in its Supervisory Function shall not be tasked with the day-to-day management, including granular objective and policies.

Question 5: Regarding template 1 – 'Banking book - Climate change transition risk: Quality of exposures by sector', do the respondents agree with the proposals in terms of sector and subsector classification included in the rows of the template and the identification of the most exposed sectors in columns f to k and p to u?

- As a general comment, the template is too large and therefore not editable within URD format. This is due to the NACE industry codes granularity for the rows and the 26 items for the columns, which is too high for disclosure purposes.

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- Regarding the questionable combination of **risk parameters and ESG data (cf. Q3), at this stage, such information should be removed from P3 and reported to supervisors first.**
  The template's underlying message is unclear, as the conceptual framework to set a systematic, robust and quantitative link between ESG risk factors and credit risk does not exist. Consequently, the template should not mix up ESG non-financial data and risk parameters. **Template should focus on the non-financial data that are relevant for stakeholders and avoid underlining confusing parallels between data of different natures**. From this point of view, data such as PDs, provisions and performing/non-performing breakdown, stage 2 amounts and Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions are not useful and should be excluded from the Pillar 3 template.
  The requirements of EBA seem to suggest that the relation is already established that brown assets today are somehow riskier whereas EBA has not performed its Article 501c CRR2-mandated assessment yet and the NGFS study could not conclude on such risk differentiation at this stage. The EBA sensitivity exercise also stated that '…No clear statistical evidence of risk differentials in banks risk parameters…'
  Taking concrete examples, electric cars manufacturers are subject to technology risk (cf. competition of hydrogen-based devices) and would likely show a lower credit quality than Oil & Gas companies which face very moderate credit risk in the short term. Also, a good green business can be poorly managed. The PD may thus could be higher for certain green activities than on carbon-intensive sectors.
  We warn EBA to avoid making such connection in the Pillar 3 ITS and to remove this connection from the templates. Reporting sectors and PDs in the same line of the template will be a tempting source for external stakeholders to make analysis before the regulatory connection is established and might interfere with the EBA action plan. As indicated, if necessary, banks can share this information with supervisors as done during the pilot sensitivity exercise but such information/connection should not be provided or suggested to the market in public disclosures.

- Cf. also in question 3, our comments on '**harmful activities' or 'harmful companies' and our proposal to remove those columns till the definition of the 'Harmful Taxonomy' and the CSRD implementation.**

- As mentioned earlier we are concerned by reporting our **scope 3 as current methodologies are still to be further developed to become mainstreamed**. If we take **PCAF for example (as it is the one which is commonly referred to) relies on concepts which are intellectually not correct** (i) Fis/Banks are responsible of 100%the emissions of a corporate; (ii) it sums scopes 1, 2 and 3 which results on counting multiple times a same emission; (iii) it divides flows of emissions by stocks of equity and debts which results in comparing apples and pears. In addition, EBA should specify what is meant in column z by « % of the portfolio (EUR) covered by data disclosed by individual firms », i.e. if it refers to public information, or to information bilaterally collected by banks from their customers. In parallel, the information on scopes 1, 2 and 3 will be disclosed by the corporates only after the implementation of the CSRD. We also recommend that the disclosure by banks **should be postponed to 2025 and 2028, to be aligned with the CSRD timeline and to grant one year delay for banks to gather and check the information.**

- **For all these reasons, we propose to simplify template 1, which currently has 26 columns in the EBA proposal, with only the information related to the Gross carrying amount (Mn EUR) by NACE code and per geography.**

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?

- **Template 1. Cf. Question 5. Methodologies for Scope 3 emissions**: Please refer to the reserves that we have already expressed regarding scope 3 methodologies for banks. As this issue is very complex, the industry may not have reached a consensus for the methodology before June 2024 and it seems unrealistic to have to disclose scope 3 for all sectors by 2024 in a meaningful comparable manner. On top of that, such disclosure is not very useful as it is a point-in-time metric and it does not reflect the strategy of banks to decarbonise their portfolios.
- **Template 3**: In order to comply with EBA's request to calculate the C02 emissions generated by the Loans collateralised by commercial/ residential immovable property, per country, banks need that **European Authorities provide an equivalence table among all European EPCs**, as they are not harmonised (even in a same country) and that the evaluation may differ a lot. The current work on the European Energy Efficient Mortgage Label undertaken by EMMI should also be leveraged and accelerated to provide European wide comparability.

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?

- Maturity of exposures broken down by economic sector are relevant to assess exposure to climate change transition risk factors. Considering the fact that Pillar 3 disclosure regarding maturity ladders are based on the liquidity risk management framework, EBA should confirm which reference should be taken into account for filling-in the template. We understand that loans and advances' should be reported with their **contractual maturity dates and residual maturity**.

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?

- **BNPP chose as a monitoring tool the measure of the alignment of the credit portfolio on a well below 2 degrees scenario in its commitment to contributing to the Paris Agreement Targets.**
- **We propose that Template 4 remains flexible: for the rows, banks should be allowed to fill report on the sectors and code NACE sectors on which it has performed the analysis of the alignment of its credit portfolio on a 2 degrees scenario; for the columns, banks should be allowed to disclose the alignment metrics they have defined in their methodologies. EBA should not be prescriptive in terms of sectors and KPIs. We consider Template 4 of the consultation as an example but not as a mandatory common template.**

  However, please find below a proposal in red of some improvements for the Template 4

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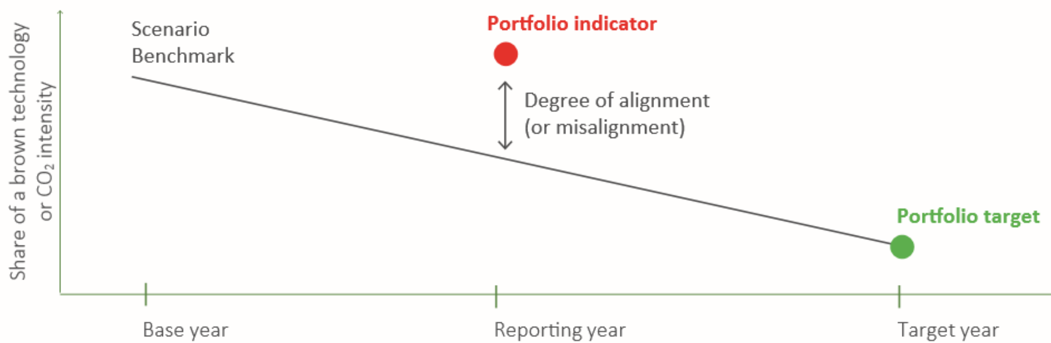
Template 4: Climate change transition risk - Alignment metrics for the banking book

		a	b	c
Sector	Nace Sector	Portfolio gross carrying amount (Mn EUR)	Alignment metric	Distance to IEA Sustainable Development Scenario 2 degrees (point in time) in %
Power	D - Electricity, gas, steam and air conditioning supply + transmission & distribution ?		*Average tonnes of CO2 per MWh or per MW (PACTA methodology)*	
			~~Average~~ share of high carbon technologies (oil, gas, coal).	
Fossil fuel combustion	~~D.35 - Electric power generation, transmission and distribution~~ Oil and gas production and distribution ?		*Average tons pf CO2 per GJ.*	
			Average share of high carbon technologies (coal) + gas ?	
Transportation	H49.3 - Other passenger land transport + shipping + aviation		*Average tonnes of CO2 per passenger-km*	
			Average share of high carbon technologies (ICE) : works only for cars and buses	
Cement, clinker and lime production	C.23.5 - Manufacture of cement, lime and plaster C-23.6 - Manufacture of concrete products for construction purposes		*Average tons of CO2 per tonne cement*	
Iron and steel, coke, and metal ore production	C.19.1 - Manufacture of coke oven products B.07 - Mining of metal ores C.24 - Manufacture of basic metals		*Average tonnes of CO2 per tonne steel*	
…potential additions…			*tbd*	

- On September 2020, BNPP, BBVA, ING, Société Générale and Standard Chartered jointly published with 2 Degrees Investment Initiative a report on the application of the Paris Agreement Capital Transition Assessment (PACTA) to their credit portfolios. The analysis proposed is sectoral and was tested as a priority on the economic sectors which produce the most GHG emissions, i.e. those in the energy field. The extension of its application to other sectors, along with the availability of the data will probably lead to further adjustments. And lastly, its adoption by banks and industrial stakeholders should also enable further improvements.
- Measuring alignment requires drawing links between financial instruments, the clients' activities being financed, and the goals of the Paris Agreement. First, the 'goals' of the Paris Agreement (achieve well below 2°C and if possible 1.5°C increase in average temperatures relative to pre-industrial levels) can be translated into usable data and indicators using a climate scenario. Such socioeconomic scenarios outline the potential pathways needed to reach the Paris goals. They operationalise the Paris Agreement into carbon budgets and sector-specific transition pathways or 'technology roadmaps' using the shift in types of physical asset (e.g. from brown to green power plants) over time and financial metrics to show a potential pathway to achieve the global warming target. We refer to these physical and financial metrics as scenario benchmarks: they reflect the specific transition pathways for a given activity (a technology, a commodity, a process or an industrial sector), depending on the sector and activity (e.g. in automotive, a shift to zero-tailpipe emission propulsion technology, while in steel the focus would be on a shift in the industrial process of steelmaking). The negative or positive contribution (or impact) of the counterparties' operations is captured using one or several indicators, for instance, using the counterparty electricity production mix for the power sector or emission intensity of oil & gas production for the fossil fuel sector, etc. Several types of indicators may be used to represent various features of the transition: some indicators may capture technological substitutions (i.e. decrease in brown and increase in green, such as switching from conventional to electric cars), while others may capture the technological improvement (e.g. increasing the energy efficiency/decreasing the CO2 intensity). And for sectors where a phase out is needed, for example coal mining, a change in the total financing provided can also be adequate.
- The financial instrument / portfolio/ client/ asset is considered 'aligned' if the level of the indicator is below that of the benchmark for decreasing benchmarks (brown activities) or above for increasing benchmarks (green activities).

Classification : Internal

FIGURE 2 | *Illustration of alignment at portfolio level*



- This methodology enables the steering process of reorienting the financial instrument so that it stays on track with the trajectory. It can be achieved at portfolio level, either by accompanying existing counterparties to align their activities, or by adjusting the customer base (ending relationship with less aligned clients or starting relationships with better aligned companies).

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?

We recommend that banks could be allowed to choose their reference scenarios, whether the scenario is more ambitious than the 2 degrees scenario, in order to be consistent with its public commitments; for instance, BNPP committed to align its banking portfolio with a below 2 degrees reference scenario (as set by the Paris Agreement). **The main stake is to have available, credible and transparent scenarios.**

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).

- This kind of request is contrary to bank secrecy regulation and hence should be removed. There are banking secrecy, **confidentiality**, and business/competition issues in disclosing gross disclosed at bank customer name level, but should be disclosed in an **aggregated** and anonymous manner.
- In addition, it should be taken into account that banks would not have the same list of counterparties which hinders **the consistency / comparability** across banks. If every bank decides on its own geographical scale (world, EU, MS), this is also not consistent.
- The **responsibility of drawing such list should be in the hands of Authorities** for the above-mentioned reasons and also not to put the liability risk on banks, should such transparency

ultimately have negative consequences on their counterparties. Yet, even if the scale were the same, the outcome would also not be comparable due to banks specific geographic footprints.

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.

- We would like to better understand what is the objective of scoping the trading book in the Pillar 3 disclosures. We believe that such information on the trading book is not relevant enough for risk disclosure purpose compared to the operational burden that it implies. Indeed, many **trading positions have very short maturity which clearly limits the real impact of the transition risks on this position**. And in the few cases where positions in the trading book are long term, they tend to be through derivatives for client hedging purposes whereby a given client would hedge its market risk as opposed to provide funding for the ESG exposure for an on-balance-sheet asset (i.e. as opposed to generate some ESG risk for the real economy). Trading books are nonetheless dynamically hedged daily to be kept within limits.

- If the purpose is to capture **market risk** (the risk to suffer instantaneous market losses due to a market shock with ESG-related causes), considering both the relatively limited relevance of climate risk in trading books versus banking books and the present state of maturity of climate scenario analysis, we recommend to **remove Template 5 from pillar 3 disclosures**, and instead, **to concentrate efforts on improving the conceptual framework and methodologies for climate scenario sensitivity analysis on market risk.** Should such efforts lead to an appropriate and materially relevant risk disclosure requirement, then Column C should be capturing underlying assets and not NACE sectors. Also the data requested should avoid traditional banking book terminology which has no place on a trading book risk disclosure as it bears no relation to exposure sensitivity and would mislead the market.

- Market risk is typically quantified as the P&L impact of an instantaneous market shock driven by ESG risk factors. This was the approach retained by the **ACPR within its pilot climate scenario sensitivity exercise**, **which demonstrated at this stage that many methodological developments and improvements are still required to adequately define a market risk shock (by essence, short-term) from ESG risk factors (by essence, long-term).** The core challenge is that Transition risk would only move the markets on a significant/macro scale over a longer time horizon (not relevant for trading books). It is indeed possible that transition risk can cause micro level (instantaneous) market shocks impacting the pricing of some issuers or commodities. Examples of such cases would be new policy announcements or news of significant technological innovations etc. However, such micro market shocks in trading books will not reach the same level of magnitude as other more typical large scale macro stress scenarios used by Banks such as a repeat Lehman brothers collapse, European sovereign bond crisis or emerging markets crisis, which also supports the argument that the area of market risk should be a secondary priority for pillar 3 and irrelevant as a disclosure measure.

- EBA proposal will generate a **huge amount of work for limited value,** considering the excessive granular breakdown, at NACE code level, of the trading book via three types of indicators : (i) Gross carrying amount assets, (ii) P&L and (iii) high volume of transactions (purchases and sales), and this at group level and to be mapped to CSRD counterparties.

Classification : Internal

- In the end, we believe that **more work still needs to be done by regulator and other stakeholders to assess the relevance and usefulness** of the information that could be disclosed on the trading book considering the very burdensome implementation challenges and the perceived absence of clear value added for investor. Instead, banks and regulators, like in France with ACPR, should keep on improving the conceptual framework and methodologies for climate scenario sensitivity analysis on market risk.

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?

Physical risk is seen as a risk driver of other risk types which may increase over time, in particular credit risk. Whilst at some point such needs will need to be disclosed in a quantitative manner, we recommend for the time being a very simplified disclosure based on qualitative information and order of magnitude per large geographical areas and sectors should be made public for the following reasons.
As rightly highlighted by the EBA in the recent consultation on ESG risk management, Physical risk assessments on credit exposures are not mature enough within the financial sector. In particular approaches to assign economic impacts (and even physical risk scores) upon 1-50 year scenarios lack available data and sufficient economic methodology and will also suffer from hazard scenario uncertainty.

It is also reminded that Physical risk is one of many drivers of credit risk and currently does not deserve any particular special treatment with regards to disclosures. Adding information such as PDs, stage 2 and performing/ non performing amounts will confuse readers as this data will not reference physical risk directly. Even in its simplified form, it is hence premature to disclose such tabulated information as banks need first to develop their own methodologies and are currently in a 'test and learn' phase.

With regards to methodology and data, such requirement will create a dependency on external data providers who do not share the same metrics or the same granularity and will likely have an insufficient risk event coverage. They may also use various proxies within their methodologies which are very broad and may lack conclusive relevance, for example in approaches to take supply chain into account or a corporate's adaptation/capex strategy.

Overall, we are of the view that such disclosures would not be meaningful, nor consistent across underlying data sources and not comparable across banks. Since the reliability of a provider database cannot be effectively checked yet (and providers are not transparent on their data), it seems very dangerous for banks to disclose such information to the market and the general public. The ultimate objective of Pillar 3 reporting is for banks to communicate on their own risk. The risk should therefore firstly be correctly understood within banks to then allow them to develop their own risk methodology.

Although less relevant given the above feedback, it also does not seem intuitive to give no space on the template to display information on the **modelled time horizons chosen by banks**. Broadly speaking, a one-year exposure will be less exposed to climate events than a 30-year one, although this will be bank and sector specific in some cases. Moreover the logical solution of asking the EBA to specify the time horizons and hazards modelled and the climate scenario(s) to be used to assess those risks may not suit all firms risk. Once again, this points to the fact that formal data disclosures on physical risk should be delayed until a maturity is reached and equally, neither is Pillar 3 a forum for achieving ESG strategic objectives.

Classification : Internal

Thus, we believe that **a transition period should be considered where banks would disclose only qualitative information, work on their own methodologies and make sure of the reliability of assessments.** Should a template be required in the interim, then a questionnaire based approach is recommended as follows, giving banks the option to voluntarily add data should they not already be reporting via other forums (such as the TCFD or CDP):

Question	Answer
Does the bank report on climate risk according to internationally recognised disclosure iniatives? Explain which ones.	eg: Bank x has been publishing TCFD and CDP reports since 20XX
Describe the approach being taken to develop physical risk measurement methodology	etc . .

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.

There is a lack of common methodologies and data sources for such analysis. It would be troublesome to compare disclosures if institutions use different measurement methods. Banks in-house methodology may lack maturity for some time and neither can than fully rely on third party assessment. As such, banks will not be in a position to explain nor justify their disclosures and hence could be exposed to law suits.
For the time being as stated in the previous answer, we recommend that **a very simplified disclosure based on qualitative information and order of magnitude per large geographical areas and sectors be made public for the foreseeable future.**

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?

- **As highlighted in Question 3, the GAR and templates 8 and 9 should be removed from the Pillar 3 risk disclosures, given the Taxonomy Regulation requires that it should be published in the Management Report**. Therefore we recommend to avoid overlap between the GAR as defined by the EU Taxonomy Regulation and the Pillar 3 requirements defined by EBA in its ITS to avoid any risk of inconsistency. Regarding BNPP comments on the GAR itself and the fees and commissions KPI, **please refer to BNPP response to the European Commission on the consultation on Article 8 of the Taxonomy Regulation.**
- Energy transition and alignment to Paris Agreement objectives require a deep reallocation of financial resources towards sustainable investment. Therefore, the **current balance sheet approach is the most relevant to achieve such targets.** Integrating P&L account dimensions will lead to significant additional implementation costs, without bringing any added value, as the P&L account will be greening mechanically at the same pace as the balance sheet. P&L account greening is a consequence of balance sheet greening, and therefore, balance sheet should remain the area of focus, in order to avoid resources dispersion.

Classification : Internal

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.

The history of the current Pillar 3 disclosures shows that are the result of a long and progressive consultation and regulation process that have been matured over the last 16/18 years.
- This process started before 2004 with the implementation of the Basel II framework: The content of the disclosure is listed, and clearly defined in the Basel II regulation but without any template imposed at the beginning.
- The banking industry, under the supervision of the Financial Stability Board, launched the Enhanced Disclosure Task Force (EDTF) in order to progressively converge the templates, definitions, scope, and data throughout the disclosures of the worldwide banking industry. EDTF initiative enabled institutions to define the initial templates, to challenge the regulatory requirements, evaluate the expectations of market participants and to create meaningful Pillar 3 disclosures.
- Between 2004 and 2015, additional content were requested by the supervisory authorities in response to the financial crisis and the evolution in the solvency framework.
- Between 2015 and 2017, the authorities have implemented the "Revised Pillar 3 framework" in order to consolidate all the previous existing regulation (Basel, EBA, ECB, EDTF etc.), provide market participants with a consistent and coherent tables and standardize Pillar 3 templates.

Even if we are fully aware of the urgency to address the climate and more broadly the ESG challenges, the target ESG Pillar 3 cannot be built on one day, as the history of the current Pillar 3 disclosures clearly shows.
We strongly believe that quality, relevance and simplicity should be privileged to quantity. EBA should also adopt a **building blocks approach taking into account that new data will be provided by corporates under CSRD and that new standards will be provided EFRAG and by the Basel Committee.**

That's why we propose to include in the Pillar 3 requirements under CRR2 for the 2023 and 2024 reports, which intervene before the implementation of CSRD, the following:

1. **A simplified template 1 on Banking book** with the **gross carrying amounts by NACE code et per geography**,
2. **Template 2 on Banking Book** with the **Maturity buckets**
3. **Template 4 with the Alignment metrics for the Banking Book**
4. **Template on Banking Book with the top carbon-intensive firms, on an aggregated basis**
5. **Template 7 on the Banking Book subject to climate change on physical risk, in a qualitative manner**
6. **The Qualitative information templates – to be replaced by the TCFD report**

From 2025 onwards, the Pilar 3 framework could be gradually enriched with the gradual implementation of the CSRD until the end of the phase-in period and the development of international standards.

In addition, the focus should remain on finalizing more standardised and comparable disclosures, on defining comparable accounting standards for the Templates in Pillar 3 and finalizing some missing methodologies such those on GHG emissions and physical risk.

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

Classification : Internal

The proposed templates include only static quantitative information and do not take into account the transition effort at level of counterparts which is essential to understand the transition risk of our counterparts.

From a pure theoretical point of view, reporting forward-looking data would make sense, but as demonstrated by climate risk sensitivity analyses performed so far (e.g. ACPR pilot exercise), there are still many required methodological developments and improvements in order to reach a consistent and comprehensive framework for forward-looking analysis. As an example, accurate forward-looking reporting would require climate-related scenario analyses to be performed under dynamic balance sheet assumptions, which requires further work as shown by the ACPR pilot exercise.

The integration of forward-looking non-financial reporting into the Pillar 3 disclosure is consequently clearly premature and should be part of future improvements to be considered once all methodological points are stabilised.